CHUNGHWA TELECOM CO LTD
Form 6-K
October 28, 2004

1934 Act Registration No. 1-31731

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Dated October 28, 2004

Chunghwa Telecom Co., Ltd.

(Translation of Registrant s Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F __X__ Form 40-F ______

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

Yes ______ No __X__

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

SIGNATURE

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

Date: 2004/10/28

Chunghwa Telecom Co., Ltd.

By: /s/ Tan HoChen

Name: Tan HoChen
Title: Chairman & CEO

Exhibit

Exhibit	Description
1	Press Release on 2004/10/28
2	Financial Statements for the Nine Months Ended September 30, 2004 and 2003 together with Independent Accountants Review Report-ROC GAAP
3	Financial Statements as of December 31, 2003 and September 30, 2004 (Unaudited) and for Three Months and Nine Months Ended September 30,2003 and 2004 (Unaudited) - US GAAP

Exhibit 1

Chunghwa Telecom Reports Operating Results for the First Nine Months and

Third Quarter of 2004

Taipei, Taiwan, R.O.C. October 28, 2004 - Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) (Chunghwa or the Company), today announced its unaudited operating results for the third quarter of 2004. All figures were prepared in accordance with US GAAP.

Highlights for the first nine months ending September 30, 2004:

Revenues were NT$138.4 billion, a 1.5% YoY increase

Net income was NT$39.6 billion, a 9 % YoY increase

Fully-diluted earnings per common share (EPS) was NT$4.11, or US$ 1.2 per ADS, and 9% YoY increase

Highlights for the third quarter of 2004:

Revenues were NT$46.5 billion, a 0.3 % QoQ increase

Net income was NT$13.2 billion, a 2.7% % QoQ decrease

Earnings per share (EPS) were NT$ 1.36, or US$0.4 per ADS, a 2.7 % QoQ decrease.

We are very pleased with our results given the increasingly competitive landscape of the Taiwan telecom market, said Tan Ho Chen, Chairman of Chunghwa Telecom. Through the first nine months, revenues increased 1.5%. Although it is well-known that our fixed line business is in decline, as it is for most telecom companies, we have worked very hard to maintain our overall profitability by concentrating on growing markets such as Internet and data and mobile businesses. Our ADSL business alone saw a tremendous 29% jump in new subscribers. As we move into the fourth quarter of 2004 and into year 2005, we will continue to focus on increasing shareholder returns by concentrating on these growing markets while also redoubling our efforts to implement stringent cost control.

Summary

Total revenue for the first nine months of 2004 was NT$138.4bn, a 1.5% increase YoY. Of this, 39.0% was from fixed-line services, 38.2% from wireless services and 21.3%

from Internet and data services. The remainder was from other services. Revenue from the Company s mobile, and Internet and data services grew by 6.4% and 11.6%, respectively. International long distance revenue declined slightly by 2.4%, mainly due to stiff price competition and a decrease in outgoing minutes. Domestic long distance revenue declined by 11.8%, mainly because a number of customers transitioned to mobile services and also because of a decrease in interconnection revenues owing to the return of transit fees to alternative operators. Local call revenue declined by 7.2% YoY, again, mainly due to mobile substitution and a migration of subscribers to broadband from dial-up Internet access services.

Total operating costs and expenses for first nine months 2004 decreased by 0.2% YoY, mainly because of a decrease in bad debt provisions and depreciation and amortization. The company will continue to implement stringent cost controls.

Total revenue for the third quarter of 2004 was NT$46.5bn, a 0.3% QoQ increase. Of this, 38.9% was from fixed-line services, 38.8% was from wireless services and 20.4% was from Internet and data services. The remainder was from other services. We continued to shift our revenue mix towards growing businesses, including Internet and data and wireless services.

Total operating costs and expenses for the third quarter of 2004 were NT$30.7bn, a 1.0% QoQ increase. This was mainly due to an increase in handset subsidies and other marketing expenses.

Businesses Performance Highlights

Internet and Data Services

Internet and data revenue for first nine months increased by 11.6% YoY to approximately NT$29.4bn. Revenue in the third quarter of 2004 was NT$9.5bn, a 6.3 % QoQ decrease. This was primarily driven by tariff reductions for our HiNet ISP service, and for ADSL services since June.

