CHUNGHWA TELECOM CO LTD
Form F-3/A
July 28, 2005
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As filed with the Securities and Exchange Commission on July 28, 2005

Registration No. 333-126417

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO

FORM F-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CHUNGHWA TELECOM CO., LTD.

(Exact name of Registrant as specified in its charter)

Republic of China	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

21-3 Hsinyi Road, Section 1, Taipei,

Taiwan, Republic of China

(886-2) 2344-5488

(Address and telephone number of Registrant s principal executive offices)

CT Corporation System

111 Eighth Avenue, 13th Floor

New York, New York 10011

(212) 894-8400

(Name, address, and telephone number of agent for service)

With copies to:

Chris K.H. Lin, Esq.	**William Y. Chua, Esq.**
Simpson Thacher & Bartlett LLP	**Sullivan & Cromwell LLP**
7th Floor, ICBC Tower	**28th Floor**
3 Garden Road	**Nine Queen s Road Central**
Central, Hong Kong	**Hong Kong**
852-2514-7600	**852-2826-8688**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**(1)	**Proposed Maximum Offering Price Per Unit**(2)	**Proposed Maximum Aggregate Offering Price**(2)	**Amount of Registration Fee**(3)
Common Shares, par value NT$10 per share(4)	1,640,113,000	US$2.201	US$3,609,888,713	US$424,897.00

(1) Includes common shares represented by American depositary shares initially offered and sold outside the United States that may be resold from time to time inside the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public, and also includes offering price of 96,477,760 common shares represented by 9,647,776 American depositary shares that may be purchased by the underwriters pursuant to an option to purchase additional American depositary shares. The common shares are not being registered for the purpose of sales outside the United States.

(2) Estimated solely for the purpose of determining the amount of the registration fee in accordance with Rule 457(c) under the Securities Act of 1933 and calculated on the basis of the average of the high and the low prices of the American depositary shares representing the common shares on the New York Stock Exchange on July 27, 2005.

(3) Of the registration fee, $330,030.80 was previously paid in connection with the initial registration statement, $73,091.70 was paid on or about July 6, 2005 in anticipation of this amendment and the balance of $21,774.50 is being paid by reduction of the amount standing to the credit of the Registrant in its account with the Securities and Exchange Commission.

(4) American depositary shares evidenced by American depositary receipts issuable upon deposit of the common shares registered hereby have been registered pursuant to a separate registration statement on Form F-6 filed with the Commission on July 15, 2003 (File No. 333-106416). Each American depositary share represents the right to receive ten common shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

Subject to Completion. Dated July 28, 2005.

Chunghwa Telecom Co., Ltd.

(Incorporated as a company limited by shares in the Republic of China)

125,420,424 American Depositary Shares

Representing 1,254,204,240 Common Shares

This is a global offering of American depositary shares representing common shares of Chunghwa Telecom Co., Ltd. Each ADS represents ten common shares. The Ministry of Transportation and Communications of the Republic of China, representing the government of the Republic of China, is offering all of the ADSs being offered in this offering. We will not receive any proceeds from the sale of the ADSs. The ADSs are not being offered in the Republic of China. The ADSs are evidenced by American depositary receipts. The underwriters are expected to offer the ADSs in the United States through their respective selling agents.

Concurrently with this offering of ADSs, the Ministry of Transportation and Communications is separately offering up to 289,431,000 of our common shares in a public auction to be conducted solely within the Republic of China. We will not receive any proceeds from the sale of those shares.

Our ADSs are listed on the New York Stock Exchange under the symbol CHT. On July 27, 2005, the last reported sale price for our ADSs on the New York Stock Exchange was US$21.95 per ADS. Our common shares are listed on the Taiwan Stock Exchange under the number 2412. On July 27, 2005, the closing price for our common shares on the Taiwan Stock Exchange was NT$66.00 per common share, which was equivalent to approximately US$20.68 per ADS at the Federal Reserve noon buying rate of NT$31.91 to US$1.00 in effect on such date.

See Risk Factors beginning on page 7 to read about factors you should consider before buying ADSs.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial price to public	US$	US$
Underwriting discount	US$	US$
Proceeds, before expenses, to the Ministry of Transportation and Communications	US$	US$

The Ministry of Transportation and Communications has granted to the underwriters an option to purchase up to 9,647,776 additional ADSs at the initial price to public less the underwriting discount.

The underwriters expect to deliver the ADSs through the book-entry transfer facilities of The Depository Trust Company in New York, New York on or about , 2005.

Goldman Sachs International **Morgan Stanley** **UBS Investment Bank**

Prospectus dated , 2005.

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All references to we, us, our and our company in this prospectus are to Chunghwa Telecom Co., Ltd. All references to shares a common shares are to our common shares, par value NT$10 per share, and to ADSs are to our American depositary shares, each of which represents ten of our common shares. The ADSs are issued under the Deposit Agreement, dated as of July 17, 2003, among Chunghwa Telecom Co., Ltd., The Bank of New York and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder. All references to Taiwan are to the island of Taiwan and other areas under the effective control of the Republic of China. All references to the government or the Republic of China government are to the government of the Republic of China. All references to the Ministry of Transportation and Communications are to the Ministry of Transportation and Communications of the Republic of China. All references to the shareholding of the government or the Ministry of Transportation and Communications in our company after this offering and the concurrent domestic share auction assume that the underwriters option to purchase additional ADSs is not exercised. All references to the Securities and Futures Bureau are to the Securities and Futures Bureau of the Republic of China or its predecessors, as applicable. ROC GAAP means the generally accepted accounting principles of the Republic of China, and US GAAP means the generally accepted accounting principles of the United States. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This prospectus contains translations of certain New Taiwan dollar amounts into U.S. dollar amounts at a specified rate solely for the convenience of the reader. All such translations have been made at the noon buying rate in The City of New York for cable transfers of New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translations of New Taiwan dollars into U.S. dollars have been made at the noon buying rate in effect on March 31, 2005, which was NT$31.46 to US$1.00. We make no representation that the New Taiwan dollar or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or New Taiwan dollars, as the case may be, at any particular rate or at all. On July 27, 2005, the noon buying rate was NT$31.91 to US$1.00. Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

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PROSPECTUS SUMMARY

In addition to this summary, you should read the entire prospectus carefully, especially the discussion of the risks of investing in our ADSs described under Risk Factors, and the other information incorporated by reference in this prospectus, before deciding whether to buy our ADSs.

Business

We are the largest telecommunications service provider in Taiwan and one of the largest in Asia in terms of revenues. As an integrated telecommunications service provider, our principal services include:

- fixed line services, including local, domestic long distance and international long distance telephone services;
- wireless services, including cellular and paging services; and
- Internet and data services, including HiNet, our Internet service provider, asymmetrical digital subscriber line services and leased line services.

As our traditional fixed line business has matured and new technologies have become available, we have pursued new growth opportunities in the cellular and Internet and data services markets. We are focusing on enhancing our leading position in each of our principal lines of business, and expanding into new lines of business such as third generation cellular services. We enjoy leading positions across a number of areas:

- we are Taiwan s largest provider of fixed line services in terms of both revenues and subscribers;
- we are Taiwan s largest cellular service provider in terms of both revenues and subscribers, and are in the process of rolling out a third generation cellular network;
- we are Taiwan s largest broadband Internet access provider as well as Taiwan s largest Internet service provider in terms of both revenues and subscribers; and
- we are also a leading player in the data communications market in Taiwan.

In 2004, our revenues were NT$185.2 billion, our net income was NT$50.9 billion and our net income per share was NT$5.28.

We believe that our primary competitive strengths are:

Our position as the only integrated, full-service telecommunications service provider in Taiwan.

We are the largest telecommunications service provider in Taiwan, with a leading position in local, domestic long distance and international long distance telephone services, wireless services and Internet and data services. We believe we have a competitive edge over our competitors because of the following factors:

- our ability to offer a broad range of communications products and services;
- our broad network coverage;
- our strong brand awareness, extensive distribution channels and high-quality customer service;
- our operational expertise; and
- our comprehensive customer billing infrastructure.

Our capital resources and technology, which we believe we can build on to expand our leading position in the growing cellular and Internet and data services markets, including through our continued construction of a third generation cellular network, our Internet protocol-based multimedia on demand services and our rollout of voice over Internet protocol services. We believe we enjoy the following competitive advantages:

our established position in growing markets;

our strong capital structure;

our advanced network technology; and

our research and development expertise.

We were established as a company on July 1, 1996 as a result of the separation of the business and regulatory functions of the Directorate General of Telecommunications. The Ministry of Transportation and Communications, on behalf of the Republic of China government, currently owns approximately 64.85% of our outstanding common shares, and will own approximately 48.85% of our outstanding common shares upon the completion of this offering and the concurrent public auction of our common shares within the Republic of China. Through other government-controlled entities, the Republic of China government currently owns an additional 0.44% of our outstanding common shares.

Under Republic of China laws, rules and regulations, we will be deemed to be a state-owned enterprise until the government, together with any entity majority-owned by the government, holds less than 50% of our outstanding common shares. When we refer to our privatization or our being privatized in this prospectus, we mean our status as a non-state-owned entity after the government reduces its ownership of our outstanding common shares, including our common shares owned by entities majority-owned by the government, to less than 50%. The government has publicly announced its intention to reduce its ownership in our company to less than 50% by December 31, 2005.

As the government currently owns more than 50% of our outstanding common shares, our business and operations are subject to extensive regulations under the applicable Republic of China laws, rules and regulations. In the event we are privatized as a result of this offering and the concurrent public auction of our common shares within the Republic of China, we will no longer be subject to the comprehensive regulations governing the affairs of state-owned enterprises in the Republic of China. We cannot assure you, however, that we will in fact be privatized upon the completion of this offering and the concurrent public auction of our common shares in Taiwan, or that our privatization will be completed by the government s target date or at all. Moreover, as a telecommunications service provider in Taiwan, we will continue to be subject to extensive regulations regardless of whether or not we are privatized.

Implications of Our Privatization

As a state-owned enterprise of the Republic of China, our autonomy is significantly limited by government regulations. We believe that the increased management and operational flexibility resulting from the elimination of these limitations if we are privatized will enable us to more rapidly and efficiently develop our business and respond to changing market conditions, as well as implement cost-saving reforms. Specifically, we believe the benefits arising from our privatization will include:

- increased responsiveness to developments in the Taiwan telecommunications market;
- greater flexibility to streamline the procurement of products and services;
- greater flexibility to implement cost reduction initiatives;

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- new business and partnership opportunities;
- increased incentives for management and employees; and
- enhanced flexibility to optimize capital structure.

