Vanguard International Semiconductor Corporation

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 the Shareholders
Vanguard International Semiconductor Corporation

We have reviewed the accompanying balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") 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 Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As disclosed in Note 9 to the financial statements, the carrying value of NT$1,007,660 thousand of long-term stock investments accounted for using the equity method as of March 31, 2005 and the related investment loss of NT$6,795 thousand for the three months then ended were based on the investees' unreviewed financial statements for the same period.

Based on our reviews, except for the effects of such adjustments, if any, that might have been determined to be necessary had the investees' financial statements referred to in the preceding paragraph been audited, we are not aware of any material modifications that should be made to the financial statements referred to in the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, on January 1, 2006, the Corporation adopted the recently released Statements of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments," and related revisions of previously released SFASs.

April 11, 2006

<u>*Notice to Readers*</u>

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' 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' report and financial statements shall prevail.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

ASSETS	**2006 Amount**	**%**	**2005 Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 11,318,024	48	$ 10,563,274	41
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	10,462	-	2,497	-
Available-for-sale financial assets - current (Notes 2, 3 and 6)	159,623	1	-	-
Bond portfolios with no active market - current (Notes 2, 3 and 7)	190,629	1	299,847	1
Notes and accounts receivable	735,019	3	638,132	3
Receivables from related parties (Note 20)	909,199	4	803,955	3
Allowance for doubtful accounts (Note 2)	(18,855)	-	(17,909)	-
Allowance for sales returns and discounts (Note 2)	(89,283)	-	(163,714)	(1)
Inventories, net (Notes 2 and 8)	927,207	4	1,079,007	4
Prepaid expenses and other current assets	127,660	-	151,191	1
Deferred income tax assets - current (Notes 2 and 18)	720,939	3	611,481	2
Total current assets	14,990,624	64	13,967,761	54
INVESTMENTS				
Long-term stock investments accounted for using the equity method (Notes 2 and 9)	1,098,786	5	1,007,660	4
Financial assets carried at cost - noncurrent (Notes 2, 3 and 10)	461,415	2	461,415	2
Available-for-sale financial assets - noncurrent (Notes 2, 3 and 6)	45	-	-	-
Total investments	1,560,246	7	1,469,075	6
PROPERTIES (Notes 2, 11 and 21)				
Cost				
Buildings	8,294,494	36	8,216,018	32
Machinery and equipment	36,047,348	155	35,258,748	138
Other equipment	278,431	1	232,785	1
Equipment under capital lease	-	-	530,674	2
Total cost	44,620,273	192	44,238,225	173
Accumulated depreciation	(38,984,255)	(168)	(36,019,805)	(141)
Prepayments and construction in progress	141,536	1	237,191	1
Net properties	5,777,554	25	8,455,611	33
OTHER ASSETS				
Deferred charges, net (Notes 2 and 12)	138,546	1	87,652	-
Deferred income tax assets - noncurrent (Notes 2 and 18)	817,325	3	1,654,798	7
Refundable deposits	3,079	-	2,617	-
Total other assets	958,950	4	1,745,067	7
TOTAL	$ 23,287,374	100	$ 25,637,514	100

LIABILITIES AND SHAREHOLDERS' EQUITY	**2006 Amount**	**%**	**2005 Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2, 3 and 5)	$ 1,137	-	$ -	-
Payables to related parties (Note 20)	62,338	-	47,825	-
Accounts payable	457,425	2	300,657	1
Payables to contractors and equipment suppliers	157,357	1	174,129	1
Current portion of capital lease obligations (Notes 2 and 11)	-	-	77,465	-
Current portion of bonds payable (Notes 13 and 21)	550,000	2	550,000	2
Current portion of long-term bank loans (Notes 14 and 21)	100,760	1	142,195	1
Accrued expenses and other current liabilities	963,085	4	1,323,141	5
Total current liabilities	2,292,102	10	2,615,412	10
LONG-TERM DEBTS BEARING INTERESTS				
Long-term bank loans (Notes 14 and 21)	56,760	-	1,486,889	6
Bonds payable (Notes 13 and 21)	-	-	550,000	2
Total long-term debts bearing interests	56,760	-	2,036,889	8
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	461,465	2	442,387	2
Guarantee deposits	1,234	-	1,080	-
Total other liabilities	462,699	2	443,467	2
Total liabilities	2,811,561	12	5,095,768	20
SHAREHOLDERS' EQUITY (Notes 2 and 15)				
Capital stock, $10 par value;				
Authorized - 3,300,000 thousand shares				
Issued - 1,613,699 thousand shares in 2006 and 1,476,289 thousand shares in 2005	16,136,986	70	14,762,890	58
Capital surplus				
Employee stock option	280,247	1	86,425	-
Long-term stock investments	17,724	-	16,865	-
Total capital surplus	297,971	1	103,290	-
Retained earnings:				
Legal reserve	475,494	2	-	-
Special reserve	59,648	-	-	-
Unappropriated earnings	3,487,626	15	5,749,719	22
Total retained earnings	4,022,768	17	5,749,719	22
Other:				
Unrealized gains on financial instruments (Notes 2, 3 and 6)	62,586	-	-	-
Cumulative translation adjustments	(44,498)	-	(74,153)	-
Total others	18,088	-	(74,153)	-
Total shareholders' equity	20,475,813	88	20,541,746	80
TOTAL	$ 23,287,374	100	$ 25,637,514	100

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

(With Deloitte & Touche review report dated April 11, 2006)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
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 20)	$ 2,576,514		$ 2,227,605	
SALES RETURNS AND DISCOUNTS (Note 2)	-		-	
NET SALES	2,576,514	100	2,227,605	100
COST OF SALES (Notes 19 and 20)	1,883,272	73	1,730,726	78
GROSS PROFIT	693,242	27	496,879	22
OPERATING EXPENSES (Notes 19 and 20)				
General and administrative	118,604	5	108,417	5
Marketing	30,259	1	24,999	1
Research and development	112,986	4	138,758	6
Total operating expenses	261,849	10	272,174	12
OPERATING INCOME	431,393	17	224,705	10
NONOPERATING INCOME AND GAINS				
Interest	42,348	2	28,506	1
Valuation gains on financial instruments (Notes 2 and 5)	24,913	1	-	-
Reversal of allowances for loss on inventory valuation and obsolescence (Note 2)	5,352	-	-	-
Gain on disposal of properties (Note 2)	20	-	31	-
Foreign exchange gain, net (Note 2)	-	-	2,238	-
Gain on sales of investments (Note 2)	-	-	825,931	37
Other (Note 20)	9,641	-	6,902	1
Total nonoperating income and gains	82,274	3	863,608	39

(Continued)