The total number ofInternet subscribers was about 3.8mn as of Sep. 30, 2004, a 7.0% YoY increase. In the third quarter of 2004, we added 72,000 subscribers.

ADSL subscribers totaled 2.9mn as of Sep. 30, 2004, a 29% YoY increase. We continued our strong growth in this business by adding 195,000 ADSL subscribers in the third quarter of 2004.

Mobile Service

Mobile revenue for the first nine months of 2004 increased by 6.4% YoY to

NT$52.6bn due to strong subscriber growth, an increase in minute usage and increased VAS revenue. For the third quarter of 2004, mobile revenue increased by 3.7%. This was due to strong subscriber growth and typical seasonal spikes in usage.

At the end of September 2004, mobile subscribers reached 8.3mn, a 4.0% YoY increase.

Our blended Average Revenue per User (ARPU) was NT$707 for the first nine months of the year. Q3 ARPU increased by 2.4% to NT$732 due to seasonal spikes in usage.

Chunghwa continues to be the leading mobile operator in Taiwan in both revenue and subscriber market share with 35.4% and 36.2% respectively as of the end of August 2004, according to data announced on the Directorate General of Telecommunications (DGT) website.

Fixed Line Services

Total fixed line revenues for the first nine months 2004 declined by 7.1% to NT$54.0bn, mainly due to fixed-line competition, mobile substitution and a continuous migration of dial-up subscribers to ADSL broadband services. Fixed-line revenue for the third quarter of 2004 was NT$18.1bn, a decrease of 0.1% QoQ.

Chunghwa s total fixed line subscriber base stood at approximately 13.2mn as of Sep. 30, 2004, a 1.0% YoY increase.

Financial Statements

Financial statements and additional operating data can be found on our website at www.cht.com.tw/ir/filedownload.

About Chunghwa Telecom

Chunghwa Telecom (TAIEX 2412, NYSE: CHT) is the leading telecom service provider in Taiwan. Chunghwa Telecom provides fixed line, mobile, and Internet and data services to residential and business customers in Taiwan.

Note Concerning Forward-looking Statements

Except for statements in respect of historical matters, the statements made in this press conference contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of Chunghwa Telecom to be materially different from what may be implied by such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, among other things: extensive regulation of state owned enterprises by the ROC government and extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks identified in the section entitled Risk Factors in Chunghwa Telecom s Form F-1 filed with the U.S. Securities and Exchange Commission in connection with our U.S. initial public offering.

The financial statements included in this press conference were unaudited, and prepared and published in accordance with U.S. GAAP. Chunghwa Telecom also prepared certain financial statements for the same periods discussed in this press conference under ROC GAAP. Investors are cautioned that there are many differences between ROC GAAP and U.S. GAAP. As a result, our results under U.S. GAAP and ROC GAAP may in many events be substantially different.

The forward-looking statements in this press conference reflect the current belief of Chunghwa Telecom as of the date of this press conference and we undertake no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date.

For inquiries:

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Exhibit 2

Chunghwa Telecom Co., Ltd.

Financial Statements for the Nine Months Ended

September 30, 2004 and 2003

Together with Independent Accountants Review Report

Readers are advised that the original version of these financial statements is in Chinese. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT ACCOUNTANTS REVIEW REPORT

October 20, 2004

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2004 and 2003, and the related statements of operations and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with Statement on of Auditing Standards No. 36 Review of Financial Statements issued by the Auditing Committee of the Accounting Research and Development Foundation 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 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.

A stated in Note 9 to the financial statements, we did not review the financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-accounted investments were NT$1,396,750 thousand and NT$1,312,807 thousand as of September 30, 2004 and 2003 and the equity in their net gain (loss) were NT$33,268 thousand and (NT$104,094) thousand for the nine months then ended.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 3 to the financial statements, the Company s accounts are subject to examination by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2003 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS

SEPTEMBER 30, 2004 AND 2003

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

(Reviewed, Not Audited)