Applicable government directives require that the Ministry of Transportation and Communications and our company be responsible for making accrued benefit payments to our employees to transition their employment with a state-owned enterprise to that of a private company upon our privatization. We estimate that our share of such payments would amount to NT$67.0 billion. We have funded substantially all of our portion of the estimated amount of these obligations.

Resolutions Passed by the Legislative Yuan

The Legislative Yuan of the Republic of China passed a resolution on May 30, 2003 that prohibited the selling of our common shares or the increasing of our share capital through negotiated transactions, and that required us to hold ten offers to the general public in Taiwan before we may conduct any sales of our common shares through open tender. The Legislative Yuan passed another resolution on June 10, 2004 that required the government to postpone selling our common shares until after we reach a collective agreement with our labor union on employee benefit issues. Furthermore, on May 27, 2005, the Legislative Yuan passed a resolution that required us to cease all activities relating to a sale of our common shares. On the same day, the Legislative Yuan passed another resolution stipulating that any proposed disposal of government-owned shares may not be carried forward to subsequent fiscal years if the share disposal is not completed within the fiscal year in which the disposal was budgeted for by the government and approved by the Legislative Yuan. While we believe, and have been advised by our special Republic of China counsel, Chang & Chang Law Offices, that this offering and the concurrent public auction of our common shares within the Republic of China, as well as the validity of the related sales of ADSs and common shares, will not be affected by these resolutions, we cannot assure you that one or more third parties will not take legal or other actions to challenge the validity of, or otherwise disrupt, this offering, the concurrent public auction of our common shares within the Republic of China and/or our privatization. Moreover, while we expect to ultimately prevail in any legal or other challenges regarding the validity of this offering, the concurrent public auction of our common shares within the Republic of China and/or our privatization, we cannot assure you that any such challenge would not, pending its resolution, create uncertainties or have other material adverse effects to this offering, the concurrent public auction of our common shares within the Republic of China and/or our privatization, as well as the trading price for our ADSs and common shares.

Corporate and Other Information

Our ADSs have been listed on the New York Stock Exchange, or the NYSE, since July 17, 2003. Our common shares have been listed on the Taiwan Stock Exchange since October 27, 2000. Our principal executive offices are located at 21-3 Hsinyi Road, Section 1, Taipei, Taiwan, Republic of China, and our telephone number is 886-2-2344-5488. Our website is http://www.cht.com.tw. Information contained on our website does not constitute a part of this prospectus. The Bank of New York is the depositary for our ADSs. The depositary s office is located at 101 Barclay Street, 22nd Floor, New York, New York, 10286, U.S.A., and its telephone number is 1-212-815-2129.

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The Offering

Unless otherwise indicated, the information in this prospectus assumes that the underwriters do not exercise the option granted by the Ministry of Transportation and Communications to purchase up to 9,647,776 additional ADSs. Please see Underwriting.

Offering price	US$ per ADS
Selling Shareholder	The Ministry of Transportation and Communications of the Republic of China
ADSs offered	125,420,424 ADSs
Option to purchase additional ADSs	The selling shareholder has granted to the underwriters an option, exercisable within four days after the date of this prospectus, to purchase up to 9,647,776 additional ADSs at the public offering price less the underwriting discount.
ADSs outstanding after this offering	236,395,123 ADSs
ADSs	Each ADS represents the right to receive ten common shares, par value NT$10 per share. The ADSs are evidenced by American depositary receipts, or ADRs, issued by the depositary.
Common shares outstanding prior to and after this offering	9,647,724,900 common shares
Concurrent public auction within the Republic of China	Concurrently with this offering, the selling shareholder is separately offering up to 289,431,000 common shares in a public after-hour auction to be conducted on the Taiwan Stock Exchange solely within the Republic of China. The base price will be announced after the bids have been submitted. The common shares to be sold at the public auction may be sold at a discount of up to 8.0% below the prevailing price of our common shares on the Taiwan Stock Exchange.
Trading market for our common shares	The only trading market for our common shares is in Taiwan. Our common shares have been listed on the Taiwan Stock Exchange since October 27, 2000 under the number 2412.
New York Stock Exchange symbol for the ADSs	CHT
Use of proceeds	We will not receive any proceeds from this offering or the concurrent public auction of our common shares within the Republic of China.

Depositary	The Bank of New York
Risk Factors	See Risk Factors and the other information contained or incorporated by reference into this prospectus before deciding to invest in our ADSs.

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Summary Financial Information

The summary income statement data and cash flow data for the years ended December 31, 2002, 2003 and 2004, and the summary balance sheet data as of December 31, 2002, 2003 and 2004, set forth below are derived from our audited financial statements included in our annual report on Form 20-F incorporated by reference into this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to these financial statements and the related notes. The summary income statement data and cash flow data for the three months ended March 31, 2004 and 2005 and the summary balance sheet data as of March 31, 2005 set forth below are derived from our unaudited financial statements included in our report on Form 6-K submitted to the SEC on July 6, 2005 and incorporated by reference into this prospectus. The summary balance sheet data as of March 31, 2004 set forth below are derived from our unaudited financial statements not included in this prospectus.

	As of or for the year ended December 31,			As of or for the three months ended March 31,	
	2002	2003	2004	2004	2005
	(in billions, except per share, percentage and per pro forma ADS information)				
	NT$	NT$ (audited)	NT$	NT$ (unaudited)	NT$
Income Statement Data:					
Revenues	179.4	182.5	185.2	45.6	44.5
Operating costs and expenses:					
Costs of services[1]	58.1	59.6	60.3	14.5	14.3
Marketing[1]	20.2	20.0	19.3	4.6	4.3
General and administrative[1]	2.7	2.7	2.5	0.7	0.7
Research and development[1]	2.4	2.6	2.5	0.6	0.6
Depreciation and amortization costs of services	37.9	39.2	38.4	9.6	9.6
Depreciation and amortization operating expenses	2.4	2.4	2.3	0.6	0.6
Total operating costs and expenses	123.7	126.5	125.3	30.6	30.1
Operating income	55.7	56.0	59.9	15.0	14.4
Other income[2]	2.5	2.2	2.7	0.6	0.9
Other expenses[3]	1.3	0.6	0.4		0.1
Income before income tax	56.9	57.6	62.2	15.6	15.2
Income tax	12.8	10.3	11.3	2.7	3.1
Net income	44.1	47.3	50.9	12.9	12.1
Net income per share[4]	4.57	4.90	5.28	1.34	1.25
Net income per pro forma equivalent ADS[5]	45.70	49.04	52.78	13.40	12.51
Balance Sheet Data:					
Cash and cash equivalents	7.6	13.5	29.3	28.5	33.2
Property, plant and equipment net	338.4	329.7	311.6	322.6	305.0
Total assets	428.6	429.7	438.4	439.0	444.2
Total debt	17.7	0.7	0.7	0.7	0.5

Total liabilities	128.6	118.9	119.7	115.1	113.4
Capital stock	96.5	96.5	96.5	96.5	96.5
Total stockholders equity	300.0	310.8	318.7	323.9	330.8
Cash Flow Data:					
Net cash provided by operating activities	91.3	93.6	91.6	20.1	17.3
Net cash used in investing activities	(55.3)	(32.2)	(32.4)	(5.1)	(13.2)
Net cash provided by (used in) financing activities	(33.0)	(55.5)	(43.4)		(0.2)
Capital expenditures	43.3	32.2	22.9	(5.1)	(5.3)
Other:					
Cash dividends declared per share	4.00	4.50	4.70		
Dividend yield(6)	7.8%	9.1%	7.5%		
Net margin(7)	24.6%	25.9%	27.5%	28.3%	27.1%
Total debt to shareholders equity(8)	5.9%	0.2%	0.2%	0.2%	0.2%

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(1) Excludes related depreciation and amortization.
(2) Includes interest income of NT$187 million, NT$100 million and NT$224 million in 2002, 2003 and 2004, respectively, and NT$33 million and NT$82 million in the three months ended March 31, 2004 and 2005, respectively.
(3) Includes interest expense of NT$171 million, NT$43 million, NT$5 million and NT$0.2 million in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively.
(4) Net income per share is the same on both an undiluted and a fully diluted basis.
(5) Each equivalent ADS represents ten of our common shares.
(6) Dividend yield is calculated as dividends per share declared for the year divided by the price per share at the end of the year, expressed as a percentage.
(7) Net margin is calculated as net income divided by revenues for the relevant period, expressed as a percentage.
(8) Total debt to shareholders equity is calculated as total debt divided by total shareholders equity for the relevant period, expressed as a percentage.

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RISK FACTORS

You should carefully consider the risks described below and the other information contained or incorporated by reference in this prospectus before deciding to invest in our ADSs.

Risks Relating to This Offering

We face opposition to our privatization, and this offering may be subject to legal or other challenges.

Certain interested groups in the Republic of China have expressed their opposition to this offering and to our privatization generally. In particular, our labor union held a strike on May 17, 2005 in anticipation of this offering. Our labor union may take further action to disrupt this offering, including commencing legal or other actions in relation to this offering. Moreover, the Legislative Yuan of the Republic of China passed a resolution on May 30, 2003 that prohibited the selling of our common shares or the increasing of our share capital through negotiated transactions, and that required us to hold ten offers to the general public in Taiwan before we may conduct any sales of our common shares through open tender, which we believe refers to the process through which the Ministry of Transportation and Communications selects a winning bidder with whom it enters into a negotiated sale of our shares. The Legislative Yuan passed another resolution on June 10, 2004 that required the government to postpone selling our common shares until after we reach collective agreement with our labor union on employee benefit issues. Furthermore, on May 27, 2005, the Legislative Yuan passed a resolution that required us to cease all activities relating to the sale of our common shares. On the same day, the Legislative Yuan passed another resolution stipulating that any proposed disposal of government-owned shares may not be carried forward to subsequent fiscal years if the share disposal is not completed within the fiscal year in which the disposal was budgeted for by the government and approved by the Legislative Yuan. See Resolutions Passed By the Legislative Yuan for a discussion of the impact of these resolutions on our privatization. We cannot assure you that one or more third parties will not take legal or other actions to challenge the validity of, or otherwise disrupt, this offering, the concurrent public auction of our common shares within the Republic of China and/or our privatization. For example, certain legislators have petitioned the Grand Justices of the Republic of China to interpret the Legislative Yuan s authority to exercise its constitutional budget review power. The petitioning legislators are seeking, among other things, a provisional order to stop our privatization and this offering, which has not been granted. Moreover, we have been advised by representatives of our labor union that they may take legal or other actions in this regard.