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	$ 22,383	1	$ -	-
Interest (Notes 2 and 11)	13,196	1	22,971	1
Investment loss recognized by equity method (Notes 2 and 9)	6,990	-	6,795	-
Losses on inventory valuation loss and obsolescence (Note 2)	-	-	3,900	-
Loss on disposal of properties (Note 2)	-	-	65	-
Other	45	-	70	-
Total nonoperating expenses and losses	42,614	2	33,801	1
INCOME BEFORE INCOME TAX	471,053	18	1,054,512	48
INCOME TAX EXPENSE (Notes 2 and 18)	(81,245)	(3)	(59,735)	(3)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	389,808	15	994,777	45
Cumulative effect of changes in accounting principles (Notes 2, 3 and 18) (including tax savings of $41 thousand)	(123)	-	-	-
NET INCOME	$ 389,685	15	$ 994,777	45

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	$ 0.29	$ 0.24	$ 0.66	$ 0.63
Diluted	$ 0.29	$ 0.24	$ 0.66	$ 0.62

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

(With Deloitte & Touche review report dated April 11, 2006) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
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	$ 389,685	$ 994,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	633,402	958,315
Investment loss recognized by the equity method	6,990	6,795
Deferred income tax assets	81,204	59,735
(Gain) loss on disposal of properties, net	(20)	34
Gain on sales of investments	-	(825,931)
Accrued pension cost	-	14,638
(Reversal of allowance) provision for doubtful accounts	(12,942)	531
Reversal of allowance for sales returns and discounts	(21,782)	(7,512)
Net changes in operating assets and liabilities		
Receivables from related parties	(135,634)	880,883
Notes and accounts receivable	494,930	(100,484)
Inventories	85,375	(34,419)
Prepaid expenses and other current assets	12,545	30,261
Financial assets for trading	(4,532)	395
Payables to related parties	(23,320)	(3,671)
Accounts payable	(35,845)	(130,667)
Accrued expenses and other current liabilities	(167,392)	123,123
Financial liabilities for trading	1,137	-
Net cash provided by operating activities	1,303,801	1,966,803
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase)in bond portfolios with no active market	19,634	(299,847)
Acquisitions of available-for-sale financial assets	(45)	-
Proceeds from disposal of available-for-sale financial assets	-	1,691,438
Increase in long-term stock investments accounted for using the equity method	(32,000)	-
Acquisitions of properties	(66,087)	(460,557)
Proceeds from disposal of properties	20	31
Increase in deferred charges	(22,553)	(20,973)
(Increase) decrease in refundable deposits	(162)	195
Net cash (used in) provided by investing activities	(101,193)	910,287

(Continued)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	$ (200,000)	$ -
Decrease in long-term bank loans	(1,376,988)	(18,001)
Increase (decrease) in guarantee deposits	46	(15,975)
Proceeds from the exercise of employee stock options	35,415	146,391
Net cash (used in) provided by financing activities	(1,541,527)	112,415
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(338,919)	2,989,505
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,656,943	7,573,769
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 11,318,024	$ 10,563,274
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized amounts of $670 thousand and $3,879 thousand for the three months ended March 31, 2006 and 2005, respectively)	$ 30,285	$ 20,613
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term debts bearing interests	$ 650,760	$ 769,660
Reclassification of deferred charges into properties	$ -	$ 18
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Total acquisitions	$ 145,411	$ 256,940
(Increase) decrease in payables to contractors and equipment suppliers	(79,324)	163,819
Capital lease obligations	-	39,798
	$ 66,087	$ 460,557

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

(With Deloitte & Touche review report dated April 11, 2006) (Concluded)

1. ORGANIZATION AND OPERATIONS

Vanguard International Semiconductor Corporation (the "Corporation") was established on December 5, 1994 as a venture among the Ministry of Economic Affairs (MOEA), Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), USI Corporation and several other private investors. The MOEA's contributed capital was assets of and technology developed from the Submicron Experiment Project.

The Corporation's shares have been traded over the counter on the Republic of China (ROC) GreTai Securities Market since March 25, 1998.

The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

As of March 31, 2006 and 2005, the Corporation had 1,910 and 1,876 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation should make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, decline in market value of inventories, depreciation of properties, amortization of deferred charges and pension expenses. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the 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 financial statements shall prevail.

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

Current/Noncurrent Assets and Liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be consumed within 12 months from the balance sheet date. Current liabilities are those to be settled within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Government bonds acquired under agreements for resell within three months from the date of purchase are classified as cash equivalents. Their carrying amount approximates fair value.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss contain financial assets or financial liabilities for trading. These financial instruments are initially recognized at fair value. The transaction costs with the financial instruments are expensed currently. When subsequently remeasured at fair value, the changes in fair value are recognized in current income. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Financial instruments of derivatives that are not part of a hedging relationship qualifies for hedge accounting are reclassified as financial assets for trading or financial liabilities for trading. When the fair value is a positive number, the financial instrument is listed as a financial asset; when the fair value is a negative number, the financial instrument is listed as a financial liability. Fair value of derivatives with no active market fair value is estimated using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. When the assets are subsequently measured at fair value, the changes in fair value are recognized as an adjustment to shareholders' equity. The accumulated gains or losses will be recognized when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions of the original cost of investment if such dividends are declared on the investees' earnings attributable to periods before the Corporation's purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The Corporation's cost per share is then recalculated on the basis of the new number of shares.

If there is objective evidence that an impairment loss on equity securities has been incurred on the balance sheet date, the impairment loss should be recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Bond Portfolios with No Active Market

Bond portfolios with fixed or determinable receivables that are not quoted in an active market are carried at amortized cost using the effective interest method. These bond portfolios are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Profit or loss is recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

If there is objective evidence that an impairment loss has been incurred on the balance sheet date, the impairment loss should be recognized. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss should be reversed. This reversal should not result in the carrying amount of the financial asset exceeding the amortized cost that would have been determined had the impairment loss not been recognized.

Allowance for Doubtful Accounts

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

Inventories

Inventories are stated at the lower of standard cost (adjusted to approximate weighted average cost) or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value of finished goods and work in process and replacement value of raw materials, supplies and spare parts. Estimated losses on slow-moving items are recognized and included in the allowance for losses.

Long-term Stock Investments Using the Equity Method

Investments in shares of stock of companies in which the Corporation exercises significant influence on their operating and financial decisions are accounted for by the equity method. If the Corporation subscribes for an investee's newly issued shares at a percentage different from its current equity, the resulting increase in the equity in the investee's net assets is credited to capital surplus. Any decrease in equity is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings. The carrying amount may also be adjusted at the Corporation's proportionate interest in the investee if there are changes in the investee's equity, other than capital stocks and retained earnings.

