TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
May 03, 2006

1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the month of April 2006
Taiwan Semiconductor Manufacturing Company Ltd.
(Translation of Registrant s Name Into English)
No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan
(Address of Principal Executive Offices)

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

Form 20-F þ Form 40-F o

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

Yes o No þ

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82: __________.)

Taiwan Semiconductor Manufacturing
Company Limited
Financial Statements for the
Three Months Ended March 31, 2006 and 2005 and
Independent Accountants Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of March 31, 2006 and 2005, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

April 13, 2006

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited
BALANCE SHEETS
MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2006 Amount	%	2005 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 109,989,790	20	$ 60,218,990	12
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	58,545		302,708	
Available-for-sale financial assets (Notes 2, 3 and 6)	58,815,063	11	48,601,822	10
Held-to-maturity financial assets (Notes 2, 3 and 7)	9,120,093	2	3,036,348	1
Receivables from related parties (Note 23)	21,248,956	4	14,079,482	3
Notes and accounts receivable	19,986,591	4	13,069,620	3
Allowance for doubtful receivables (Note 2)	(975,704)		(978,577)	
Allowance for sales returns and others (Note 2)	(4,479,954)	(1)	(3,741,534)	(1)
Other receivables from related parties (Note 23)	683,675		2,645,421	
Other financial assets (Note 3)	784,723		828,065	
Inventories, net (Notes 2 and 8)	16,901,113	3	13,428,985	3
Deferred income taxes assets (Notes 2 and 16)	7,276,728	1	7,296,000	2
Prepaid expenses and other current assets (Note 3)	1,378,283		957,067	
Total current assets	240,787,902	44	159,744,397	33
LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10)				
Available-for-sale financial assets	1,900,885			
Held-to-maturity financial assets	18,677,604	4	26,940,409	6
Financial assets carried at cost	813,354		779,340	
Investments accounted for using equity method	54,047,343	10	49,157,468	10
Total long-term investments	75,439,186	14	76,877,217	16
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 23)				
Cost				
Buildings	91,408,209	17	87,452,818	18
Machinery and equipment	468,724,647	86	424,088,493	88
Office equipment	7,978,549	2	7,360,112	2

	568,111,405	105	518,901,423	108
Accumulated depreciation	(373,690,326)	(69)	(315,454,528)	(65)
Advance payments and construction in progress	18,101,402	3	26,406,814	5
Net property, plant, and equipment	212,522,481	39	229,853,709	48
GOODWILL (Note 2)	1,567,756		1,829,049	
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 16)	7,064,964	2	3,751,059	1
Deferred charges, net (Notes 2 and 12)	6,179,470	1	8,438,529	2
Refundable deposits	83,642		85,542	
Assets leased to others, net (Note 2)	71,446		77,180	
Idle assets (Note 2)	6,789		17,130	
Total other assets	13,406,311	3	12,369,440	3
TOTAL	$ 543,723,636	100	$ 480,673,812	100

	2006		2005	
	Amount	%	Amount	%
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	$ 354,214		$ 854,087	
Accounts payable	7,360,964	1	5,344,256	1
Payables to related parties (Note 23)	3,512,804	1	2,863,489	1
Income tax payable (Notes 2 and 16)	6,110,590	1	379,903	
Payables to contractors and equipment suppliers	11,621,333	2	10,920,422	2
Accrued expenses and other current liabilities (Notes 2, 3 and 14)	6,886,738	1	7,028,701	2
Current portion of bonds payable (Note 13)	2,500,000	1	10,500,000	2
Total current liabilities	38,346,643	7	37,890,858	8
LONG-TERM LIABILITIES				
Bonds payable (Note 13)	17,000,000	3	19,500,000	4
Other long-term payables (Note 14)	1,493,160		1,911,506	1
Other payables to related parties (Notes 23 and 26)	1,087,410		1,722,326	