It has also been reported in Taiwanese newspapers that our labor union filed a complaint with the Taipei District Public Prosecutor s Office on or around June 21, 2005 concerning alleged breaches of trust by the Minister of Transportation and Communications and our chairman for their involvement in the sale of shares by the government. We have not received any notification or otherwise been advised, and we are not aware as to whether the public prosecutor has taken or will take any action in response to the complaint. We cannot assure you that the public prosecutor has not taken, or will not take, any action or that any adverse outcome arising from any such action will not materially and adversely affect us or this offering. For example, if our chairman is convicted, he may become obligated, whether under law or otherwise, to resign from our company. Any loss of our chairman s service could disrupt our business, damage our reputation, and cause the market price of the ADSs to decline.

Moreover, while we expect to ultimately prevail in any legal or other challenges regarding the validity of this offering, the concurrent public auction of our common shares within the Republic of China and/or our privatization, we cannot assure you that any such challenge would not, pending its resolution, create uncertainties or have other material adverse effects on this offering, the concurrent

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public auction of our common shares within the Republic of China and/or our privatization, as well as the trading prices for our ADSs and common shares.

In addition, we cannot assure you that the Legislative Yuan, the Control Yuan or other branches of the Republic of China government will not take other actions in the future that will have a material adverse effect on our business, financial condition, results of operations and prospects, as well as materially and adversely affect the trading prices for our ADSs and common shares. Further, we cannot assure you that interested groups opposed to our privatization will not exert pressures that may result in the loss of service of certain members of our senior management. In that event, our business and operations may be materially and adversely affected.

Risks Relating to Our Company and the Taiwan Telecommunications Industry

Our business and operations will be subject to extensive regulations applicable to state-owned enterprises in the Republic of China until the government owns less than 50% of our outstanding common shares.

Since the Republic of China government currently owns more than 50% of our outstanding common shares, our business and operations are subject to extensive regulations under the applicable Republic of China laws, rules and regulations. See Item 4. Information on the Company B. Business Overview Regulation Laws and Regulations Relating to State-Owned Enterprises and Our Privatization in our annual report on Form 20-F for the fiscal year ended December 31, 2004 incorporated by reference into this prospectus. For example, as a state-owned enterprise, we are required, subject to limited relief granted by the Ministry of Transportation and Communications, to undergo a lengthy governmental procurement process relating to the acquisition of goods and services. In the past, we have at times been unable to timely expand our business due to delays caused by this process, particularly with respect to the acquisition of equipment. As a result, our ability to rapidly respond to changing market conditions and competition will be limited in comparison to our competitors until we are privatized, our position in the Taiwan telecommunications market may be overtaken by our competitors and our profitability and prospects may be materially and adversely affected. Moreover, we cannot assure you that we will in fact be privatized upon the completion of this offering and the concurrent public auction of our common shares within the Republic of China, or that our privatization will be completed by the government s target date of December 31, 2005 or at all. For example, if fewer than the total number of ADSs and shares being offered in this offering and the public auction in Taiwan are sold in these offerings, the Republic of China government s ownership of our shares may still exceed 50% thereafter. See Underwriting.

If we fail to maintain a good relationship with our labor union, work stoppages or labor unrest could occur and the quality of our services as well as our reputation could suffer.

We currently have the largest labor union in Taiwan. As of March 31, 2005, substantially all of our employees were members of our principal labor union. Since our incorporation in 1996, we have experienced disputes with our labor union on such issues as employee benefits and retirement benefits in connection with our privatization as well as the right to protest. In particular, our labor union initiated a demonstration in August 2000 to express concerns over job security after our privatization. Furthermore, following our failure to sign the collective agreement proposed by the labor union, the union resolved on December 5, 2004 to hold strikes anytime before our privatization. In anticipation of our possible privatization, the labor union held a strike on May 17, 2005. The labor union also strongly opposes our privatization and has threatened to launch a nationwide strike or take other forms of action to hinder our privatization. Any deterioration of our relationship with our labor union could result in work stoppages or worker unrest. Any work stoppage or strike or any threat to take such an action could disrupt our business and operations, and materially and adversely affect the quality of our

services and harm our reputation. In addition, we expect the collective agreement with our labor union currently under negotiation will result in our having to incur higher costs in connection with the implementation of certain incentive programs, including employee skill development programs, as well as employee child education funds, share incentive schemes and discretionary, performance-based cash bonuses. We cannot accurately quantify the increase in costs at this time, but we expect it to be material.

We may not enjoy the benefits of privatization as quickly or at the level that we expect.

As a state-owned enterprise, our autonomy is limited by comprehensive regulations relating to many areas of our operations. In the past, these regulations have adversely affected our business and operations, including restricting our ability to timely expand our business and efficiently manage our workforce. If we are privatized, we expect to enjoy increased management flexibility in implementing measures to improve our cost structure, efficiently operate our business and expand into new businesses. However, we cannot assure you that, in the event we are privatized, we will be successful in achieving the benefits we expect from privatization in a timely manner or at all. Factors that may cause the actual benefits we may enjoy from privatization to deviate materially from our expectations include:

- adverse developments in our relations with our labor union that affect our costs, including with respect to pension and other benefits, and efficient management of our workforce;
- costs and inefficiencies associated with replacing employees who retire or depart from our company in connection with our privatization;
- increased costs with respect to our plans to incentivize employees through contributions to employee child education funds, performance-based cash bonuses and company subsidized purchases by employees of our common shares;
- changes in regulations affecting us following our privatization; and
- the speed with which we are able to implement more efficient procurement and other management systems, and the resulting levels of cost savings.

Moreover, we cannot assure you that we will in fact be privatized upon the completion of this offering and the concurrent public auction of our common shares within the Republic of China, or that our privatization will be completed by the government s target date of December 31, 2005 or at all. In addition, the Republic of China government, through various entities affiliated with the government, engages from time to time in open market purchases of common shares of companies listed on the Taiwan Stock Exchange, and we expect the government to continue this practice after our privatization. We cannot assure you that we would be able to retain our status as a privatized company to the extent that, after our privatization, such open market purchases of our common shares result in the government owning more than 50% of our outstanding common shares. In that event, we may become subject again to comprehensive regulations applicable to state-owned enterprises that would limit our autonomy, restrict our ability to timely expand our business and efficiently manage our workforce.

Our actual pension obligations may be significantly higher than what we have provided for under current actuarial assumptions and may also differ from actual experience, including as a result of events outside our control.

As of December 31, 2004, our estimated pension obligations totaled NT$134.9 billion. Of this amount, NT$45.7 billion relates to projected benefits under annuity payments and the six-month salary portion of severance payments that the Ministry of Transportation and Communications will be

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responsible for after our privatization. We have provided for our pension obligations by making contributions to our pension plans, and the fair value of our pension plan assets was NT$85.9 billion as of December 31, 2004. We intend to contribute NT$6.1 billion to our pension plans in 2005, of which contributions of NT$2.0 billion have been made in the three months ended March 31, 2005. We determined our estimated pension obligations based on a number of actuarial assumptions, including that we would be privatized by the Republic of China government s target date of December 31, 2005, that a certain number of our employees would choose to retire upon our privatization and that our pension plan assets would achieve a certain return. To the extent these assumptions are different from actual experience, our actual pension obligations could be significantly increased. Moreover, we cannot assure you that other events outside of our control, such as new laws, rules or regulations or interpretations of existing laws, rules or regulations, would not similarly result in a significant increase in our actual pension obligations. Any increase in our pension obligations could have a material adverse effect on our financial condition and results of operations.

Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, and our operations may suffer.

As a telecommunications service provider in Taiwan, we are subject to extensive regulation by and under the supervision of the Ministry of Transportation and Communications and the Directorate General of Telecommunications of the Republic of China. We have been designated by the government as a dominant provider of fixed line and cellular services within the meaning of applicable telecommunications regulations, and as a result, we are subject to special additional requirements imposed by the Ministry of Transportation and Communications. For example, the regulation governing setting and changing of tariffs allows non-dominant telecommunications service providers greater freedom to set and change tariffs within the range set by the government. If we are unable to respond effectively to tariff changes by our competitors, then our competitiveness, market position and profitability will be materially and adversely affected. Furthermore, we are subject to the Statute of Chunghwa Telecom Co., Ltd. which, among other things, regulates our employment conditions and the subscription rights of our employees relating to the issuance and sale of our common shares. Our flexibility in the management of our business and operations may be severely limited by this statute, which may further reduce our competitiveness.

The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future decreases in tariff policies and rates could immediately and substantially decrease our revenues. In addition, we operate our businesses with approvals and licenses granted by the government. If these approvals or licenses are revoked or suspended or are not renewed, or if we are unable to obtain any additional licenses that we may need to operate our business in the manner we desire, then our operations will suffer.

Increasing competition resulting from the ongoing liberalization of the Taiwan telecommunications industry or from alternative means of communication may materially and adversely affect our growth and profitability by causing us to lose customers, charge lower tariffs or spend more on marketing.

We have faced increasing competition from new entrants in the Taiwan telecommunications market in recent years. In particular, the Republic of China government enacted legislation in 1996 that sets the guidelines for competition in the Taiwan telecommunications industry. Multiple licenses to operate fixed line, cellular, paging and other services have been issued since 1996. Since June 2001, three additional operators have begun providing fixed line services, and since August 2001, licenses have been granted to four undersea cable operators to engage in the undersea cable leased-circuit business. In addition, the government awarded third generation cellular services concessions to five companies in February 2002, including two new cellular operators. Since early 2004, the government

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has also issued four mobile virtual network operator licenses that allow operators without a spectrum allocation to provide cellular services by leasing the network capacity and facilities from a licensed cellular service provider. Local loop unbundling of voice was completed in June 2004, and we are currently negotiating with other service providers on the charges for unbundling for data. While we expect competition to intensify from local loop unbundling, we believe its impact will be limited. Many of our competitors are in alliances with leading international telecommunications service providers and have access to financial and other resources or technologies that may not be available to us. Further, as the government continues to liberalize the telecommunications market, such as through the issuance of new licenses or establishment of additional networks, our market position and competitiveness could be adversely affected.