On the balance sheet date, the Corporation evaluates investments for any impairment. An impairment loss is recognized and charged to current income if the investment carrying amount as of the balance sheet date exceeds the expected recoverable amount. Investments in which the Corporation has significant influence over investees are tested for impairment separately at their carrying amounts.

Financial Assets Carried at Cost

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

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

Properties

Properties are stated at cost less accumulated depreciation. Major additions, renewals, betterments and interest expenses incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Properties covered by capital lease agreements are carried at the lower of the (a) market value of the leased equipment at the start of the lease or (b) the present value of the future minimum lease payments at the start of the lease and the bargain purchase option price. The effective interest rate method is used to allocate each lease payment between principal and interest expense. The implicit interest included in the lease payment is recognized as current interest expense.

On the balance sheet date, the Corporation evaluates properties for any impairment. If impairment is identified, the Corporation should evaluate the recoverable amount of the assets. An impairment loss should be recognized for any carrying amount in excess of the expected recoverable amount, and this loss should be charged to current income. An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the loss reversal is only to the extent that the increased carrying amount of an asset would not exceed the carrying amount (net of depreciation) had no impairment loss been recognized in prior years. Under certain regulations, an impairment loss of a revalued asset should be treated as a revaluation increment decrease. A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation increment. However, to the extent that an impairment loss on the same revalued asset was previously recognized as profit or loss, a reversal of that impairment loss is also recognized as profit or loss.

Depreciation is calculated using the straight-line method over the following periods: buildings - 5 to 20 years; machinery and equipment and other equipment - 2 to 5 years; and equipment under capital lease - 3 years.

Properties still in use at the end of their initially estimated service lives are further depreciated over their newly estimated service lives. Upon sale or other disposal of properties, the related cost and accumulated depreciation are removed from the corresponding accounts, and any gain or loss is credited or charged to nonoperating gain or loss.

Deferred Charges

Deferred charges are amortized on the straight-line method over the following periods: software design costs - 3 to 5 years; bank loan costs - 5 years; and bonds issue costs - 7 years.

On the balance sheet date, the Corporation evaluates deferred charges for any impairment. If impairment is identified, the Corporation should evaluate the recoverable amount of the deferred charges. An impairment loss should be recognized for any carrying amount in excess of the expected recoverable amount, and this loss should be charged to current income. An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the loss reversal is only to the extent that the increased carrying amount of a deferred charge would not exceed the carrying amount (net of amortization) had no impairment loss been recognized in prior years.

Employee Stock Options

Compensatory employee stock option plans that are amended or have options granted on or after January 1, 2004 must be accounted for according to the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Corporation uses the intrinsic value method, and any compensation cost is charged to expense over the employee vesting period as specified in the stock option plans.

Sales and Allowance for Sales Returns and Discounts

Sales are recognized when titles to products and evident risks of ownership are transferred to customers, primarily upon shipment, since the major part of the earnings process is completed and revenue is realized or realizable. Allowances and related provisions for sales returns and discounts are provided on the basis of the Corporation’s historical experience. These provisions are deducted from gross sales and related costs are deducted, as they are incurred, from cost of sales.

Sales are determined at fair value, taking into account related sales discounts agreed to by the Corporation and customer. Since the receivables from sales are collectible within one year and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Capitalized and Other Expenditures

Expenditures that will benefit periods of over one year are recognized as assets; others are recognized as expenses or losses.

Pension Costs

On July 1, 2005, employees subject to the Labor Standards Law before this date were required to choose between two pension plans: Defined benefit and defined contribution. Under the defined contribution pension plan, pension costs are recorded on the basis of the Corporation’s required contributions to employees’ individual pension accounts. Under the defined benefit pension plan, pension costs are recorded on the basis of actuarial calculations.

Income Tax

The Corporation 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, unused tax credits and operating loss carryforwards. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability should be classified as current or noncurrent according to the classification of the related asset or liability, but if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or noncurrent depending on the expected realization date of the temporary difference.

Tax credit for the purchase of certain machinery, equipment and technology; research and development expenditures; personnel training; and investments in important technology-based enterprise are recognized currently.

Adjustments to prior years' tax are added to or deducted from the income tax expense in the year those adjustments are determined.

Income taxes (10%) on undistributed earnings generated since 1998 are recorded as expense in the year when the shareholders resolve to retain the earnings.

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 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.

If an equity-method 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 Corporation. These adjustments are accumulated and reported as a separate component of shareholders' equity.

The spot rate preceding the transactions occurred is mainly referred to the Reuter's quotation system.

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to be consistent with the financial statements as of and for the three months ended March 31, 2006.

3. ACCOUNTING CHANGES

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

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

The Corporation had properly categorized its financial assets and liabilities (including derivative financial instruments) upon initial adoption of the newly released Statements. 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 financial assets and liabilities categorized as financial instruments carried at cost and available-for-sale financial assets were recognized as adjustments to shareholders' equity.

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

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as Adjustments to Shareholders' Equity
Available-for-sale financial assets	$ -	$ 1,220
Financial liabilities at fair value through profit or loss	(123)	-
	$ (123)	$ 1,220

The changes in accounting principles decreased net income by $123 thousand in the three month ended March 31, 2006; the basic and diluted earnings per share after tax, however, did not change substantially.

b. Reclassification of adopting the newly released SFASs and related revisions of previously released SFASs

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 previously issued financial statements as of and for the three months ended March 31, 2005 need not be restated.

Certain accounting policies before the adoption of the newly released Statements are summarized as follows:

1) Short-term investments

Short-term investments are mainly residential mortgage-backed securities, which are carried at the lower of aggregate cost or market value. The market value of these securities is based on resale prices stated in agreements.

2) Long-term stock investments

Investments in companies in which the Corporation does not exercise significant influence over the investees are accounted for by the cost method.

3) Derivative financial instruments

Forward exchange contracts (“forward contracts”), which are entered into for non-trading purposes to cover the Corporation’s transactions in foreign currencies, are recorded in New Taiwan dollars as assets or liabilities at spot rates on the starting dates of the contracts. The difference in the New Taiwan dollar amounts at the starting date rates and the amounts at the contracted forward rates are recognized as premiums or discounts on the starting dates of the forward contracts. These premiums or discounts are amortized over the terms of the forward contracts using the straight-line method, and the amortizations are recognized as income or loss. On the balance sheet date, the gain or loss on settled forward contracts is calculated by multiplying the foreign-currency amount of the contract by the difference between the spot rate at the start of the contract and the spot rate on the balance sheet date (or the spot rates last used to measure a gain or loss on that contract for an earlier period), and the result is recognized as income or loss. For contracts outstanding as of the balance sheet date, the receivables and payables are restated at the prevailing spot rates and are netted out; the net amount is presented as an asset or a liability.