Total long-term liabilities	19,580,570	3	23,133,832	5
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 15)	3,437,287	1	3,240,343	1
Guarantee deposits (Note 26)	3,215,089	1	370,876	
Deferred credits (Notes 2 and 23)	1,211,019		684,423	
Total other liabilities	7,863,395	2	4,295,642	1
Total liabilities	65,790,608	12	65,320,332	14
CAPITAL STOCK $10 PAR VALUE				
Authorized: 27,050,000 thousand shares in 2006				
24,600,000 thousand shares in 2005				
Issued: 24,733,053 thousand shares in 2006				
23,252,863 thousand shares in 2005	247,330,530	45	232,528,635	48
CAPITAL SURPLUS (Notes 2 and 18)	57,208,367	11	56,574,377	12
RETAINED EARNINGS (Note 18)				
Appropriated as legal capital reserve	34,348,208	6	25,528,007	5
Appropriated as special capital reserve	2,226,427			
Unappropriated earnings	138,803,185	26	105,020,406	22
	175,377,820	32	130,548,413	27
OTHERS (Notes 2 and 3)				
Cumulative translation adjustments	(1,098,483)		(2,725,918)	(1)
Unrealized gains on financial instruments	32,869			
	(1,065,614)		(2,725,918)	(1)
TREASURY STOCK (AT COST (Notes 2 and 20)				
32,938 thousand shares in 2006 and 45,037 thousand shares in 2005	(918,075)		(1,572,027)	
Total shareholders equity	477,933,028	88	415,353,480	86
TOTAL	$ 543,723,636	100	$ 480,673,812	100

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

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2 and 23)	$ 78,637,640		$ 56,413,097	
SALES RETURNS AND ALLOWANCES (Note 2)	1,344,296		759,880	
NET SALES	77,293,344	100	55,653,217	100
COST OF SALES (Notes 17 and 23)	40,651,362	53	34,004,376	61
GROSS PROFIT	36,641,982	47	21,648,841	39
OPERATING EXPENSES (Notes 17 and 23)				
Research and development	3,548,886	5	3,348,555	6
General and administrative	1,554,351	2	1,944,834	3
Sales and marketing	671,400		278,876	1
Total operating expenses	5,774,637	7	5,572,265	10
INCOME FROM OPERATIONS	30,867,345	40	16,076,576	29
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	2,972,039	4		
Gain on disposal of financial instruments, net (Notes 2, 3, 5 and 22)	1,115,518	2	1,897,289	4
Interest income (Notes 2 and 3)	902,043	1	619,986	1
Technical service income (Notes 23 and 26)	142,631		77,111	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 23)	96,141		60,707	
Settlement income (Note 25)			569,276	1
Others (Note 23)	78,440		68,272	
Total non-operating income and gains	5,306,812	7	3,292,641	6

NON-OPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	1,032,555	2	2,282,461	4
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22)	295,669		257,718	1
Interest expense (Notes 3 and 13)	165,300		303,112	1

(Continued)

	2006 Amount	%	2005 Amount	%
Equity in losses of equity method investees, net (Notes 2 and 10)	$		$ 198,178	
Others (Note 2)	25,292		62,407	
Total non-operating expenses and losses	1,518,816	2	3,103,876	6
INCOME BEFORE INCOME TAX	34,655,341	45	16,265,341	29
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 16)	(1,802,369)	(3)	553,056	1
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	32,852,972	42	16,818,397	30
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT$82,062 THOUSAND (Note 3)	(246,186)			
NET INCOME	$ 32,606,786	42	$ 16,818,397	30

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 21)				
Basic earnings per share	$ 1.39	$ 1.32	$ 0.66	$ 0.68
Diluted earnings per share	$ 1.39	$ 1.32	$ 0.66	$ 0.68

The pro forma net income and after income tax earnings per share are shown as follows, based on the assumption that the Company s stock held by its subsidiaries is treated as an investment instead of treasury stock (Notes 2 and 20):

	2006	2005
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 32,852,972	$ 16,821,282
NET INCOME	$ 32,606,786	$ 16,821,282
EARNINGS PER SHARE (NT$)		
Basic earnings per share	$ 1.32	$ 0.68