We may also be subject to competition from providers of new telecommunications services as a result of technological development and the convergence of various telecommunications services. In particular, as a result of technological innovations and other factors, we have been facing competition from alternative means of communication, including voice over Internet protocol, high-speed cable Internet service, cable telephony, e-mail and wireless services. Providers of these products and services include cable television companies, direct broadcast satellite companies and digital subscriber line resellers.

Increasing competition may also cause the rate of our customer growth to reverse or decline, bring about further decreases in tariff rates and necessitate increases in our selling and promotional expenses. Any of these developments could materially and adversely affect our business growth and profitability.

Changes in technology may render our current technologies obsolete or require us to obtain licenses for introducing new services or make substantial capital investments, financing for which may not be available to us on favorable commercial terms.

The Taiwan telecommunications industry has been characterized by rapid increases in the diversity and sophistication of the technologies and services offered. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services in order to respond to competitive industry conditions and customer requirements. If we fail to develop, or to obtain timely access to, new technologies and equipment, or if we fail to obtain the necessary licenses to provide services using these new technologies, then we may lose our customers and market share and become less profitable. For example, we recently began offering multimedia on demand services on a limited basis. Although we were not, and are not, in compliance with some applicable ownership restrictions under the Cable Radio and Television Law of the Republic of China, we were nevertheless granted a cable operator license by the Government Information Office. However, we cannot assure you that fines will not be imposed and our cable operator license will not be revoked. Moreover, our plans to introduce voice over Internet protocol telephone services have also been delayed because the applicable regulatory authority has not issued the requisite approvals to any operator.

In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In particular, we have made and will continue to make substantial capital expenditures in the near future in order for us to effectively respond to technological changes, such as the introduction of a third-generation cellular telecommunications platform. We will also need to make additional capital expenditures relating to the launch of new businesses, including multimedia on demand, asymmetrical digital subscriber line services, fiber-to-the-building services and voice over Internet protocol services, and the implementation of a network modernization program, including the planned migration of our fixed line networks to Internet protocol next generation networks. To the extent these expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our ability to obtain additional financing on favorable commercial terms will depend on

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a number of factors. These factors include our financial condition, results of operations and cash flows, prevailing economic conditions in Taiwan and the prevailing market conditions in the Taiwan telecommunications industry, the cost of financing and conditions in the financial markets, and the issuance of relevant government and other regulatory approvals.

The failure to obtain funding for our capital expenditures on commercially acceptable terms and on a timely basis, or at all, could jeopardize our expansion plans and materially and adversely affect our business, competitive position and prospects.

We may not realize the benefits we expect from our investments, which may materially and adversely affect our business, financial condition, results of operations and prospects.

We have made significant capital investments in our network infrastructure and information technology systems to provide the services we offer. In 2004, we had capital expenditures in relation to our network infrastructure and information technology systems of NT$22.9 billion. Of this amount, we had capital expenditures of NT$5.0 billion in our fixed line services, NT$5.5 billion in our cellular services, NT$11.6 billion in our Internet and data services and NT$0.8 billion in other areas. In order to continue to develop our business and offer new and more sophisticated services, we intend to continue to invest in these areas as well as new technologies. The launch of new and commercially viable products and services is important to the success of our business. We expect to incur substantial capital expenditures to further develop our range of services and products. Commercial acceptance by consumers of new and more sophisticated services we offer may not occur at the rate or level expected, and we may not be able to successfully adapt these services to effectively and economically meet customers   demands, thus impairing our expected return from our investments.

We cannot assure you that services enabled by new technologies we implement, such as third generation cellular technology, will be accepted by the public to the extent required to generate an acceptable rate of return. In addition, we face the risk of unforeseen complications in the deployment of these new services and technologies, and we cannot assure you that our estimate of the necessary capital expenditure to offer such services will not be exceeded.

New services and technologies may not be developed and/or deployed according to expected schedules or may not achieve commercial acceptance or be cost effective. The failure of any of our services to achieve commercial acceptance could result in additional capital expenditures or a reduction in profitability to the extent that we are required under the applicable accounting standards to recognize a charge for the impairment of assets. Any such charge could materially and adversely affect our financial condition and results of operations.

We may also from time to time make equity investments in companies, but we cannot assure you of their profitability. For example, Chunghwa Investment Co., Ltd, a company in which we hold a 49% interest and which we account for using the equity method, suffered losses in 2004. As a result, the carrying value of Chunghwa Investment in our financial statements was reduced from NT$987 million in 2003 to NT$930 million in 2004. These losses were partially attributable to the write-off of certain short-term investments in the amount of NT$80 million that were not authorized by Chunghwa Investment, but were made by the then chairman of Chunghwa Investment, Mr. Jing-Biao Hu, who was removed from office on December 31, 2004. In addition, another of our investments, the Taipei Financial Center Corporation, in which we hold an 11.8% interest and which we account for using the cost method, has only recently commenced commercial operations after completion of construction in December 2004 of Taipei 101, which it owns and which is the tallest building in Taiwan. Accordingly, it has yet to achieve profitability. We cannot assure you that any unprofitable equity investments will not materially or adversely affect our results of operations or financial condition.

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Our ability to deliver services may be interrupted due to a systems failure or shutdown in our networks.

Our services are currently carried through our fixed line and cellular telecommunications networks, as well as through our transmission networks comprised of optical fiber cable, microwave, submarine cable and satellite transmission links. Our networks may be vulnerable to damage or interruptions in operations due to adverse weather conditions, earthquakes, fires, power loss, telecommunications failures, software flaws, transmission cable cuts or similar events. Any failure of our networks, servers, or any link in the delivery chain that results in an interruption in our operations or an interruption in the provision of any of our services, whether from operational disruption, natural disaster, military or terrorist activity, or otherwise, could damage our ability to attract and retain subscribers and materially and adversely affect our financial condition, results of operations and prospects.

If new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth and profitability will decline.

We are pursuing a number of new growth opportunities in the broader telecommunications industry, including wireless data services, multimedia on-demand services and voice over Internet protocol services. These opportunities involve new services for which there are no proven markets. Our ability to deploy and deliver these services will depend, in many instances, on new and unproven technologies. These new technologies, such as third generation cellular telecommunications technologies, may not perform as expected or generate an acceptable rate of return. In addition, we may not be able to successfully develop new technologies to effectively and economically deliver these services, or be able to compete successfully in the delivery of telecommunications services based on new technologies. Furthermore, the success of our wireless data services is substantially dependent on the availability of wireless data applications and devices that are being developed by third-party developers. These applications or devices may not be sufficiently developed to support the deployment of our wireless data services. If we are unable to deliver commercially viable services based on the new technologies that we adopt, then our revenue growth and profitability, as well as our financial condition and results of operations, will be materially and adversely affected.

We depend on select personnel and could be affected by the loss of their services.

We depend on the continued service of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of any of these personnel and cannot adequately replace them. In particular, we are not insured against the loss of any of our personnel. Moreover, we may be required to increase substantially the number of these employees in connection with any expansion, and there is intense competition for experienced personnel in the Taiwan telecommunications industry. We may not be able to either retain our present personnel or attract additional qualified personnel as and when needed. In addition, we may need to increase employee compensation levels in order to attract and retain personnel. Based on a survey conducted among employees who are eligible to retire on the date of our privatization, we estimate that approximately 800 employees may leave upon our privatization. We cannot assure you that the loss of the services of these employees or other employees through stoppages or labor unrest would not disrupt our business and operations, and materially and adversely affect the quality of our services and harm our reputation.

Our largest shareholder may take actions that conflict with our public shareholders   best interests.

As of April 20, 2005, the most recent practicable date, the Republic of China government, through the Ministry of Transportation and Communications and other government-controlled entities, owns

approximately 65.29% of our outstanding common shares, and will own 49.29% of our outstanding common shares after the completion of this offering and the concurrent public auction of our common shares within the Republic of China. Accordingly, the government continues to have the ability to control our business, including matters relating to:

any sale of all or substantially all of our assets;

the approval of our annual budget;

the composition of our senior management;

the timing and distribution of dividends; and

the election of a majority of our directors and supervisors.

In addition, under the Republic of China Telecommunications Act and our articles of incorporation, the Ministry of Transportation and Communications has the right to subscribe for two preferred shares when the Republic of China government s ownership of our outstanding common shares falls below 50%. The Ministry of Transportation and Communications, as the holder of these preferred shares, will have the right to veto any change in our name or our business and any transfer of a substantial part of our business or property. These preferred shares, if issued, will be redeemed by us three years after the date of their issuance at their par value. We understand that the Ministry of Transportation and Communications intends to subscribe for these shares if we are privatized as a result of this offering and the concurrent domestic share auction.

The value of your investment may be reduced by future sales of our ADSs or common shares by us, by the Republic of China government or by other shareholders.

Except for the sale of ADSs to the underwriters in this offering and the concurrent public auction of our common shares within the Republic of China, we and the Ministry of Transportation and Communications have agreed with the underwriters, subject to certain exceptions, not to offer, sell, contract to sell, hedge or otherwise dispose of any of our common shares or securities convertible into or exchangeable for our common shares, including ADSs, for a period of 90 days after the date of this prospectus, except with the prior written consent of the representatives of the underwriters. Approximately 48.85% of our outstanding common shares after the completion of this offering and the concurrent domestic share auction, which consist entirely of common shares that are owned by the Ministry of Transportation and Communications, are subject to these lock-up agreements. The representatives may, in their discretion, waive or terminate these restrictions. See Shares Eligible for Future Sale for a discussion of restrictions that may apply to future sales of our ADSs or common shares and for a discussion of exceptions to the lock-ups described above.

Since we became a publicly listed company in the Republic of China in October 2000, the Ministry of Transportation and Communications, on behalf of the government, has sold a total of 3,391,432,665 common shares of our company, which account for 35.15% of our outstanding common shares. The government may continue to sell our common shares following our privatization. Sales of substantial amounts of ADSs or common shares by the government or any other shareholder in the public market, or the perception that future sales may occur, could depress the prevailing market price of our ADSs and common shares.