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 Statements. 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	$ 299,847	$ -
Forward exchange contract receivables (recognized as prepaid expenses and other current assets)	2,497	-
Long-term stock investments accounted for using the cost method	461,415	-
Financial assets at fair value through profit or loss	-	2,497
Bond portfolios with no active market, current	-	299,847
Financial assets carried at cost	-	461,415

Effective January 1, 2006, the Corporation adopted the newly revised SFAS No. 1, “Summary of Generally Accepted Accounting Principles,”; SFAS No. 5, “Long-Term Investments in Equity Securities”; and SFAS No. 25, “Business Combinations -Accounting Treatment under Purchase Method,” which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. This accounting change did not have a material effect on the Corporation’s financial statements as of and for the three months ended March 31, 2006.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2006	2005
Bank deposits	$ 10,870,539	$ 8,574,221
Government bonds acquired under resale agreements	447,485	1,989,053
	$ 11,318,024	$ 10,563,274

As of March 31, 2006 and 2005, the Corporation had deposited US$52 thousand and US$236 thousand, respectively, in a bank in San Francisco, U.S.A.

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

Financial instruments for trading consisted of the following:

	March 31 2006	March 31 2005
Financial assets for trading		
Cross-currency interest rate swap contracts	$ 10,303	$ -
Forward exchange contracts	159	2,497
	$ 10,462	$ 2,497
Financial liabilities for trading		
Cross-currency interest rate swap contracts	$ 1,137	$ -

The Corporation entered into derivative transactions in the three months ended March 31, 2006 and 2005 to manage exposures related to exchange rate and interest rate fluctuations. The derivative transactions entered into by the Corporation did not meet the criteria for hedge accounting under SFAS No. 34.

a. Outstanding forward exchange contracts as of March 31, 2006 and 2005

Contract	Currency	Contract Expiry Date	Contract Amount (in Thousands)
March 31, 2006			
Sell forward exchange contracts	US$ to JPY	2006.04.27	US$ 500
March 31, 2006			
Sell forward exchange contracts	US$ to NT$	2005.04.07	US$ 15,000
Sell forward exchange contracts	US$ to JPY	2005.04.04	US$ 900

b. Outstanding cross-currency interest rate swap contracts as of March 31, 2006

Contract Amount (in Thousands)	Contract Expiry Date	Range of Interest Rate Paid	Range of Interest Rate Received
US$56,000	2006.04.04-2006.06.28	4.57%-4.93%	1.35%-1.46%

The Corporation did not enter into any cross-currency interest rate swap contracts in the three months ended March 31, 2005.

The gains on financial assets for trading were $10,462 thousand in the three months ended March 31, 2006. The losses on financial liabilities for trading were $1,137 thousand in the three month ended March 31, 2006.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	March 31 2006	March 31 2005
Open-end funds- Taishin Lucky Investment Trust Fund	$ 159,623	$ -
Listed stocks-International Semiconductor Technology Ltd.	45	-
	159,668	-
Less：Financial assets classified as noncurrent assets	(45)	-
	$ 159,623	$ -

7. BOND PORTFOLIOS WITH NO ACTIVE MARKET - CURRENT

	March 31 2006	March 31 2005
Chinatrust Bank- Residential mortgage-backed securities	$ 190,629	$ 299,847

8. INVENTORIES, NET

	March 31 2006	March 31 2005
Finished goods	$ 29,189	$ 136,314
Work in process	561,645	615,472
Raw materials	143,978	130,904
Supplies and spare parts	256,979	268,464
	991,791	1,151,154
Allowance for losses	(64,584)	(72,147)
	$ 927,207	$ 1,079,007

9. LONG-TERM STOCK INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	March 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted stocks				
VIS Associates Inc.	$ 1,026,406	100	$ 952,476	100
CMSC, Inc.	40,380	34	55,184	34
	1,066,786		1,007,660	
Prepayments for long-term stock investments				
CMSC, Inc.	32,000		-	
	$ 1,098,786		$ 1,007,660	

The carrying value of the equity-method investments and the related investment losses were based on the investees' reviewed or unreviewed financial statements of the same reporting periods as those of the Corporation. The investment losses of the investees were as follows:

	2006	2005
VIS Associates Inc.	$ (3,617)	$ (3,420)
CMSC, Inc.	(3,373)	(3,375)
	$ (6,990)	$ (6,795)

10. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2006	2005
Emerging stocks		
Walton Advanced Engineering, Inc. (WAE)	$ 302,559	$ 302,559
Megic Corporation (MC)	120,140	120,140
Unlisted stocks		
United Industrial Gases Co., Ltd.	38,716	38,716
	$ 461,415	$ 461,415

The emerging and unlisted stocks had no quoted market prices. Thus, these investments were carried at cost.

On December 5, 2005, the merger between MC and International Semiconductor Technology Ltd. (IST, survivor company) was approved by the MC Board of Directors in their meeting. The effective merger date is September 16, 2006, on which MC and International Semiconductor Technology Ltd. (IST) will exchange common shares at a 1.45:1 ratio, with "1" referring to IST.

In their special meeting on January 23, 2006, MC's shareholders approved a capital reduction in line with the spin-off of its intellectual property department to form a new company, Megica Corporation. This spin-off took effect on March 23, 2006.

11. PROPERTIES

Accumulated depreciation was as follows:

	March 31	
	2006	2005
Buildings	$ 6,604,144	$ 5,930,141
Machinery and equipment	32,183,005	29,467,699
Other equipment	197,106	179,737
Equipment under capital lease	-	442,228
	$ 38,984,255	$ 36,019,805

Capitalized interest amounts were as follows:

	March 31	
	2006	**2005**
Interest expense before interest capitalization	$ 13,866	$ 26,850
Interest capitalized	670	3,879
Interest rates used to calculate the amounts capitalized	3.17%	2.83%-3.53%

To lease certain equipment, the Corporation entered into capital lease agreements, which had expired in September 2005. The capital leases were summarized as follows:

	March 31, 2005
Total amount of equipment under capital lease	$ 530,674
Present value of obligation under capital lease	$ 77,465
Current portion	(77,465)
	$ -

12. DEFERRED CHARGES, NET

	March 31	
	2006	**2005**
Software design costs	$ 138,546	$ 82,760
Bank loan costs	-	4,606
Bond issue costs	-	286
	$ 138,546	$ 87,652

13. BONDS PAYABLE

	March 31	
	2006	**2005**
Repayable in annual installments from November 15, 2005 to November 15, 2006; 3.50%-3.60% interest; guaranteed by financial institutions	$ 550,000	$ 1,100,000
Current portion	(550,000)	(550,000)
	$ -	$ 550,000

The bonds require, among other things, the maintenance of specific financial ratios. The Corporation had met the requirement as of March 31, 2006.