	2004		2003	
	Amount	**%**	**Amount**	**%**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 9,981,407	2	$ 4,656,479	1
Short-term investments (Notes 2 and 5)	3,700,000	1		
Trade notes and accounts receivable net of allowance for doubtful accounts of $2,418,807 thousand in 2004 and $2,126,476 thousand in 2003 (Notes 2 and 6)	15,695,252	4	15,657,043	3
Other current monetary assets	2,073,435		2,462,594	1
Inventories net (Notes 2 and 7)	1,409,707		1,277,982	
Deferred income taxes (Notes 2 and 18)	11,999,110	3	12,024,230	3
Other current assets (Note 8)	3,337,168	1	3,022,208	1
Total current assets	48,196,079	11	39,100,536	9
INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS (Notes 2, 9 and 22)				
Funds	2,000,000		2,000,000	
Investments accounted for using the equity method	1,396,750		1,312,807	
Investments accounted for using the cost method	2,553,016	1	2,076,603	1
Investment in unconsolidated companies and funds	5,949,766	1	5,389,410	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 21)				
Cost				
Land	101,832,412	23	101,748,979	23
Land improvements	1,447,342		1,384,144	
Buildings	54,615,356	12	53,528,538	12
Machinery and equipment	21,893,015	5	21,940,404	5
Telecommunications network facilities	613,666,790	138	614,373,051	136
Miscellaneous equipment	2,113,978	1	2,119,790	1
Total cost	795,568,893	179	795,094,906	177
Revaluation increment on land	5,951,368	1	5,953,621	1
	801,520,261	180	801,048,527	178

Less: Accumulated depreciation	458,771,013	103	444,757,773	99
	342,749,248	77	356,290,754	79
Construction in progress and advances related to acquisitions of equipment	36,176,409	8	36,591,685	8
Property, plant and equipment net	378,925,657	85	392,882,439	87
INTANGIBLE ASSETS				
3G concession (Note 2)	10,179,000	2	10,179,000	2
Deferred pension cost (Notes 2 and 20)	205,261		607,617	
Patents and computer software net (Note 2)	206,090		284,644	
Total intangible assets	10,590,351	2	11,071,261	2
OTHER ASSETS				
Refundable deposits	1,220,402	1	915,035	1
Overdue receivables net of allowance for doubtful accounts of $2,708,406 thousand in 2004 and $5,750,058 thousand in 2003 (Notes 2 and 6)	647,460		858,799	
Deferred income taxes non-current (Notes 2 and 18)	14,256		16,402	
Other	442,905		648,664	
Total other assets	2,325,023	1	2,438,900	1
TOTAL ASSETS	$ 445,986,876	100	$ 450,882,546	100

	2004		2003	
	Amount	**%**	**Amount**	**%**
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Note 11)	$		$ 8,500,000	2
Commercial paper issued (Note 12)			4,998,950	1
Trade notes and accounts payable (Note 21)	12,105,238	3	9,038,988	2
Income tax payable (Notes 2 and 18)	2,585,080	1	3,896,251	1
Accrued expenses (Note 13 and 21)	10,269,416	2	10,406,519	2
Accrued pension liabilities (Notes 2 and 20)	1,278,534		3,280,195	1
Long-term loans payable current portion (Note 15)	200,000			
Other current liabilities (Notes 14 and 21)	18,349,115	4	11,894,379	2
Total current liabilities	44,787,383	10	52,015,282	11
LONG-TERM LIABILITIES				
Long-term loans (Note 15)	500,000		700,000	
Deferred income	369,396		409,001	
Total long-term liabilities	869,396		1,109,001	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 10)	211,182		211,182	
OTHER LIABILITIES				
Customers deposits	6,014,518	2	11,265,430	3
Other	182,903		315,556	

Total other liabilities	6,197,421	2	11,580,986	3
Total liabilities	52,065,382	12	64,916,451	14
STOCKHOLDERS EQUITY (Notes 2 , 10 and 16)				
Common capital stock $10 par value; authorized, issued and outstanding 9,647,725 thousand shares	96,477,249	22	96,477,249	22
Capital surplus:				
Paid-in capital in excess of par value	214,538,597	48	214,545,736	48
Capital surplus from revaluation of land	5,740,185	1	5,742,439	1
Donations	13,170		13,170	
Total capital surplus	220,291,952	49	220,301,345	49
Retained earnings:				
Legal reserve	34,286,147	8	29,436,072	6
Special reserve	2,675,941		2,675,419	1
Unappropriated earnings	40,190,727	9	37,075,710	8
Total retained earnings	77,152,815	17	69,187,201	15
Other adjustment				
Cumulative translation adjustments	(522)		300	
Total stockholders equity	393,921,494	88	385,966,095	86
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 445,986,876	100	$ 450,882,546	100