Actual or perceived health risks related to cellular handsets and base stations could lead to decreased cellular telephone usage and difficulties in increasing network coverage and could expose us to potential liability.

According to some published reports, the electromagnetic signals from cellular handsets and cellular base stations may pose health risks or interfere with the operation of electronic equipment.

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Although the findings of those reports are disputed, actual or perceived risks of using cellular telecommunications devices or of base stations could have a material adverse effect on cellular service providers, including us. For example, our customer base could be reduced, our customers may reduce their usage of our cellular services or we could encounter difficulties in obtaining sites for additional cellular base stations required to expand our network coverage. As a result, our cellular business may generate less revenue and our financial condition and results of operations may be materially and adversely affected. In addition, we could be exposed to potential liability for any health problems caused by cellular handsets and base stations.

The market value of your investment may fluctuate due to financial results released in the Republic of China that are prepared on a basis that is different from generally accepted accounting principles in the United States and that are subject to government review, audit and adjustment.

Until we are privatized, under laws and regulations applicable to state-owned enterprises, our financial statements prepared for reporting purposes in the Republic of China will be subject to government review and audit. The government has required in the past, and may require in the future, adjustments to be made to our internally prepared and audited financial statements prior to approving our official government audited financial statements. These adjustments have in the past affected our reported revenues, expenses, income before tax and income available for distribution of dividends, and may do so in the future. However, these adjustments have not had any material impact on our financial statements presented in the prospectus. The financial statements presented in this prospectus have been prepared in accordance with generally accepted accounting principles in the United States, or US GAAP, and were not subject to adjustment under the government review and audit process.

Our ongoing financial reporting with the U.S. Securities and Exchange Commission, or SEC, will be under US GAAP or under generally accepted accounting principles in the Republic of China, or ROC GAAP, with reconciliation to US GAAP in accordance with the requirements of the SEC. Until we are privatized, we will also be preparing and disseminating financial statements and financial data for our local reporting purposes that are prepared on a basis other than US GAAP as described in the preceding paragraph. Our reported financial condition and results of operations under US GAAP and under other accounting principles and standards may differ significantly. The price of our common shares trading on the Taiwan Stock Exchange may be based on, among other things, our financial statements prepared for ongoing reporting purposes in the Republic of China, and this in turn may affect the market price of our ADSs.

We may be sanctioned or lose our licenses for violations of limits on foreign ownership of our common shares, and these limits may materially and adversely affect our ability to obtain financing.

The laws of the Republic of China limit foreign ownership of our common shares. Currently, the Ministry of Transportation and Communications limits direct and indirect foreign ownership of our common shares to 40%. If we fail to comply with the applicable foreign ownership limitations, our licenses to operate some of our businesses could be revoked. In addition, the Cable Radio and Television Law, under which we operate our multimedia on demand business, provides that direct foreign ownership in a cable operator may not exceed 20%, and that the combined direct and indirect foreign ownership in a cable operator may not exceed 60%. We were granted a license under this law, even though we were not, and are not, in compliance with this and other ownership restrictions. Since we are unable to control ownership of our common shares or ADSs representing our common shares, and because we have no ability to stop transfers among shareholders, to force particular shareholders to sell their shares, or otherwise remedy a breach of these foreign ownership limits, we may lose our licenses through no fault of our own and we do not have any effective means to protect our business from this risk. These limitations may also materially and adversely affect our ability to obtain adequate financing to fund our future capital requirements or to obtain strategic partners, and alternate forms of financing may not be available on terms favorable to us or at all.

We are subject to litigation that could expose us to substantial liabilities.

We are from time to time involved in litigation, arbitration or administrative proceedings in the ordinary course of our business. See Item 4. Information on the Company B. Business Overview Legal Proceedings in our annual report on Form 20-F for the fiscal year ended December 31, 2004 incorporated by reference into this prospectus. We cannot predict the outcome of these proceedings, and we cannot assure you that if a judgment is rendered against us in any or all of these proceedings, our financial condition and results of operations would not be materially and adversely affected.

Risks Relating to the Republic of China

Any further economic downturn or decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects.

We conduct most of our operations and generate most of our revenues in Taiwan. As a result, any decline in the Taiwan economy or a decline in the growth of the population in Taiwan may materially and adversely affect our financial condition, results of operations and prospects. In recent years, the banking and financial sectors in Taiwan have been seriously harmed by the general economic downturn in Taiwan and the rest of Asia, which has resulted in a depressed property market and an increase in the number of companies filing for corporate reorganization and bankruptcy protection. Although economic conditions in Taiwan improved in 2003 and 2004, the global slowdown in technology expenditures has also from time to time adversely affected the Taiwan economy, which is highly dependent on the technology industry. We cannot assure you that economic conditions in Taiwan will continue to improve in the future or that our business and operations will not be materially and adversely affected by a deterioration in the Taiwan economy.

Any future outbreak of contagious diseases may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

Any future outbreak of contagious diseases, such as severe acute respiratory syndrome or avian influenza, may disrupt our ability to adequately staff our business and may generally disrupt our operations. If any of our employees is suspected of having contracted any contagious disease, we may under certain circumstances be required to quarantine such employees and the affected areas of our premises. As a result, we may have to temporarily suspend part or all of our operations. Furthermore, any future outbreak may restrict the level of economic activity in affected regions, including Taiwan, which may adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of contagious diseases would not have a material adverse effect on our financial condition and results of operations.

We face substantial political risks associated with doing business in Taiwan, particularly due to the tense relationship between the Republic of China and the People s Republic of China that could negatively affect the value of your

investment.

Our principal executive offices and substantially all of our assets are located in Taiwan, and substantially all of our revenues are derived from our operations in Taiwan. Accordingly, our business, financial condition and results of operations and the market price of our common shares and the ADSs may be affected by changes in Republic of China governmental policies, taxation, inflation or interest rates and by social instability and diplomatic and social developments in or affecting Taiwan which are outside of our control. Taiwan has a unique international political status. Since 1949, Taiwan and the

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Chinese mainland have been separately governed. The People s Republic of China, or PRC, claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between the Republic of China and the PRC, relations have often been strained. The PRC government has refused to renounce the use of military force to gain control over Taiwan. Furthermore, the PRC government passed an Anti-Secession Law in March 2005, which authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the Republic of China and the PRC have on occasion depressed the market prices of the securities of companies in the Republic of China. Relations between the Republic of China and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

Taiwan is susceptible to severe earthquakes and typhoons that could severely disrupt the normal operation of our business and adversely affect our earnings.

All of our properties are located in Taiwan, which is susceptible to earthquakes and typhoons. On September 21, 1999, the central part of Taiwan experienced a severe earthquake that caused significant property damage and loss of life. This earthquake damaged our network facilities and adversely affected our operations. In particular, we suffered property losses totaling approximately NT$1 billion. Since that time, other parts of Taiwan have also experienced earthquakes that damaged or disrupted the businesses of many other companies. In addition, parts of our network were damaged, and our operations were disrupted, by two typhoons in 2001. As a result of these typhoons, we suffered property losses totaling approximately NT$200 million. We do not carry any insurance to cover damages caused by earthquakes or typhoons, or to cover any resulting business interruption. In the event of a major earthquake, typhoon or other natural disaster in Taiwan, our business could be severely disrupted and our business and results of operations could be materially and adversely affected.

Shareholders may have more difficulty protecting their interests under the laws of the Republic of China than they would under the laws of the United States.

Our corporate affairs are governed by our Articles of Incorporation, the Statute of Chunghwa Telecom Co., Ltd., and by the laws governing corporations incorporated in the Republic of China. The rights of shareholders and the responsibilities of management and the members of the board of directors of Taiwan companies are different from those applicable to a corporation incorporated in the United States. For example, controlling or major shareholders of Taiwan companies do not owe fiduciary duties to minority shareholders. In addition, until we are privatized, our corporate affairs are governed by laws and regulations not generally applicable to other Taiwan companies. Therefore, holders of our common shares and ADSs may have more difficulty in protecting their interests in connection with actions taken by our management or members of our board of directors than they would as public shareholders of a United States corporation.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Taiwan securities market.

Our common shares are traded on the Taiwan Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of our ADSs may fluctuate in response to the fluctuation of the trading price of our common shares on the Taiwan Stock Exchange. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and trading volumes of listed securities and there are currently limits on the range of daily price movements. In recent years, the Taiwan Stock Exchange Index reached a peak of 10,202.2 in February 2000 and subsequently fell to a low of 3,446.3 in

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October 2001. During 2004, the Taiwan Stock Exchange Index peaked at 7,034.10 on March 4, 2004, and reached a low of 5,316.87 on August 4, 2004. On July 27, 2005, the Taiwan Stock Exchange Index closed at 6,327.25. The Taiwan Stock Exchange has experienced certain problems, including market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Taiwan companies, including our ADSs and common shares, in both the domestic and the international markets.

In response to declines and volatility in the securities markets in Taiwan, the Republic of China government formed the National Financial Stabilization Fund to support these markets through open market purchases of shares in Taiwan companies from time to time. The details of the transactions of the National Financial Stabilization Fund have not been made public. In addition, the government s Labor Insurance Fund and other funds associated with the government have in the past purchased, and may from time to time purchase, shares of Taiwan companies listed on the Taiwan Stock Exchange or other markets. As a result of these activities, the market price of common shares of Taiwan companies may have been and may currently be higher than the prices that would otherwise prevail in the open market. Market intervention by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Taiwan companies, which may affect the market price and liquidity of our common shares and ADSs.

Risks Relating to Ownership of Our ADSs

Restrictions on the ability to deposit our common shares into our ADS program may adversely affect the liquidity and price of the ADSs.

The ability to deposit shares into our ADS program is restricted by Republic of China law, under which no person or entity, including you and us, may deposit our common shares into our ADS program without specific approval of the Securities and Futures Bureau, except for the deposit of the common shares into our ADS program and for the issuance of additional ADSs in connection with:

- distribution of share dividends or free distribution of our common shares;
- exercise of preemptive rights of ADS holders applicable to the common shares evidenced by our ADSs in the event of capital increases for cash; or
- purchases of our common shares in the domestic market in Taiwan by the investor directly or through the depositary and delivery of such shares or delivery of our common shares held by such investors to the custodian for deposit into our ADS program, subject to the following conditions: (a) the depositary may accept deposit of those shares and issue the corresponding number of ADSs with regard to such deposits only if the total number of ADSs outstanding after the deposit does not exceed the number of ADSs previously approved by the Securities and Futures Bureau, plus any ADSs issued pursuant to the events described above; and (b) this deposit may only be made to the extent previously issued ADSs have been cancelled.