Diluted earnings per share	$	1.32	$	0.68

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

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 32,606,786	$ 16,818,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,974,533	16,668,655
Amortization of premium/discount of financial assets	(15,834)	28,956
Loss (gain) on disposal of available-for-sale financial assets, net	(261,300)	64,473
Deferred income taxes	(568,737)	(553,056)
Equity in losses (earnings) of equity method investees, net	(2,972,039)	198,178
Gain on disposal of property, plant and equipment and other assets, net	(93,903)	(22,785)
Accrued pension cost	(24,105)	139,147
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	(198,352)	2,056,557
Notes and accounts receivable	605,227	2,257,261
Allowance for doubtful receivables	(640)	(1,884)
Allowance for sales returns and others	209,985	413,620
Financial instruments at fair value through profit or loss	1,442,295	1,708,744
Other receivables from related parties	846,108	(881,321)
Other financial assets	321,307	56,252
Inventories	(643,158)	742,960
Prepaid expenses and other current assets	(206,510)	129,751
Increase (decrease) in:		
Accounts payable	(691,142)	(1,144,361)
Payables to related parties	257,542	(901,983)
Income tax payable	2,294,702	
Accrued expenses and other current liabilities	(1,110,647)	(1,757,005)
Deferred credits	(23,936)	
Net cash provided by operating activities	47,748,182	36,020,556
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(31,351,886)	(18,632,579)
Held-to-maturity financial assets	(1,379,009)	(1,762,393)
Financial assets carried at cost	(5,864)	(6,706)
Long-term investments accounted for using equity method	(19,214)	(2,992,406)
Property, plant and equipment	(11,114,607)	(38,161,372)

(Continued)

	2006	2005
Proceeds from disposal of		
Available-for-sale financial assets	$ 16,951,250	$ 18,742,345
Property, plant and equipment and other assets	461,151	120,613
Redemption of held-to-maturity financial assets upon maturity	2,973,000	1,651,621
Increase in deferred charges	(96,335)	(285,727)
Increase in refundable deposits		(129)
Net cash used in investing activities	(23,581,514)	(41,326,733)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	322,144	(41,517)
Proceeds from exercise of employee stock options	117,395	34,866
Net cash provided by (used in) financing activities	439,539	(6,651)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24,606,207	(5,312,828)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	85,383,583	65,531,818
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 109,989,790	$ 60,218,990
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 420,000	$ 452,000
Income tax paid	$ 67,924	$ 22,522
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 13,876,710	$ 17,927,484
Decrease (increase) in payables to contractors and equipment suppliers	(2,762,103)	20,233,888
Cash paid	$ 11,114,607	$ 38,161,372
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of bonds payable	$ 2,500,000	$ 10,500,000
Current portion of other payables to related parties (under payables to related parties)	$ 685,718	$ 949,841

Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 817,530	$ 1,487,737

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

Taiwan Semiconductor Manufacturing Company Limited
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2005
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)
(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The Company is engaged mainly in the manufacturing, selling, packaging, testing and computer-aided designing of integrated circuits and other semiconductor devices and the manufacturing of masks.

As of March 31, 2006 and 2005, the Company had 20,027 and 18,648 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

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

Significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management s estimates.

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Government bonds under repurchase agreements and notes acquired with maturities less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value with the changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. Any difference between the initial carrying amount of a debt security and its amount at maturity is amortized and then recognized in earnings using the effective interest method.

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

Held-to-Maturity Financial Assets

Debt securities for which the Company has a positive intent and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Earnings or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

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

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, shipment is made, price is fixed or determinable, and collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by customers. The Company records a provision for estimated future returns and other allowances in the period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made based on historical experience, management s judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of cash to be received.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Period-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Financial Assets Carried at Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks and mutual funds. The costs of funds and non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

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

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company s share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. When equity investments were made, the difference, if any, between the cost of investment and the Company s share of the investee s net equity was previously amortized using the straight-line method over five years and was also recorded in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5 Long-term Investments in Equity Securities (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized; while investment discounts continue to be amortized over the remaining periods. When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

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

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company s ownership percentage in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through the subsequent sales of the related products to third parties. Gains or losses on sales from investees to the Company are deferred in proportion to the Company s ownership percentages in the investees until they are realized through transactions with third parties.