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

(See Deloitte & Touche review report dated October 20, 2004)

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Amounts in New Taiwan Thousand Dollars, Except Basic Net Income Per Share Data)

(Reviewed, Not Audited)

	2004		2003	
	Amount	%	Amount	%
SERVICE REVENUES	$ 136,753,926	100	$ 133,906,721	100
COSTS OF SERVICES (Note 21)	68,129,259	50	66,998,966	50
GROSS PROFIT	68,624,667	50	66,907,755	50
OPERATING EXPENSES				
Marketing	17,080,124	12	17,038,659	13
General and administrative	1,994,710	1	2,128,269	1
Research and development	2,270,875	2	2,220,019	2
Total operating expenses	21,345,709	15	21,386,947	16
INCOME FROM OPERATIONS	47,278,958	35	45,520,808	34
OTHER INCOME				
Penalties income	748,391	1	847,310	1
Income from sale of scrap	461,033		158,581	
Interest	163,779		73,703	
Equity in net income of unconsolidated companies	33,268			
Dividends income	28,434		122,082	
Foreign exchange gain net			41,810	
Other income	444,640		358,280	
Total other income	1,879,545	1	1,601,766	1
OTHER EXPENSES				
Losses on disposal of property, plant and equipment	128,560		88,130	
Foreign exchange loss net	42,703			
Interest	316		34,394	
Equity in net loss of unconsolidated companies			104,094	
Other expense	1,041,790	1	1,105,229	1
Total other expenses	1,213,369	1	1,331,847	1

INCOME BEFORE INCOME TAX	47,945,134	35	45,790,727	34
INCOME TAX (Notes 2 and 18)	8,660,688	6	9,385,909	7
NET INCOME	$ 39,284,446	29	$ 36,404,818	27

(Continued)

English Translation of Financial Statements Originally Issued in ChineseD

	2004		2003	
	Income Before Income Tax	**Net Income**	**Income Before Income Tax**	**Net Income**
BASIC NET INCOME PER SHARE (Notes 2 and 19)	$ 4.97	$ 4.07	$ 4.75	$ 3.77

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

(See Deloitte & Touche review report dated October 20, 2004) (Concluded)

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Amounts in New Taiwan Thousand Dollars)

(Reviewed, Not Audited)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 39,284,446	$ 36,404,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	1,022,813	2,331,819
Depreciation and amortization	30,757,991	31,635,660
Gain on disposal of investments	(8,882)	
Provision (reversal) for allowance for losses on inventories	(1,297)	(15,941)
Net loss on disposal of property, plant and equipment	122,256	88,130
Equity in net loss (income) of unconsolidated companies	(33,268)	104,094
Dividends income	56,000	
Deferred income taxes	71,580	431,649
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts receivable	(1,803,652)	(574,026)
Other current monetary assets	(448,964)	(672,460)
Inventories	(510,263)	(2,158,007)
Other current assets	(2,804,934)	(2,456,727)
Overdue receivables	(546,100)	(746,538)
Increase (decrease) in:		
Trade notes and accounts payable	713,954	(118,782)
Income tax payable	(2,342,972)	(2,162,231)
Accrued expenses	(3,892,647)	(3,371,117)
Accrued pension liabilities	(2,108,012)	366,907
Other current liabilities	1,303,733	(2,017,535)
Deferred income	(49,641)	15,819
Net cash provided by operating activities	58,782,141	57,085,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of short-term investments-net	(3,691,118)	
Proceeds from disposal of investments in unconsolidated companies	10	233,700
Acquisitions of investments in unconsolidated companies	(476,423)	
Proceeds from disposal of property, plant and equipment	11,228	153,038
Acquisitions of property, plant and equipment	(13,370,618)	(17,358,484)
Increase of intangible assets	(77,846)	(188,898)
Decrease(increase) in other assets	738,435	(281,794)