As a result of the limited ability to deposit common shares into our ADS program, the prevailing market price of our ADSs on the New York Stock Exchange may differ from the prevailing market price of the equivalent number of our common shares on the Taiwan Stock Exchange.

You will be more restricted in your ability to exercise voting rights than the holders of our common shares, which may diminish your influence over our corporate affairs and may reduce the value of your ADSs.

Holders of American depositary receipts evidencing our ADSs may exercise voting rights with respect to the common shares represented by these ADSs only in accordance with the provisions of

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our deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary bank will, as soon as practicable thereafter if requested by us in writing, mail to ADS holders the notice of the meeting sent by us, voting instruction forms and a statement as to the manner in which instructions may be given by the holders.

ADS holders will not generally be able to exercise voting rights attaching to the deposited securities on an individual basis. Under the deposit agreement, the voting rights attaching to the deposited securities must be exercised as to all matters subject to a vote of shareholders collectively in the same manner, except in the case of an election of directors and supervisors. The election of our directors and supervisors is by means of cumulative voting. In the event the depositary does not receive voting instructions from ADS holders in accordance with the deposit agreement, our chairman or his or her designee will be entitled to vote the common shares represented by the ADSs in the manner he or she deems appropriate at his or her discretion, which may not be in your interest.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of ADSs may have an adverse effect on the value of your investment.

Your ability to convert proceeds received from your ownership of ADSs depends on existing and future exchange control regulations of the Republic of China. Under the current laws of the Republic of China, an ADS holder or the depositary, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the Republic of China, may convert NT dollars into other currencies, including U.S. dollars, in respect of:

- the proceeds of the sale of common shares represented by ADSs or received as share dividends with respect to the common shares and deposited into the depositary receipt facility; and

- any cash dividends or distributions received from the common shares represented by ADSs.

In addition, the depositary may also convert into NT dollars incoming payments for purchases of common shares for deposit in the depositary receipt facility against the creation of additional ADSs. If you withdraw the common shares underlying your ADSs and become a holder of our common shares, you may convert into NT dollars subscription payments for rights offerings. The depositary may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights of new common shares. Although it is expected that the Central Bank of China will grant approval as a routine matter, required approvals may not be obtained in a timely manner, or at all.

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Under the Republic of China Foreign Exchange Control Law, the Executive Yuan of the Republic of China may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls or other restrictions in the event of, among other things, a material change in international economic conditions.

You are required to register with the Taiwan Stock Exchange and appoint several local agents in Taiwan if you withdraw common shares from our ADS facility and become our shareholder, which may make your ownership burdensome.

If you are a non-Republic of China person and wish to withdraw common shares represented by your ADSs from our ADS facility and hold those common shares, you are required under the current laws and regulations of the Republic of China to appoint an agent, also referred to as a tax guarantor, in the Republic of China for filing tax returns and making tax payment. A tax guarantor must meet certain qualifications set by the Ministry of Finance of the Republic of China and, upon appointment, becomes a guarantor of your Republic of China tax obligations. If you wish to repatriate profits derived from the sale of withdrawn common shares or cash dividends or interest on funds derived from the withdrawn common shares, you will be required to submit evidence of your appointment of a tax guarantor and the approval of the appointment by the Republic of China tax authorities. You may not be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under the current laws of the Republic of China, you will be required to be registered as a foreign investor with the Taiwan Stock Exchange for making investments in the Republic of China securities market prior to your withdrawal and holding of common shares represented by the ADSs. You will be required to appoint a local agent in Taiwan to, among other things, open a securities trading account with a local securities brokerage firm and a bank account to remit funds, exercise shareholders rights and perform other functions as holders of ADSs may designate. You must also appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting and declaration of information. Without the relevant registration and appointment of the local agent and custodian and the opening of the trading account and bank account, you will not be able to hold, subsequently sell or otherwise transfer our common shares withdrawn from the ADSs facilities on the Taiwan Stock Exchange.

Our actual financial results in 2005 may differ materially from our announced full year guidance for 2005.

On April 28, 2005, we announced our guidance for 2005 prepared in accordance with ROC GAAP and the requirements of the Taiwan Stock Exchange. In particular, we estimated that for the year ended December 31, 2005, our revenues will be NT$180 billion, income before income tax will be NT$54.9 billion, net income will be NT$42.3 billion and earnings per share will be NT$4.39. These projections were based on a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies, including the risks factors described in this prospectus. These projections were not prepared with a view towards compliance with published guidelines of the SEC, the U.S. Public Company Accounting Oversight Board or generally accepted accounting principles and, accordingly, you should not rely on this information. In particular, projections are forward-looking statements that are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. You should not regard the inclusion of the projections described above as a representation by us, or any of the underwriters, or any other person that these projections or the assumptions underlying the projections will be achieved.

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RECENT DEVELOPMENTS

Results of Operations

The following discussion should be read in conjunction with our unaudited financial statements and related notes as of March 31, 2005 and for the three months ended March 31, 2004 and 2005 included in our Report on Form 6-K submitted to the SEC on July 6, 2005, which is incorporated by reference into this prospectus. Our historical results discussed are not necessarily indicative of our full year performance or of results to be expected from any future period. The following discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors and Forward-Looking Statements in this Prospectus May Not Be Realized.

The following table sets forth our revenue, operating costs and expenses, income from operations and other financial data for the periods indicated.

	For the three months ended March 31,		
	2004	2005	
	NT$	NT$ (in billions)	US$
		(unaudited)	
Revenues:			
Fixed line			
Local	11.1	10.3	0.3
Domestic long distance	3.0	2.7	0.1
International long distance	3.7	3.6	0.1
Total fixed line	17.8	16.6	0.5
Wireless			
Cellular	17.3	17.4	0.6
Paging	0.1		
Total wireless	17.4	17.4	0.6
Internet and data:			
Internet	7.3	7.7	0.2
Data	2.5	2.4	0.1
Total Internet and data	9.8	10.1	0.3
Other	0.6	0.4	
Total revenues	45.6	44.5	1.4

Operating costs and expenses:			
Costs of services[1]	14.5	14.3	0.5
Marketing[1]	4.6	4.3	0.1
General and administrative[1]	0.7	0.7	
Research and development[1]	0.6	0.6	
Depreciation and amortization costs of services	9.6	9.6	0.3
Depreciation and amortization operating expenses	0.6	0.6	
Total operating costs and expenses	30.6	30.1	0.9
Income from operations	15.0	14.4	0.5
Other income	0.6	0.9	
Other expenses		0.1	
Income before income tax	15.6	15.2	0.5
Income tax	2.7	3.1	0.1
Net income	12.9	12.1	0.4

(1) Excludes related depreciation and amortization.

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The following table sets forth our revenues, operating costs and expenses, income from operations and other financial data as a percentage of our total revenues for the periods indicated.

	For the three months ended March 31,	
	2004	2005
	(unaudited)	
Revenues:		
Fixed line		
Local	24.4%	23.1%
Domestic long distance	6.5	6.0
International long distance	8.1	8.0
Total fixed line	39.0	37.1
Wireless		
Cellular	38.0	39.1
Paging	0.2	0.1
Total wireless	38.2	39.2
Internet and data:		
Internet	16.1	17.2
Data	5.4	5.4
Total Internet and data	21.5	22.6
Other	1.3	1.1
Total revenues	100.0	100.0
Operating costs and expenses:		
Costs of services[(1)]	31.7	32.2
Marketing[(1)]	10.1	9.8
General and administrative[(1)]	1.5	1.5
Research and development[(1)]	1.3	1.3
Depreciation and amortization costs of services	21.1	21.5
Depreciation and amortization operating expenses	1.3	1.4
Total operating costs and expenses	67.0	67.7
Income from operations	33.0	32.3
Other income	1.3	1.9
Other expenses	0.1	0.2
Income before income tax	34.2	34.0
Income tax	5.9	6.9
Net income	28.3%	27.1%

(1) Excludes related depreciation and amortization.

Segment Operating Losses

Our local telephone services had operating losses of NT$1.3 billion in the three months ended March 31, 2004 and NT$2.2 billion (US$0.1 billion) in the same period in 2005. See Note 13 to our financial statements included in our report on Form 6-K submitted to the SEC on July 6, 2005 incorporated by reference into this prospectus. We expect our local telephone services to continue incurring operating losses as competition in the local telephone services market further intensifies and traffic continues to migrate from fixed line services to cellular services.

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Three months ended March 31, 2004 compared with three months ended March 31, 2005

Revenues

Our revenues decreased by 2.4% from NT$45.6 billion in the three months ended March 31, 2004 to NT$44.5 billion (US$1.4 billion) in the same period in 2005. This decrease was primarily due to fewer business days compared to the same period in 2004 leading to less traffic volume from business customers, the reduction in monthly tariffs for our asymmetrical digital subscriber lines that we implemented in June 2004, and a promotional tariff plan that we implemented for the Chinese New Year.

Fixed Line Services

Fixed line revenues comprised 39.0% and 37.1% of our revenues in the three months ended March 31, 2004 and 2005, respectively. Our fixed line revenues decreased by 7.0% from NT$17.8 billion in the three months ended March 31, 2004 to NT$16.6 billion (US$0.5 billion) in the same period in 2005.

Local telephone services. Our local telephone revenues decreased by 7.7% from NT$11.1 billion in the three months ended March 31, 2004 to NT$10.3 billion (US$327 million) in the same period in 2005. This decrease was primarily due to a 15.7% decline in traffic volume from 6.3 billion minutes in the three months ended March 31, 2004 to 5.3 billion minutes in the same period in 2005. This decline in traffic volume was principally a result of the migration of non-HiNet subscribers from dial-up to broadband Internet access, the continued traffic migration from fixed line services to broadband and cellular services, increasing market competition and fewer business days compared to the same period in 2004. We expect this trend to continue as broadband and cellular services become more widely adopted in Taiwan, but we believe the rate of migration is slowing. This decline in traffic volume was partially offset by a 1.8% increase in average local usage fees, reflecting a decrease in the number of users of our discounted Internet tariff package following their migration to broadband Internet access services. Our local interconnection revenues were NT$0.76 billion and NT$0.74 billion in the three months ended March 31, 2004 and 2005, respectively.