14. LONG-TERM BANK LOANS

	March 31	
	2006	**2005**
Bank loans		
Repayable in quarterly installments through July 2007; interest, 1.22%-1.24% in 2006 and 1.50%-1.66% in 2005	$ 100,000	$ 100,000
Repayable in semiannual installments through December 2007; 2006 - US$1,136 thousand, 4.94%-5.92% interest; 2005 - US$1,704 thousand, 3.22%-4.10% interest	36,875	53,676
Repayable in semiannual installments through December 2007; 2006 - US$636 thousand, 4.94%-5.92% interest; 2005 - US$954 thousand, 3.22%-4.10% interest	20,645	30,051
Repayable in semiannual installments through August 2009 (early repayment on February 22, 2006); US$35,000 thousand, 2.67%-3.89% interest	-	1,102,500
Repayable in semiannual installments through October 2007 (early repayment on January 13, 2006); 2.25%-2.32% interest	-	342,857
	157,520	1,629,084
Current portion	(100,760)	(142,195)
	$ 56,760	$ 1,486,889

15. SHAREHOLDERS' EQUITY

Under the Company Law, the Corporation's capital surplus can only be used to offset a deficit. In addition, capital surplus generated from the issue price in excess of the par value of capital stock may be transferred to capital as stock dividends. However, the capital surplus from long-term stock investments accounted for using the equity method is restricted from use for any purpose.

The Corporation's Articles of Incorporation provide that the following should be appropriated from the annual net income after deducting any deficit and 10% legal reserve:

a. 1% as remuneration to directors and supervisors;
b. At least 1% as bonus to employees;
c. Special reserve; and
d. Final balance, appropriation to be decided at the shareholders' meeting.

All profits may be distributed after taking into consideration of financial, business and operational factors. Dividends are in cash and/or in the form of stock. Since the Corporation's operation is at the steady-growth stage, the cash dividend paid (in any given year) should be at least 10% of the dividends of the current year's appropriation. If there is no profit for distribution, or the profit is far less than the profit actually distributed by the Corporation in the previous year or other reasons so require, all or part of the capital surplus may be transferred to capital in accordance with relevant laws or regulations or the requirements of the authorities in charge.

Under regulations promulgated by the Securities and Futures Bureau (SFB), a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets (cumulative translation adjustments) should be made from unappropriated retained earnings. The special reserve may be reversed and appropriated to the extent of the balance reversed.

Legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. When the reserve exceeds 50% of the Corporation's paid-in capital, the excess may be used to offset a deficit or be distributed as dividends and bonuses if the Corporation has no unappropriated earnings. The Company Law also prescribes that, when the reserve has reached 50% of the Corporation's paid-in capital, up to 50% of the reserve may be transferred to capital.

These appropriations and the disposition of the remaining net income should be resolved by the shareholders in, and given effect to in the financial statements of, the year following the year of earnings generation. Under the Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the dividend distribution date.

On January 8, 2003, the Corporation issued 600,000 thousand shares of new capital stock at a discounted price of NT$7.00 per share.

The appropriation of earnings for 2005 and 2004 were approved in the Board of Directors' meeting and the shareholders' meeting held on February 10, 2006 and May 20, 2005, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividend Per Share (NT$)	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 271,097	$ 475,494	$-	$-
Special reserve	-	59,648	-	-
Stock dividends	161,165	1,028,567	0.10	0.70
Cash dividends	2,256,312	2,424,481	1.40	1.65
Bonus to employees - in stock	117,114	135,034	-	-
Bonus to employees - in cash	78,076	202,550	-	-
Remuneration to directors and supervisors	24,643	42,198	-	-
	$ 2,908,407	$ 4,367,972		

The appropriation of stock bonuses to employees and stock dividends resulted in the issuance of additional shares amounting to $278,279 thousand; thus, paid-in capital increased to $16,415,265 thousand. However, the actual stock dividends per share will be subject to adjust if the number of outstanding common shares changes in connection with the exercise of employee stock options. The Board of Directors is proposed to authorize and to determine the adjustments in stock dividends per share and propose related appropriations in the shareholders' meeting. These proposed appropriations will be submitted to the shareholders for approval in their meeting on May 11, 2006. Information on appropriations can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Securities and Futures Commission (the name of the SFB before July 1, 2004) of its adoption of Employee Stock Option Plans (hereafter referred to as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001 Plan consisted of 16,000 thousand units. Together, the 2002 Plan and 2003 Plan consisted of 140,000 thousand units. These options generally vest at a certain percentage from two years after the date of grant and may be exercised within eight years from two years after the date of grant. Other information on the stock option rights plan is as follows:

	2003 Plan		**2002 Plan**		**2001 Plan**	
	Number of Outstanding Stock Option Rights (in Thousands)	**Weighted-Average Exercise Price (NT$)**	**Number of Outstanding Stock Option Rights (in Thousands)**	**Weighted-Average Exercise Price (NT$)**	**Number of Outstanding Stock Option Rights (in Thousands)**	**Weighted-Average Exercise Price (NT$)**
2006						
Beginning balance	61,009	$ 22.45	27,648	$ 16.40	6,488	$ 20.66
Options exercised	-	-	(1,575)	16.40	(207)	17.98
Options canceled	(1,000)	22.06	(374)	16.40	(26)	20.73
Ending balance	60,009	22.45	25,699	16.40	6,255	20.75
2005						
Beginning balance	65,085	25.35	48,578	18.60	9,679	22.69
Options exercised	-	-	(9,464)	18.60	(569)	19.20
Options canceled	(1,150)	23.88	(425)	18.60	(58)	23.48
Ending balance	63,935	25.37	38,689	18.60	9,052	22.90

The number of outstanding option rights and exercise prices had been adjusted to reflect the offset of deficit by capital reduction and the appropriations of dividends based on the employee stock option plans.