Net cash used in investing activities	(16,866,332)	(17,442,438)

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
dProceeds from short-term bank loans	$	$ 8,500,000
Commercial paper issued		4,998,950
Payment on principal of long-term loans		(17,000,000)
Decrease in customers deposits	(2,012,457)	(709,090)
Increase (decrease) in other liabilities	(60,212)	162,265
Cash dividend	(43,414,762)	(38,590,900)
Net cash used in financing activities	(45,487,431)	(42,638,775)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,571,622)	(2,995,681)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,553,029	7,652,160
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,981,407	$ 4,656,479
SUPPLEMENTAL INFORMATION		
Interest paid	$ 316	$ 91,067
Less: Capitalized interest		41,832
Interest paid, excluding capitalized interest	$ 316	$ 49,235
Income tax paid	$ 10,999,375	$ 11,116,491
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term loans	$ 200,000	$

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

(See Deloitte & Touche review report dated October 20, 20040) (Concluded)

English Translation of Financial Statements Originally Issued in Chinese

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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

(Reviewed, Not Audited)

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa or the Company) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Telecommunications Act No. 30. The Company is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off as Chunghwa and the DGT continues to be the industry regulator.

As a dominant telecommunications service provider of fixed-line and cellular telephone services, within the meaning of applicable telecommunications regulations of the ROC, the Company is subject to additional requirements imposed by the MOTC.

The MOTC is in the process of privatizing the Company by reducing the government ownership below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE) on October 27, 2000. Certain of the Company s common shares were sold by auction, in connection with the foregoing privatization plan, in domestic public offerings in June 2001, December 2002, March 2003, April 2003 and July 2003. Certain of the Company s common shares were also sold in an international offering of securities in the form of American Depository Shares (ADS) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE). The MOTC intends to sell certain of the Company s common shares in the ROC and throughout the privatization process to the Company s employees. As of September 30, 2004, the MOTC has sold 35.06% shares of the Company.

The numbers of employees as of September 30, 2004 and 2003 are 28,533 and 29,100, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with relevant regulations, regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China. The preparation of financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful accounts, valuation allowances on inventories, useful lives of long term assets, pension plans and income tax. The Company bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

Basis of Accounting

As a state-owned company, the Company maintains statutory accounts in accordance with the laws and regulations issued by the Executive Yuan, the MOTC, the Ministry of Audit (the MOA) of the Control Yuan and, in the absence of any specific laws and regulations applicable to a particular transaction or account, the regulations governing the preparation of financial statements of public companies and generally accepted accounting principles in the Republic of China. The accounts are subject to annual examinations by the Directorate General of Budget, Accounting and Statistics (the DGBAS) of the Executive Yuan and by the MOA (DGBAS and MOA are hereinafter referred to as government agencies). The objective of these examinations is to evaluate the Company s performance against the budget approved by the Legislative Yuan. The accounts are considered final only after any adjustments based on the annual examinations are taken into account. The accounts for the year ended December 31, 2003 have been examined by these government agencies and resulting adjustments were recorded retroactively.

Current Assets and Liabilities

Current assets are commonly identified as those which are reasonably expected to be realized in cash; or sold or consumed within one year. Current liabilities are obligations which mature within one year.

Cash and Cash Equivalents

Cash and cash equivalents are commercial paper purchased with maturities of three months or less from the date of acquisition.

Short-term Investments

The investments are carried at the lower of cost or market value. An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance will result from a subsequent recovery of the carrying value.

The cost of short-term investment sold are determined using the moving weighted-average method.

Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided on the basis of review of the collectibility of individual receivables.

Inventories

Inventories are stated at the lower of cost (weighted-average cost method) or market value (replacement cost or net realizable value).

Investments in Unconsolidated Companies

Investments in shares of stock in companies where the Company exercises significant influence in their operating and financial policy decisions are accounted for using the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments. Unrealized profits arising from downstream transactions to equity investees are deferred in the Company s portion of equity income or loss. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

Investments in shares of stock with no readily determinable market value are accounted for using the cost method when the ownership is less than 20%. The carrying value of those investments less reductions for decline in value are charged to stockholders equity. Reductions which are determined to be other than temporary are charged to current income. Cash dividends received are recorded as income.