Domestic long distance telephone services. Our domestic long distance telephone revenues decreased by 9.8% from NT$3.0 billion in the three months ended March 31, 2004 to NT$2.7 billion (US$85 million) in the same period in 2005. This decrease was mainly due to a decrease in traffic volume from 1.4 billion minutes in the three months ended March 31, 2004 to 1.3 billion minutes in the same period in 2005. The decrease in traffic volume was largely a result of the continued traffic migration from fixed line services to cellular services, increased competition from other fixed line operators and fewer business days compared to the same period in 2004. However, the rate of migration from fixed line services to cellular services continued to decrease during this period. Our interconnection revenues also decreased as a result of a lower interconnection fee rate and more direct connections between private operators.

International long distance telephone services. Our international long distance telephone revenues decreased by 2.9% from NT$3.7 billion in the three months ended March 31, 2004 to NT$3.6 billion (US$114 million) in the same period in 2005. This decrease was mainly due to intense market competition and a decrease of 13.6% in the average per minute usage charge. This was partially offset by an increase of 14.9% in outgoing traffic volume from the three months ended March 31, 2004 compared to the same period in 2005. Our international settlement revenues decreased by 11.2% from NT$0.9 billion in the three months ended March 31, 2004 to NT$0.8 billion (US$25 million) in the same period in 2005. This decrease was primarily due to a continued decline in international settlement rates and translation losses resulting from fluctuations in foreign exchange rates.

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Wireless Services

Wireless revenues comprised 38.2% and 39.2% of our revenues in the three months ended March 31, 2004 and 2005, respectively. Our wireless revenues were NT$17.4 billion and NT$17.4 billion (US$0.6 billion) in the three months ended March 31, 2004 and 2005, respectively. Our cellular services grew as a percentage of our revenues from 38.0% in the three months ended March 31, 2004 to 39.1% in the same period in 2005. Our paging services decreased as a percentage of our revenues from 0.2% in the three months ended March 31, 2004 to 0.1% in the same period in 2005.

Cellular services. Our cellular services revenues slightly increased by 0.5% from NT$17.3 billion in the three months ended March 31, 2004 to NT$17.4 billion (US$553 million) in the same period in 2005. This increase was primarily due to an increase in revenue from monthly tariffs as a result of a slight increase in post-paid subscribers, which was partially offset by a slight decrease in outgoing traffic volume resulting from fewer business days compared to the same period in 2004, and a promotional tariff plan that we implemented for the Chinese New Year. The increase in post-paid subscribers has slowed significantly compared to prior periods as a result of market saturation and increasing competition.

Paging services. Our paging revenues decreased by 51.7% from NT$0.1 billion in the three months ended March 31, 2004 to NT$0.04 billion (US$1.4 million) in the same period in 2005. This decrease reflected the continued customer migration from paging to cellular services.

Internet and Data Services

Internet and data revenues comprised 21.5% and 22.6% of our revenues in the three months ended March 31, 2004 and 2005, respectively. Our Internet and data revenues increased by 2.6% from NT$9.8 billion in the three months ended March 31, 2004 to NT$10.1 billion (US$320 million) in the same period in 2005.

Internet services. Our revenues attributable to Internet services increased by 4.2% from NT$7.3 billion in the three months ended March 31, 2004 to NT$7.7 billion (US$243 million) in the same period in 2005. This increase was largely due to an increase in the number of our asymmetrical digital subscriber line subscribers from 2.6 million as of March 31, 2004 to 3.2 million as of March 31, 2005. This increase was also due to a 6.9% increase in the number of our HiNet subscribers from 3.6 million as of March 31, 2004 to 3.9 million as of March 31, 2005. However, primarily as a result of the reduction in monthly tariff for our asymmetrical digital subscriber lines that we implemented in June 2004, the growth of our Internet services revenues has slowed. Calls to HiNet are recorded as part of our Internet and data services and are not included in our local minutes or revenues. We include usage fees from fixed line telephone calls to access our HiNet service in our Internet revenues. Usage fees from fixed line telephone calls to access Internet service providers other than HiNet are recorded as fixed line revenues.

Data services. Revenues from our data services decreased by 2.0% from NT$2.5 billion in the three months ended March 31, 2004 to NT$2.4 billion (US$77 million) in the same period in 2005. The higher revenues from data services in the three months ended March 31, 2004 were principally a result of a one-time increase in the number of lines leased relating to new projects undertaken by the National Applied Research Laboratories.

Other

Other revenues comprised 1.3% and 1.1% of our revenues in the three months ended March 31, 2004 and 2005, respectively.

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Our other revenues decreased by 19.9% from NT$0.6 billion in the three months ended March 31, 2004 to NT$0.4 billion (US$15.1 million) in the same period in 2005. This decrease in other revenues was mainly due to a decrease of NT$0.1 billion in revenues from our corporate solution services division.

Operating Costs and Expenses

Our operating costs and expenses decreased slightly by 1.5% from NT$30.6 billion in the three months ended March 31, 2004 to NT$30.1 billion (US$958 million) in the same period in 2005. This decrease was primarily due to a decrease in costs of services and marketing expenses. As a percentage of revenues, operating costs and expenses increased slightly from 67.0% in the three months ended March 31, 2004 to 67.7% in the same period in 2005.

Costs of Services

Costs of services include personnel expenses, international settlement costs, handset subsidies, spectrum usage and license fees, costs of materials and maintenance and interconnection fees among cellular operators.

Our costs of services decreased slightly by 1.2% from NT$14.5 billion in the three months ended March 31, 2004 to NT$14.3 billion (US$455 million) in the same period in 2005. This decrease was primarily due to: (1) a NT$237 million decrease in international settlement fees, fixed line connection fees and information broadcasting fees resulting from a decrease in international settlement and fixed line connection rates and a decrease in information broadcasting traffic associated with our paging services; and (2) a NT$82 million decrease in compensation expense arising under our employee priority share subscription program. These decreases were partially offset by a NT$131 million increase in pension cost in connection with an expected increase in the average salaries of our staff and resulting changes in actuarial assumptions that affected our pension costs. We recognize compensation expense when our employees purchase our common shares at certain discounted prices under the priority share subscription program. The lower compensation expense in the three months ended March 31, 2005 was largely due to a decrease in such purchases by our employees compared to the same period in 2004.

Marketing

Our marketing expenses, which include personnel expenses, provisions for bad debt and expenses relating to advertising and other marketing-related activities, decreased by 5.3% from NT$4.6 billion in the three months ended March 31, 2004 to NT$4.3 billion (US$139 million) in the same period in 2005. This decrease was principally a result of: (1) a decrease of NT$254 million in provisions for bad debt due to better collection and stricter credit review of new clients; and (2) a NT$45 million decrease in compensation expense arising under our employee priority share subscription program. We recognize compensation expense when our employees purchase our common shares at certain discounted prices under the priority share subscription program. The lower compensation expense in the three months ended March 31, 2005 was largely due to a decrease in such purchases by our employees compared to the same period in 2004. These decreases were partially offset by a NT$40 million increase in pension cost in connection with an expected increase in the average salaries of our staff and resulting changes in actuarial assumptions that affected our pension costs. They were also partially offset by added marketing and promotions expenses associated with cellular and ADSL services. Following the launch of our 3G services in July 2005, we expect marketing and promotions expenses to increase.

General and Administrative

Our general and administrative expenses were NT$0.7 billion and NT$0.7 billion (US$22 million) in the three months ended March 31, 2004 and 2005, respectively.

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Research and Development

Our research and development expenses were NT$0.6 billion and NT$0.6 billion (US$19 million) in the three months ended March 31, 2004 and 2005, respectively.

Depreciation and Amortization

Our depreciation and amortization expenses were NT$10.2 billion and NT$10.2 billion (US$323 million) in the three months ended March 31, 2004 and 2005, respectively. Following the launch of our 3G services in July 2005 and related capital expenditures, we expect our depreciation and amortization expenses to increase.

Operating Costs and Expenses by Business Segment

	Local	Domestic Long Distance	International Long Distance	Wireless[1]	Internet and Data	Other	Total
	(in billions of NT$) (unaudited)						
As of and for the three months ended March 31, 2004							
Operating costs and expenses	7.4	0.4	1.9	5.0	4.3	0.9	19.9
Unallocated corporate expenses							0.5
Total operating costs and expenses							20.4
Depreciation and amortization	5.0	0.2	0.2	1.4	3.1	0.3	10.2
Unallocated corporate expenses							
Total depreciation and amortization							10.2
As of and for the three months ended March 31, 2005							
Operating costs and expenses	7.7	0.3	1.8	4.9	3.9	0.9	19.5
Unallocated corporate expenses							0.4
Total operating costs and expenses							19.9
Depreciation and amortization	4.8	0.2	0.1	1.6	3.1	0.4	10.2
Unallocated corporate expenses							
Total depreciation and amortization							10.2

(1) Includes cellular and paging services.

Local telephone services

Our local telephone operating expenses, excluding depreciation and amortization, increased by 3.2% from NT$7.4 billion in the three months ended March 31, 2004 to NT$7.7 billion (US$244 million) in the same period in 2005. This increase was primarily due to an increase in our pension costs. Our depreciation and amortization expenses relating to local telephone services decreased by 3.4% from NT$5.0 billion in the three months ended March 31, 2004 to NT$4.8 billion (US$152 million) in the same period in 2005. The decrease was mainly due to the reallocation of network equipment originally dedicated to our local telephone services to our asymmetrical digital subscriber line services.

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Domestic long distance telephone services

Our domestic long distance telephone operating expenses, excluding depreciation and amortization, decreased by 13.9% from NT$0.4 billion in the three months ended March 31, 2004 to NT$0.3 billion (US$10 million) in the same period in 2005. This decrease was mainly due to a decrease in personnel expenses allocated to our domestic long distance telephone business as a result of the decline in revenues from this business during the three months ended March 31, 2005 compared to the same period in 2004. Our depreciation and amortization expenses relating to domestic long distance telephone services were NT$0.2 billion and NT$0.2 billion (US$6 million) in the three months ended March 31, 2004 and 2005, respectively.