Gains or losses on sales between investees accounted for using the equity method are deferred in proportion to the Company s weighted-average ownership percentages in the investees until realized through transactions with third parties.

If an investee s functional currency is a foreign currency, translation adjustments will result from the translation of the investee s financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders equity.

Property, Plant and Equipment, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Idle assets are stated at the lower of net realizable value or book value. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred. Interest expense incurred during the purchase and construction period is also capitalized.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings 10 to 20 years; machinery and equipment 5 years; and office equipment 3 to 5 years.

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

Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill was previously amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised SFAS No. 25 Business Combinations Accounting Treatment under Purchase Method (SFAS No. 25), goodwill is no longer amortized and is assessed for impairment at least on an annual basis. If an event occurs or circumstances change that more likely than not reduce the fair value of the goodwill below its carrying amount, an impairment loss is charged to current income. No recording of a subsequent recovery in fair value of the goodwill is allowed.

Deferred Charges

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized over the following periods: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 3 years. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Pension Costs

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies intra-period and inter-period allocations for its income tax, that is, (1) a portion of current period income tax expense is allocated to the cumulative effect of changes in accounting principles; (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

Income tax on unappropriated earnings of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

The R.O.C. government enacted the Alternative Minimum Tax Act (AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Stock-based Compensation

Employee stock option plans that are amended or have options granted on or after January 1, 2004 are accounted for by the interpretations issued by the Accounting Research and Development Foundation. The Company adopted the intrinsic value method and any compensation cost determined using this method is charged to expense over the employee vesting period.

Treasury Stock

The Company s stock held by its subsidiaries is treated as treasury stock and reclassified from long-term investments accounted using equity method to treasury stock. The gains resulted from disposal of the treasury stock held by the subsidiaries and cash dividends received by the subsidiaries from the Company are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in current income.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34 Accounting for Financial Instruments (SFAS No. 34) and No. 36 Disclosure and Presentation for Financial Instruments and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders equity.

The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders Equity
Financial assets or liabilities at fair value through profit or loss	$ (246,186)	$
Available-for-sale financial assets		
	$ (246,186)	$

The adoption of the newly released SFASs resulted in a decreased in net income before cumulative effect of changes in accounting principles of NT$295,669 thousand, a decrease in net income of NT$541,855 thousand, and a decrease in after income tax basic earnings per share of NT$0.02, for the three months ended March 31, 2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such change in accounting principle did not have a material effect on the Company s financial statements as of and for the three months ended March 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the three months ended March 31, 2005 were reclassified to conform with the financial statements as of and for the three months ended March 31, 2006. The previous issued financial statements as of and for the three months ended March 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

1) Short-term investments

Short-term investments that were publicly-traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. The market value of publicly-traded stocks was determined using the average-closing prices for the last month of the period.

2) Derivative financial instruments

The Company entered into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts were recorded in New Taiwan dollars at the current rate of exchange at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted forward rates were amortized over the terms of the forward contracts using the straight-line method. At the end of each period, the receivables or payables arising from forward contracts were restated using the prevailing exchange rates with the resulting differences credited or charged to income. In addition, the receivables and payables related to the same forward contracts were netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement was credited or charged to income in the period of settlement.

The Company entered into cross currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount was recorded using the current rates at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted rates were amortized over the terms of the contracts using the straight-line method. At the end of each period, the receivables or payables arising from cross-currency swap contracts were restated using the prevailing exchange rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party were netted with the resulting amount presented as either an asset or a liability. The difference in interest computed pursuant to the contracts on each settlement date or the balance sheet date was recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement was credited or charged to income in the period of settlement.

The Company entered into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. These transactions were accounted for on an accrual basis, in which the cash settlement receivable or payable was recorded as an adjustment to interest income or expense associated with the hedged items.