The outstanding stock options as of March 31, 2006 is as follows:

	Options Outstanding			**Options Exercisable**	
Exercise Price (NT$)	**Number Outstanding (in Thousands)**	**Expected Remaining Contractual Life (in Years)**	**Weighted-Average Exercise Price (NT$)**	**Number Exercisable (in Thousands)**	**Weighted-Average Exercise Price (NT$)**
2003 plan					
$17.80-$23.70	60,009	7.67-8.47	$22.45	9,847	$23.70
2002 plan					
$16.40	25,699	6.49	16.40	19,274	16.40
2001 plan					
$17.00-$22.80	6,255	5.15-5.86	20.75	6,255	20.75

No employee stock options were granted in the first quarter of 2006 and 2005. The Corporation used the intrinsic value method to evaluate the compensation cost of employee stock options granted in the second and third quarters of 2004. The compensation cost recognized was zero since the above stock option was granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value method to evaluate compensation cost of employee stock options granted, the pro forma results of the Corporation would have been as follows:

Method:	Black-Scholes model
Assumptions:	
Risk-free interest rate	2.63%-3.00%
Expected life (in years)	10 years
Expected stock price volatility	70.40%-70.46%
Expected dividend yield	-
Fair value per option (NT$)	$8.07-$10.00

	2006	2005
Net income:		
Net income as reported	$ 389,685	$ 994,777
Pro forma net income	$ 353,241	$ 950,644
Earnings per share (EPS) (NT$):		
Basic EPS as reported	$0.24	$0.63
Pro forma basic EPS	$0.22	$0.60
Diluted EPS as reported	$0.24	$0.62
Pro forma diluted EPS	$0.22	$0.60

The average number of shares outstanding for pro forma EPS calculation was adjusted retroactively for appropriations of dividends. The retroactive adjustment caused the basic and diluted earnings per share after income tax for the three months ended March 31, 2005 to decrease from $0.65 to $0.60 and from $0.64 to $0.60, respectively.

16. EARNINGS PER SHARE

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT$)				
Income before cumulative effect of changes in accounting principles	$ 0.29	$ 0.24	$ 0.66	$ 0.63
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$ 0.29	$ 0.24	$ 0.66	$ 0.63
Diluted EPS (NT$)				
Income before cumulative effect of change in accounting principles	$ 0.29	$ 0.24	$ 0.66	$ 0.62
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$ 0.29	$ 0.24	$ 0.66	$ 0.62

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

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
2006					
Net income	$ 471,053	$ 389,685			
Basic EPS					
Income of common shareholders	$ 471,053	$ 389,685	1,613,114	$ 0.29	$ 0.24
Effect of dilutive securities					
Employee stock option rights	-	-	6,336		
Diluted EPS					
Income of common and potential common shareholders	$ 471,053	$ 389,685	1,619,450	$ 0.29	$ 0.24
2005					
Net income	$ 1,054,512	$ 994,777			
Basic EPS					
Income of common shareholders	$ 1,054,512	$ 994,777	1,586,628	$ 0.66	$ 0.63
Effect of dilutive securities					
Employee stock option rights	-	-	7,505		
Diluted EPS					
Income of common and potential common shareholders	$ 1,054,512	$ 994,777	1,594,133	$ 0.66	$ 0.62

The average number of shares outstanding for EPS calculation was adjusted retroactively for capital reduction. The retroactive adjustment caused the basic and diluted earnings per share after income tax for the three months ended March 31, 2005 to decrease from NT$0.68 to NT$0.63 and from NT$0.67 to NT$0.62, respectively.

17. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005, and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Act before the enforcement of this Act were allowed to choose to be subject to the pension mechanism under this Act or to continue to be subject to the pension mechanism under the Labor Standards Act. For Corporation employees who were subject to the Labor Standards Act before July 1, 2005 and chose to be subject to the pension mechanism under this Act, their service years as of July 1, 2005 will be retained. Based on the Act, the rate of the Corporation's contribution to employees' personal pension accounts is 6% of monthly salaries or wages. Starting from July 1, 2005, the Corporation has made monthly contributions to the employees' personal pension accounts and recognized pension costs of $14,911 thousand for the three months ended March 31, 2006.

Before the promulgation of the Act, the Corporation has had a defined benefit plan under the Labor Standards Act, which provides benefits based on the employee's length of service and average monthly salaries and wages of the six months before retirement. The Corporation contributes an amount equal to 2% of monthly salaries and wages to a pension fund. The fund is administered by a pension fund monitoring committee and deposited in the committee's name in the Central Trust of China.

The changes in the pension fund and accrued pension cost under the defined benefit plan are summarized as follows:

	2006	2005
Pension fund		
Balance, beginning of period	$ 202,112	$ 180,476
Contributions	4,676	4,911
Interest	4,245	2,016
Balance, end of period	$ 211,033	$ 187,403
Accrued pension liabilities		
Balance, beginning of period	$ 461,465	$ 427,749
Provisions	-	14,638
Balance, end of period	$ 461,465	$ 442,387

18. INCOME TAX EXPENSE

a. A reconciliation of income tax expense on income before income tax at the statutory rate and current income tax expense before income tax credits is shown below:

	2006	2005
Income tax expense based on income before income tax at statutory rate (25%)	$ 117,722	$ 263,628
Permanent differences	870	(205,729)
Temporary differences	(37,388)	1,836
Current income tax expense before income tax credits	$ 81,204	$ 59,735

b. Income tax expenses were as follows:

	2006	2005
Current income tax expense before income tax credits	$ 81,204	$ 59,735
Operating loss carryforwards	(81,204)	(59,735)
Cumulative effect of changes in accounting principles	41	-
Net change in deferred income tax assets for the periods		
Investment tax credits	(26,755)	(93,804)
Operating loss carryforwards	81,204	59,735
Temporary differences	37,148	(1,023)
Valuation allowance	(10,393)	94,827
Income tax expense	$ 81,245	$ 59,735

c. Deferred income tax assets (liabilities) were as follows:

	March 31 2006	March 31 2005
Current		
Investment tax credits	$ 78,934	$ 201,690
Operating loss carryforwards	649,128	434,231
Loss on inventory valuation and obsolescence	16,146	18,037
Other	31,120	32,396
	775,328	686,354
Valuation allowance	(54,389)	(74,873)
	$ 720,939	$ 611,481
Noncurrent		
Investment tax credits	$ 797,884	$ 688,420
Operating loss carryforwards	1,018,013	1,937,453
Investment loss recognized by equity method	(42,257)	(51,897)
Accrued pension costs	115,366	110,597
Depreciation and amortization	466,970	459,057
	2,355,976	3,143,630
Valuation allowance	(1,538,651)	(1,488,832)
	$ 817,325	$ 1,654,798

The effective tax rate for deferred income taxes as of March 31, 2006 and 2005 was 25%.

d. The balances of the imputation credit account (ICA) as of March 31, 2006 and 2005 were $1,407 thousand and $11,999 thousand, respectively.

The expected and actual creditable ratios for distributing the earnings of 2005 and 2004 were 0.04% and 0.30%, respectively.