International long distance telephone services

Our international long distance telephone operating expenses, excluding depreciation and amortization, decreased by 9.0% from NT$1.9 billion in the three months ended March 31, 2004 to NT$1.8 billion (US$56 million) in the same period in 2005. This decrease was primarily due to a NT$0.1 billion decrease in usage charges as a result of lower international tariffs. Our depreciation and amortization expenses relating to international long distance telephone services decreased by 3.9% from NT$0.2 billion in the three months ended March 31, 2004 to NT$0.1 billion (US$5 million) in the same period in 2005. This decrease was principally a result of fewer purchases of new equipment and an increase in equipment retired from service.

Wireless Services

Our wireless operating expenses, excluding depreciation and amortization, decreased by 1.6% from NT$5.0 billion in the three months ended March 31, 2004 to NT$4.9 billion (US$155.2 million) in the same period in 2005. This decrease was primarily due to (1) a NT$39 million decrease in interconnection fees paid to other cellular operators (2) a NT$56 million decrease in provisions for bad debt. Our depreciation and amortization expenses relating to wireless services increased by 19.1% from NT$1.4 billion in the three months ended March 31, 2004 to NT$1.6 billion (US$52.4 million) in the same period in 2005. This increase was mainly due to new purchases of mobile exchanges and signal transmitters.

Internet and Data Services

Our Internet and data operating expenses, excluding depreciation and amortization, decreased by 9.1% from NT$4.3 billion in the three months ended March 31, 2004 to NT$3.9 billion (US$124 million) in the same period in 2005. This decrease was largely due to a decrease in personnel expenses as a result of the allocation of fewer personnel to our Internet and data services business. Our depreciation and amortization expenses relating to Internet and data services were NT$3.1 billion and NT$3.1 billion (US$97 million) in the three months ended March 31, 2004 and 2005, respectively.

Operating Income and Operating Margin

As result of the foregoing, our operating income decreased by 4.2% from NT$15.0 billion in the three months ended March 31, 2004 to NT$14.4 billion (US$458 million) in the same period in 2005. Our operating margin decreased slightly from 33.0% in the three months ended March 31, 2004 to 32.3% in the same period in 2005.

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The following table sets forth certain information regarding our operating income by business segment for the periods indicated.

	Local	Domestic Long Distance	International Long Distance	Wireless[1]	Internet and Data	Other	Total
				(in billions of NT$) (unaudited)			
As of and for the three months ended March 31, 2004							
Income from operations	1.9	2.0	0.9	7.9	3.5	(0.7)	15.5
Elimination of inter-segment income	(3.1)	0.4	0.7	3.1	(1.1)		
	(1.2)	2.4	1.6	11.0	2.4	(0.7)	15.5
Unallocated corporate expenses							(0.5)
Total income from operations							15.0
As of and for the three months ended March 31, 2005							
Income from operations	0.9	1.9	0.8	8.1	4.0	(0.8)	14.9
Elimination of inter-segment income	(3.1)	0.2	0.9	2.8	(0.9)	0.1	
	(2.2)	2.1	1.7	10.9	3.1	(0.7)	14.9
Unallocated corporate expenses							(0.5)
Total income from operations							14.4

(1) Includes cellular and paging services.

As a result of the foregoing, in the three months ended March 31, 2004 compared to in the same period in 2005: (1) operating loss for our local telephone services increased by 73.3% from NT$1.2 billion to NT$2.2 billion (US$70 million); (2) operating income for our domestic long distance telephone services decreased by 8.4% from NT$2.4 billion to NT$2.1 billion (US$69 million); (3) operating income for our international long distance telephone services increased by 4.6% from NT$1.6 billion to NT$1.7 billion (US$53 million); (4) operating income for our wireless services decreased by 1.4% from NT$11.0 billion to NT$10.9 billion (US$347 million); and (5) operating income for our Internet and data services increased by 30.2% from NT$2.4 billion to NT$3.1 billion (US$99 million).

Our management evaluates our business segments taking into account the segments own and inter-segment costs and revenues. All of our business lines, particularly local telephone, domestic long distance telephone and international long distance telephone services, operate as an integrated business unit. Therefore, we have shown the inter-segment income in the above table.

Other Income and Other Expenses

Our other income increased by 36.7% from NT$0.6 billion in the three months ended March 31, 2004 to NT$0.9 billion (US$27 million) in the same period in 2005. The increase was primarily due to: (1) an increase of NT$89 million in income from foreign exchange gains; (2) a NT$82 million increase in compensatory payments from suppliers due to delayed delivery of goods; and (3) an increase of NT$49 million in interest income.

Our other expenses increased by 70.2% from NT$47 million in the three months ended March 31, 2004 to NT$80 million (US$3 million) in the same period in 2005. This increase was largely due to a NT$19 million increase in loss from damage to equipment and properties from natural disasters and a NT$19 million increase in net loss for long-term equity investments.

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Income Tax

Our income tax was NT$2.7 billion in the three months ended March 31, 2004, compared to NT$3.1 billion (US$98 million) in the same period in 2005. The increase in our income tax was primarily due to an increase in our effective tax rate. Our effective tax rate was 17.1% in the three months ended March 31, 2004 and 20.4% in the same period in 2005. The higher effective tax rate was largely due to a NT$471 million decrease in the utilization of investment credits. This decrease was primarily due to a delay in our application for investment credits in respect of certain equipment because the determination of their eligibility for tax credits, conducted once every two years, had not yet been completed by the Directorate General of Telecommunications.

Net Income

As a result of the factors described above, our net income decreased by 6.7% from NT$12.9 billion in the three months ended March 31, 2004 to NT$12.1 billion (US$384 million) in the same period in 2005. Our net margin was 28.3% in the three months ended March 31, 2004 and 27.1% in the same period in 2005.

Liquidity and Capital Resources

Liquidity

The following table sets forth the summary of our cash flows for the periods indicated:

	For the three months ended March 31,		
	2004	2005	
	(in billions) (unaudited)		
	NT$	NT$	US$
Net cash provided by operating activities	20.1	17.3	0.5
Net cash used in investing activities	(5.1)	(13.2)	(0.4)
Net cash used in financing activities		(0.2)	( )
Net increase in cash and cash equivalents	15.0	3.9	0.1
Cash and cash equivalents at beginning of period	13.5	29.3	0.9
Cash and cash equivalents at end of period	28.5	33.2	1.1

Our primary source of liquidity is cash flow from operations, which represents operating profit adjusted for non-cash items, primarily depreciation and amortization and changes in current assets and liabilities.

In the three months ended March 31, 2005, our net cash provided by operating activities was NT$17.3 billion (US$0.5 billion), compared with NT$20.1 billion in the same period in 2004. This decrease was primarily due to a decrease of NT$3.6 billion in trade notes and accounts payable. Historically, net cash provided by operating activities has been sufficient to cover our capital expenditures, despite our high level of capital expenditures arising from the ongoing expansion and modernization of our networks.

Our net cash used in investing activities increased from NT$5.1 billion in the three months ended March 31, 2004 to NT$13.2 billion (US$0.4 billion) in the same period in 2005. This increase was largely due to a NT$7.9 billion increase in purchases of short-term investments.

In the three months ended March 31, 2005, our net cash used in financing activities was NT$0.2 billion (US$6 million), which reflected repayment of certain long-term loans.

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Capital Resources

We have historically financed our capital expenditure requirements with our cash flows from operations.

In future periods, we expect to have capital expenditure requirements for the ongoing expansion and upgrade of our networks combined with anticipated outlays for the introduction of new services, including our third generation cellular services. We also expect to make dividend payments on an ongoing basis. Furthermore, we may require working capital from time to time to finance purchases of materials for our maintenance and other overhead expenses. We expect to use the cash generated from operations and, to a lesser extent, debt financings primarily to meet our planned capital expenditures, planned dividend payments, repay debts and fulfill other commitments over the next 12 months.

As of March 31, 2005, our primary source of liquidity was NT$33.2 billion (US$1.1 billion) of cash and cash equivalents. As of the same date, we had short-term lines of credit available from a number of financial institutions in Taiwan, none of which had been drawn. Our only long-term loan has a five-year term with installment repayments beginning in the third year. We are not subject to any restrictive covenants under any of our long-term loan facilities.

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of third parties. In addition, we do not have any written options on non-financial assets.

Capital Expenditures

The following table sets forth a summary of our capital expenditures, according to our principal lines of business, for the periods indicated.

	For the three months ended March 31,			
	2004		2005	
	(in billions of NT$, except percentages) (unaudited)			
Capital Expenditures				
Fixed line	1.6	30.8%	1.4	27.0%
Cellular	0.5	10.5	0.9	16.4
Internet and data	2.9	57.5	2.9	54.3
Others	0.1	1.2	0.1	2.3
Total capital expenditures	5.1	100.0%	5.3	100.0%

We incurred capital expenditures of NT$5.3 billion (US$0.2 billion) in the three months ended March 31, 2005 compared to NT$5.1 billion in the same period in 2004. During the first quarter of 2005, 27.0% of our capital expenditures related to fixed line services, 16.4% related to cellular services, 54.3% related to Internet and data services, and 2.3% related to other items.

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The following table sets forth a summary of our planned capital expenditures, according to our principal lines of business, for the year ending December 31, 2005.

	For the year ending December 31, 2005 (in billions of NT$, except percentages)	
Capital Expenditures		
Fixed line	4.9	21.5%
Cellular	4.3	19.0
Internet and data	12.7	55.9
Others	0.8	3.6
Total capital expenditures	22.7	100.0%

We expect fixed line investments to account for an increasingly smaller portion of our capital expenditures, and we expect cellular and Internet and data investments to account for an increasingly larger portion of our capital expenditures. We expect to incur aggregate expenses of NT$12.0 billion in connection with the construction of our third generation cellular network, which will include approximately 2,800 base stations and has a planned capacity for 2.4 million lines. Of these expected aggregate expenses of NT$12.0 billion, we incurred expenses of NT$4.6 billion and NT$3.3 billion in 2003 and 2004, respectively. We expect to incur another NT$1.9 billion of expenses in 2005.

We expect our total capital expenditures to rise in future periods, because of: (1) the launch of new businesses, including multimedia on demand, asymmetrical digital subscriber line, fiber-to-the-building services, voice over Internet protocol and third generation cellular telephone services; (2) the implementation of a network modernization program, including the planned migration of our fixed line networks to Internet protocol next generation networks; and (