Stock dividends received are accounted for as increases in the number of shares hold but not recognized as income.

The cost of investments sold are determined using the weighted-average method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation expense is determined based upon the asset s estimated useful life using the straight-line method. The estimated useful lives are as follows: land improvements, 10 to 30 years; buildings, 10 to 60 years; machinery and equipment, 6 to 10 years; telecommunication network facilities, 6 to 15 years; and miscellaneous equipment, 3 to 10 years.

Upon sale or disposal 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 income.

Intangible Assets

3G concession will be amortized upon the MOTC approval using the straight-line method over the lower of the legal useful life or estimated useful life. Patents are amortized using the straight-line method over the estimated useful lives ranging from 12 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years.

Pension Costs

Pension costs are recognized according to the budget approved by the Legislative Yuan and the actuarial report. In addition, the DGBAS issued instructions that the pension costs of all state-owned companies to be privatized should be measured and recognized on the assumption that there is no privatization and that an additional amount should be calculated on the basis of the employees service years if the additional amount does not reduce the budgeted net income. An additional minimum liability is recognized, if an unfunded accumulated benefit obligation exists, and an equal amount is recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized net transition obligation and unrecognized prior service cost.

Revenue Recognition

Revenues are recognized when revenues are realized or realizable and earned. Related costs are expensed as incurred.

Service revenue is based on the fair value of the sales price, after business discount and quantity discount, between the Company and customer. The sales price of service revenue is the amount which matures within one year. The difference between fair value and maturity value is not material and the transactions occur frequently so the interest factor is not included in calculating fair value.

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

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

Expense Recognition

Expenses including commissions paid to agencies and handset subsidy costs paid to a vendor that sells a handset to a customer who subscribes to the service, as an inducement to enter into a service contract, are charged to income as incurred.

Income Tax

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits, losses carried forward and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation allowance is recognized if, available evidence indicates it is more likely than not that a portion or the entire deferred tax asset will not be realized. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or non-current depending on the expected reversal date of the temporary difference.

Investment tax credits utilized are recognized as reduction of income tax expense.

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.

Earnings Per Share

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period.

Foreign-currency Transactions

The functional currency of the Company is the local currency, the New Taiwan dollar. Thus, the transactions of the Company that are denominated in currencies other than the New Taiwan dollars (the foreign currency) are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. Gains or losses realized upon the settlement of a foreign currency transaction is included in the period in which the transaction is settled. The balances, at the balance sheet dates, of the foreign currency assets and liabilities are adjusted to reflect the prevailing exchange rates, and the resulting differences are recorded as follows:

a. Long-term stock investments accounted for by the equity method as cumulative translation adjustment under stockholders equity.

b. Other assets and liabilities credited or charged to current income.

Foreign Currency Forward Exchange Contracts

The Company enters into foreign currency forward contracts to manage currency exposures in foreign currency-denominated assets and liabilities. The differences in the New Taiwan dollar amounts translated using the sport rate and the amounts translated using the contracted forward rates on the contract date are amortized over the terms of the forward contracts using the straight-line method. At the balance sheet dates, the receivables or payables arising from forward contracts are restated using the prevailing sport rate at the balance sheet date and the resulting differences are recognized and charged to income. Also the receivables and payables related to the forward contract are netted with the resulting amount presented as either other current monetary asset or other current liability. Any resulting gain or loss upon settlement is charged to income in the period of settlement.

3. ADJUSTMENTS OF FINANCIAL STATEMENTS

For the Year Ended December 31, 2003

The Company s financial statements for the year ended December 31, 2003 had been examined by the government agencies, and the resulting adjustments had been recorded retroactively as of December 31, 2003. The effects of these adjustments are summarized as follows:

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
Balance sheet			
Assets			
Current assets	$ 43,022,523	$ 1,262	$ 43,023,785
Investments in unconsolidated companies and funds	5,496,085		5,496,085
Property, plant and equipment net	397,956,847		397,956,847
Intangible assets	10,857,912		10,857,912
Other assets	3,490,012		3,490,012
Total assets	$ 460,823,379	$ 1,262	$ 460,824,641
Liabilities			
Current liabilities	$ 55,604,332	$ 43,403,166	$ 99,007,498
Long-term liabilities	1,119,037		1,119,037
Reserve for land value incremental tax	211,182		211,182
Other liabilities	5,849,703		5,849,703
Total liabilities	62,784,254	43,403,166	106,187,420
Total stockholders equity	398,039,125	(43,401,904)	354,637,221
Total liabilities and stockholders equity	$ 460,823,379	$ 1,262	$ 460,824,641
Statement of income			
Service revenues	$ 179,148,543	$	$ 179,148,543
Costs of services	90,722,628	(2,495)	90,720,133
Operating expenses	30,109,684	(14,649)	30,095,035

Other income	2,200,521		2,200,521
Other expenses	1,655,234		1,655,234
Income before income tax	58,861,518	17,144	58,878,662
Income tax	10,373,628	4,286	10,377,914
Net income	48,487,890	12,858	48,500,748

The adjustments made by the government agencies that increased income before income tax of $17,144 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of $43,403,166 thousand and decreased total stockholders equity of $43,401,904 thousand were due to the appropriations of 2003 earnings recorded at December 31, 2003 by the MOA. (Please refer to Note 16)

4. CASH AND CASH EQUIVALENTS

	September 30	
	2004	**2003**
Cash		
Cash on hand	$ 114,216	$ 109,629
Cash in banks	4,911,891	3,148,269
	5,026,107	3,257,898
Cash equivalents		
Commercial paper purchased, annual discount rates ranging from 0.98%-1.00% and 0.64%-0.66% for 2004 and 2003, respectively	4,955,300	1,398,581
	$ 9,981,407	$ 4,656,479

5. SHORT-TERM INVESTMENTS

Short-term investments comprised open-end bond mutual funds. The market value of short-term investments was $3,700,000 thousand as of September 30, 2004.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Nine Months Ended September 30	
	2004	**2003**
Notes and accounts receivable		
Balance, beginning of period	$ 2,345,601	$ 1,491,907
Provision for doubtful accounts	90,856	675,318
Accounts receivable written off	(17,650)	(40,749)
Balance, end of period	$ 2,418,807	$ 2,126,476
Overdue receivable		
Balance, beginning of period	$ 5,440,436	$ 6,012,517
Provision for doubtful accounts	890,511	1,594,164

Accounts receivable written off	(3,622,541)	(1,856,623)
Balance, end of period	$ 2,708,406	$ 5,750,058

7. INVENTORIES NET

	September 30	
	2004	2003
Supplies	$ 1,071,921	$ 1,245,616
Work in process	1,800	2,887
Materials in transit	335,986	29,928
	1,409,707	1,278,431
Less: Allowance for losses		449
	$ 1,409,707	$ 1,277,982

8. OTHER CURRENT ASSETS

	September 30	
	2004	2003
Prepaid expenses	$ 3,225,871	$ 2,940,800
Miscellaneous	111,297	81,408
	$ 3,337,168	$ 3,022,208

9. INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS

	September 30			
	2004		2003	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Funds				
Fixed Line Funds	$ 1,000,000		$ 1,000,000	
Piping Funds	1,000,000		1,000,000	
	2,000,000		2,000,000	
Investments in unconsolidated companies				
Equity investees:				
Chunghwa Investment	978,896	49	973,449	49
Taiwan International Standard Electronics	417,854	40	339,358	40
	1,396,750		1,312,807	

Cost investees				
Taipei Financial Center	2,476,266	12	1,999,843	12
RPTI International	71,500	12	71,500	12
Siemens Telecommunication Systems	5,250	15	5,250	15
International Telecommunication Development			10	
	2,553,016		2,076,603	
Total investments in unconsolidated companies	3,949,766		3,389,410	
	$ 5,949,766		$ 5,389,410	

The carrying values of the equity investees and the equity in their net loss and net income as of and for the nine months ended September 30, 2004 and 2003 are based on unreviewed financial statements. The equity in their net gain (loss) were $33,268 thousand and ($104,094) thousand for the nine months ended September 30, 2004 and 2003, respectively.

The equity in the net assets of investments in unconsolidated companies accounted for using the cost method as computed by the percentage of ownership was $2,416,380 thousand and $2,028,838 thousand as of September 30, 2004 and 2003, respectively.