The imputation credit allocated to each shareholder is based on the ICA balance on the date of dividend distribution; thus, the expected creditable ratio for the 2005 earnings may be adjusted according to the actual ICA balance on the dividend distribution date.

e. The unappropriated retained earnings as of March 31, 2006 and 2005 had no unappropriated earning generated before January 1, 1998.

f. As of March 31, 2006, the tax credits and loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	$ 302,392	$ 221,188	2006
		995,110	995,110	2007
		450,843	450,843	2008
		$ 1,748,345	$ 1,667,141	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 124,668	$ 124,668	2006
		34,106	34,106	2007
		238,603	238,603	2008
		34,100	34,100	2009
		$ 431,477	$ 431,477	
Statute for Upgrading Industries	Research and development expenditures	$ 46,124	$ 46,124	2006
		136,294	136,294	2007
		78,550	78,550	2008
		148,665	148,665	2009
		18,229	18,229	2010
		$ 427,862	$ 427,862	
Statute for Upgrading Industries	Personnel training expenditures	$ 2,105	$ 2,105	2006
		1,738	1,738	2007
		1,759	1,759	2008
		1,613	1,613	2009
		184	184	2010
		$ 7,399	$ 7,399	
Statute for Upgrading Industries	Investments in important technology - based enterprise	$ 5,400	$ 5,400	2006
		4,680	4,680	2007
		$ 10,080	$ 10,080	

Income tax returns through 2003 had been examined and cleared by the tax authorities.

g. The Statute for Alternative Minimum Tax took effect on January 1, 2006. Under this statute, the Corporation should pay annually at least the minimum income tax calculated in accordance with the Statute. This requirement has already been taken into consideration in the evaluation of whether the unused deferred tax assets could be realized.

19. LABOR COST, DEPRECIATION, AMORTIZATION AND LEGAL SERVICE EXPENSE

	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$ 262,760	$ 79,864	$ 342,624	$ 238,665	$ 62,148	$ 300,813
Labor/health insurance	17,361	5,699	23,060	16,465	5,186	21,651
Pension	14,717	4,832	19,549	14,843	4,674	19,517
Others	11,781	4,494	16,275	10,155	3,491	13,646
	$ 306,619	$ 94,889	$ 401,508	$ 280,128	$ 75,499	$ 355,627

(Continued)

	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Depreciation	$ 609,592	$ 10,339	$ 619,931	$ 942,176	$ 8,566	$ 950,742
Amortization	$ 2,274	$ 11,197	$ 13,471	$ 1,827	$ 5,348	$ 7,175
Legal service expense	$ -	$ 9,745	$ 9,745	$ -	$ 2,700	$ 2,700

20. RELATED-PARTY TRANSACTIONS

The Corporation's related parties were as follows:

a. VIS Micro Inc. (VIS Micro): Indirect subsidiary.

b. Taiwan Semiconductor Manufacturing Company Ltd. (TSMC): A major shareholder.

c. Walton Advanced Engineering, Inc. (WAE): The Corporation is its director.

d. Megic Corporation (MC): The Corporation is its director.

e. CMSC, Inc. (CMSC): Equity-method investee.

f. Goyatek Technology Inc. (Goya): An indirect subsidiary of the Corporation is its director.

g. Global Unichip Corporation (GUC): Related party in substance.

h. Others - related parties over which the Corporation has substantial influence but without any transactions. Please see Note 24.

The transactions with the related parties, in addition to those disclosed in other notes, are summarized as follows:

	2006		2005	
	Amount	%	Amount	%
For the period				
Sales				
TSMC	$ 897,925	35	$ 1,024,444	46
Goya	23,330	1	33,079	2
CMSC	3,263	-	600	-
GUC	1,254	-	916	-
MC	324	-	171	-
	$ 926,096	36	$ 1,059,210	48
Manufacturing expenses				
TSMC	$ 50,646	4	$ 34,613	2
Marketing expenses				
VIS Micro	$ 11,168	37	$ 11,653	47

(Continued)

	2006		2005	
	Amount	%	Amount	%
Research and development expenses				
GUC	$ 320	-	$ -	-
TSMC	-	-	6,084	4
MC	-	-	106	-
	$ 320	-	$ 6,190	4
Nonoperating income and gains				
Goya	$ 242	3	$ 516	8
MC	-	-	88	1
TSMC	-	-	7	-
	$ 242	3	$ 611	9
At end of period				
Receivables				
TSMC	$ 716,048	98	$ 621,196	97
Goya	14,199	2	16,010	3
CMSC	3,311	-	-	-
GUC	1,137	-	926	-
MC	324	-	-	-
	$ 735,019	100	$ 638,132	100
Payables				
TSMC	$ 54,971	88	$ 44,008	92
VIS Micro	6,764	11	3,817	8
Goya	411	1	-	-
GUC	192	-	-	-
	$ 62,338	100	$ 47,825	100

VIS Micro provided marketing services for the Corporation. The Corporation paid actual expenses incurred for these services plus a 5% markup.

The terms of sales and purchase transactions to related parties were not significantly different from those for third parties. For other related-party transactions, license fees, and research and development expenses, there were no similar transactions in the market; thus, the prices were determined in accordance with the related agreements.

21. PLEDGED ASSETS

The following assets had been pleaded as collaterals for bonds and long-term bank loans:

	March 31	
	2006	2005
Properties, net	$ 182,026	$ 2,169,806

22. LONG-TERM OPERATING LEASES

The Corporation leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates between April 2010 and June 2015. Annual rentals aggregate $27,088 thousand.

Future minimum annual rentals under the leases are as follows:

Year	Amount
2006 the last three quarters	$ 20,316
2007	27,238
2008	27,288
2009	27,288
2010	18,606
2011-2015	63,719
	$ 184,455

23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of March 31, 2006 were as follows:

a. The Corporation revised its existing license agreement with Texas Instruments Incorporated. Original duration was from January 1, 1997 to December 31, 2006. The revised termination date is December 31, 2009. Each party authorized the other to use its patents in manufacturing and selling semiconductor products and waived all claims based on patent infringement toward the other party, including their subsidiaries.

b. The Corporation entered into a license and technology transfer agreement, effective January 1, 2004, with Taiwan Semiconductor Manufacturing Company Ltd. and agreed to pay TSMC a license fee at a specific percentage of net sales of certain products.

c. Under a license agreement made with ARM Physical IP, Inc., the Corporation should pay royalty from December 22, 2004 to December 31, 2009 when using ARM's patent to manufacture and sell products.

d. Under a patent license agreement made with SST International Limited, the Corporation should pay royalty for seven years from April 7, 2005 when using SST's patent to manufacture and sell products.

e. Under a patent license agreement made with eMemory Technology Inc., the Corporation should pay royalty for five years from January 4, 2006 when using eMemory's patent to manufacture and sell products.

f. Under a patent license agreement made with Advanced Analogic Technologies Inc., the Corporation should pay royalty for three years from March 27, 2006 when using AATI's patent to manufacture and sell products.

g. As of March 31, 2006, unused letters of credit aggregated about US$7,564 thousand and JPY120,984 thousand.