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments	$ 51,638,170	$
Other financial assets	179,131	
Prepaid expenses and other current assets	123,577	
Long-term investments accounted for using cost method	779,340	
Long-term bonds investment	16,503,809	
Other long-term investments	10,436,600	
Accrued expenses and other current liabilities	(854,087)	
Financial assets at fair value through profit or loss		302,708
Financial liabilities at fair value through profit or loss		(854,087)
Available-for-sale financial assets		48,601,822
Held-to-maturity financial assets		29,976,757
Financial assets carried at cost		779,340
	$ 78,806,540	$ 78,806,540
Statement of income		
Interest income	$ 160,076	$
Foreign exchange gain, net	2,081,847	
Interest expense	(280,161)	
Unrealized valuation loss on short-term investments	(257,718)	
Loss on disposal of investment, net	(64,473)	
Valuation loss on financial instruments, net		(257,718)
Gain on disposal of financial instruments, net		1,897,289
	$ 1,639,571	$ 1,639,571

4. CASH AND CASH EQUIVALENTS

	March 31	
	2006	2005
Government bonds acquired under repurchase agreements	$ 61,427,311	$ 26,670,303
Cash and deposits in banks	48,126,259	33,198,480
Corporate notes	436,220	350,207
	$ 109,989,790	$ 60,218,990

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

	March 31 2006	March 31 2005
Derivatives financial assets		
Forward contracts	$ 2,254	$ 56,781
Cross currency swap contracts	56,291	245,927
	$ 58,545	$ 302,708
Derivatives financial liabilities		
Forward contracts	$ 6,597	$ 301,914
Cross currency swap contracts	347,617	552,173
	$ 354,214	$ 854,087

The Company entered into derivative transactions during the three months ended March 31, 2006 and 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations. The derivative transactions entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, effective January 1, 2006, the Company has discontinued hedge accounting.

Outstanding forward contracts as of March 31, 2006 and 2005:

	Currency	Maturity	Contract Amount (in Thousands)
March 31, 2006			
Sell	EUR/US$	April 2006	US$ 36,882
March 31, 2005			
Sell	US$/NT$	April 2005 to June 2005	US$ 708,000
Buy	US$/NT$	April 2005	US$ 40,000

Outstanding cross currency swap contracts as of March 31, 2006 and 2005:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
March 31, 2006			

April 2006 to June 2006	US$	2,311,000	2.91%-5.65%	0.10%-2.04%
March 31, 2005				
April 2005 to June 2005	US$	1,395,000	1.28%-3.07%	0.49%-1.15%

The Company did not enter into any interest rate swap contracts during the three months ended March 31, 2006.

The Company rescinded all interest rate swap contracts in the first quarter of 2005 before their original maturities. The rescission loss of NT$28,295 thousand has been reclassified and included in the losses on disposal of financial instrument account.

Net gains arising from derivative financial instruments for the three months ended March 31, 2006 were NT$558,549 thousand (including realized settlement gains of NT$854,218 thousand and valuation losses of NT$295,669 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2006	**2005**
Bond funds	$ 19,085,320	$ 10,667,000
Agency bonds	13,154,575	10,464,473
Corporate bonds	11,961,405	11,003,652
Corporate issued asset backed securities	10,936,373	12,084,193
Government bonds	4,884,533	3,424,308
Structured time deposits	499,091	
Corporate notes	97,863	157,612
Money market funds	90,509	677,811
Publicly traded stocks	6,279	28,267
Commercial papers		94,506
	60,715,948	48,601,822
Current portion	(58,815,063)	(48,601,822)
	$ 1,900,885	$

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of March 31, 2006, the Company s investment portfolios managed by these fund managers aggregated to an original amount of US$1,200,000 thousand. The investment portfolios included securities such as agency bonds, corporate bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

As of March 31, 2006, structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal Amount	Carrying Amount	Range of Interest Rates	Maturity Date
Step-up callable deposits				
Domestic banks	$ 500,000	$ 499,091	1.76%	March 2008

The interest rate of the step-up callable deposits is pre-determined by the Company and the banks.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31	
	2006	**2005**
Government bonds	$ 7,868,330	$ 11,819,517
Corporate bonds	9,288,167	7,720,640
Structured time deposits	10,641,200	10,436,600
	27,797,697	29,976,757
Current portion	(9,120,093)	(3,036,348)