As part of the government s effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required to contribute to a Fixed Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects, and any deficiency of the funds will be reimbursed by the companies.

10. PROPERTY, PLANT AND EQUIPMENT

	September 30	
	2004	2003
Cost		
Land	$ 101,832,412	$ 101,748,979
Land improvements	1,447,342	1,384,144
Buildings	54,615,356	53,528,538
Machinery and equipment	21,893,015	21,940,404
Telecommunications network facilities	613,666,790	614,373,051
Miscellaneous equipment	2,113,978	2,119,790
Total cost	795,568,893	795,094,906
Revaluation increment on land	5,951,368	5,953,621
	801,520,261	801,048,527
Accumulated depreciation		
Land improvements	680,634	622,026
Buildings	12,037,982	11,075,274
Machinery and equipment	15,561,561	15,548,532
Telecommunications network facilities	428,718,235	415,765,713
Miscellaneous equipment	1,772,601	1,746,228
	458,771,013	444,757,773
Construction in progress and advances related to acquisition of equipment	36,176,409	36,591,685
Property, plant and equipment net	$ 378,925,657	$ 392,882,439

Pursuant to the relative regulation, the Company revalued land it owned on April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been approved by MOA resulted in increases in the carrying values of property, plant and equipment of $5,986,074 thousand, accrued liabilities for land value incremental taxes of $211,182 thousand, and capital surplus of $5,774,892 thousand.

On July 1, 1996, pursuant to the guidance on the incorporation of the Company and as instructed by the ROC s Executive Yuan (executive branch), the ROC Government (through the MOTC) transferred to the Company certain land and buildings with carrying value of $120,957,303 thousand. As of September 30, 2004, those properties had been registered in the name of the ROC s National Properties Bureau (NPB).

No interest expense was capitalized for the nine months ended September 30, 2004. Capitalized interest expense aggregated to $41,832 thousand and the rate of capitalized interest is from 0.66% to 1.67% for the nine months ended September 30, 2003.

11. SHORT-TERM LOANS

Short-term loans bear fixed annual interest rates ranging from 0.82% to 0.90% for the nine months ended September 30, 2003.

12. COMMERCIAL PAPER ISSUED

Commercial paper was issued in August 2003 with an aggregate face value of $5,000,000 thousand at annual discount rates from 0.54% to 0.63%

13. ACCRUED EXPENSES

	September 30	
	2004	2003
Accrued compensation	$ 6,882,727	$ 6,886,951
Accrued franchise fees	1,870,237	1,817,492
Accrued advertisement expenses	430,000	500,000
Other accrued expenses	1,086,452	1,202,076
	$ 10,269,416	$ 10,406,519

14. OTHER CURRENT LIABILITIES

	September 30	
	2004	2003
Amounts collected in trust for others	$ 4,679,795	$ 4,192,806
Refundable customers deposits	3,656,259	652,217
Advances from subscribers	3,491,199	2,761,463
Payables to equipment suppliers	2,809,433	1,378,681
Payables to constructors suppliers	1,860,989	1,154,730
Miscellaneous	1,851,440	1,754,482
	$ 18,349,115	$ 11,894,379

The Company reclassified the amount of deposits from cellular telephone services where it expects to pay to its customers within one year, from other liabilities to other current liabilities.

15. LONG-TERM LOANS (INCLUDING LONG-TERM LOANS CURRENT PORTION)

The loan from the Common Tunnel Fund was obtained pursuant to a long-term loan agreement with the Common Tunnel Fund managed by Ministry of Interior that allows the Company to obtain unsecured interest-free credit until March 12, 2007. The outstanding principal amounts as of September 30, 2004 are payable in three annual installments ($200,000 thousand, $200,000 thousand and $300,000 thousand) starting on March 12, 2005.

16. STOCKHOLDERS EQUITY

Under the Company s Articles of Incorporation, authorized capital is divided into 9,647,724,900 common shares and 2 preferred shares (at $10 par value per share), all of which are issued and outstanding. The Company s Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares (NT$10 par value) in the event its ownership in the Company falls below 50% of the outstanding common shares.

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003.

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

a. Exercise their voting rights;
b. Sell their ADSs; and

&n