24. ADDITIONAL DISCLOSURES

Following are the additional disclosure required by the Securities and Futures Bureau for the Corporation and its affiliates:

a. Marketable securities held: Table 1 (attached)

b. Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Table 2 (attached)

c. Total purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 3 (attached)

d. Receivable from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 4 (attached)

e. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 5 (attached)

f. Financial instruments

1) Fair values of financial instruments were as follows:

	March 31, 2006		March 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Cash and cash equivalents	$ 11,318,024	$ 11,318,024	$ 10,563,274	$ 10,563,274
Available-for-sale financial assets (including current and noncurrent portions)	159,668	159,668	-	-
Bond portfolios with no active market - current	190,629	190,668	299,847	299,918
Receivables from related parties	735,019	735,019	638,132	638,132
Notes and accounts receivable	909,199	909,199	803,955	803,955
Financial assets carried at cost - noncurrent	461,415	-	461,415	-
Liabilities				
Payables to related parties	62,338	62,338	47,825	47,825
Accounts payable	457,425	457,425	300,657	300,657
Long-term bank loans (including current portion)	157,520	157,520	1,629,084	1,629,084
Bonds payable (including current portion)	550,000	563,555	1,100,000	1,140,715
Derivative financial instruments				
Assets				
Cross-currency interest rate swap contracts	10,303	10,303	-	-
Forward exchange contracts	159	159	2,497	1,438
Liabilities				
Cross-currency interest rate swap contracts	1,137	1,137	-	-

The Corporation adopted the newly released Statement of Financial Accounting Standards No. 34, "Accounting Treatment for Financial Instruments," on January 1, 2006. As a result, certain financial instruments were not included in the financial statements for the three months ended March 31, 2005. Please see note 3 for the cumulative effect for changes in accounting principles and adjustments to shareholders' equity.

2) Methods and assumptions used to determine the fair values of financial instruments

   a) For short-term financial instruments, carrying values approximate fair values because of their short maturities. These instruments are cash and cash equivalents, receivables from related parties, notes and accounts receivable, payables to related parties and accounts payable.

   b) Fair values of available-for-sale financial assets are based on their quoted market prices. If market of the derivate of financial instruments is not active, the Corporation establishes fair value by using a valuation technique, which (i) incorporates all factors that market participants would consider in setting a price and (ii) is consistent with accepted economic methodologies for pricing financial instruments. Fair values of forward exchange contacts and cross-currency interest rate swap contracts are determined using valuation techniques based on forward rates for each contract. The Reuter's quotation system is mainly used as reference for the forward rates.

   c) Fair value of bond portfolios with no active market is based on the contract resale price.

   d) Fair value of bonds payable is based on their quoted market price.

   e) Fair value of long-term bank loans is based on their book value because these loans are at floating rates.

3) The fair values of the Corporation's financial instruments with fair values that were based on published price quotations in the market and to which valuation techniques were applied were as follows:

	Published Price		Estimated Price	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Non-derivative financial instruments				
Assets				
Cash and cash equivalents	$ 11,318,024	$ 10,563,274	$ -	$ -
Available-for-sale financial assets (including current and noncurrent portion)	159,668	-	-	-
Bond portfolios with no active market current	-	-	190,668	299,918
Receivables from related parties	-	-	735,019	638,132
Notes and accounts receivable	-	-	909,199	803,955
Liabilities				
Payables to related parties	-	-	62,338	47,825
Accounts payable	-	-	457,425	300,657
Long-term bank loans (include current portion)	-	-	157,520	1,629,084
Bonds payable (include current portion)	563,555	1,140,715	-	-

(Continued)

	Published Price		Estimated Price	
	March 31, 2006	**March 31, 2005**	**March 31, 2006**	**March 31, 2005**
Derivative financial instruments				
Assets				
Cross-currency interest rate swap contracts	$ -	$ -	$ 10,303	$ -
Forward exchange contracts	-	-	159	1,438
Liabilities				
Cross-currency interest rate swap contracts	-	-	1,137	-

4) Net gain recognized for the changes in fair value of derivatives estimated using valuation techniques was $24,913 thousand for the three months ended March 31, 2006

5) As of March 31, 2006 and 2005, financial assets exposed to fair value interest rate risk amounted to $10,346,886 thousand and $10,089,032 thousand, respectively; financial liabilities exposed to fair value interest rate risk amounted to $550,000 thousand and $1,100,000 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $971,138 thousand and $474,242 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to $157,520 thousand and $1,629,084 thousand, respectively.

6) Interest revenues on financial instruments other than the financial assets at fair value through profit or loss in the three months ended March 31, 2006 and 2005 were $42,348 thousand and $28,506 thousand, respectively; Interest expenses resulting from the financial instruments other than the financial assets at fair value through profit or loss in the three months ended March 31, 2006 and 2005 were $13,866 thousand and $26,850 thousand, respectively. The Corporation recognized an unrealized gain of $1,724 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets in the three months ended March 31, 2006. The Corporation also recognized an unrealized gain of $60,862 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees in the three months ended March 31, 2006.

7) Financial risk

   a) Market risk. The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciates by US$0.01, the fair value would increase by $810 thousand.

   b) Credit risk. Credit risk represents the loss that would be incurred by the Corporation if the counter-parties or third-parties breach the contracts and also refers to concentrations of credit risk; factors; principal amount; and receivables on the financial instruments. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of March 31, 2006 and 2005, financial assets exposed to credit risk amounted to $10,462 thousand and $1,939 thousand, respectively.

c) Liquidity and cash requirement: The Corporation has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Corporation's residential mortgage-backed securities with embedded put options have option exercise prices that approximate the amortized costs of the securities on the exercise dates and can be sold quickly. However, some equity instruments for which there is no active market are expected to have material liquidity risk. As of March 31, 2006, the Corporation's future cash demand for the outstanding forward exchange contracts and currency swap contracts was as follows:

Term	**Inflow (in Thousands)**		**Outflow (in Thousands)**	
Within one year	JPY	58,665	US$	500
	NT$	1,826,660	US$	56,000

The exchange rates for forward exchange contracts and currency swap contracts are fixed. Thus, the cash flow risks are not material.

d) Cash flow risk of interest rate：The interest rates on the Corporation's long-term bank loans are floating; thus, the prevailing interest rate fluctuations could result in cash outflows. If the market interest rate increases by 1%, the cash out of the Corporation will rise by $1,000 thousand and US$18 thousand.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES HELD
MARCH 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2006				Note
				Shares/Units (Thousands) (Notes 8 and 9)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International Semiconductor Corporation	Residential mortgage-backed securities							
	Chinatrust Bank	-	Bond portfolios with no active market - current	75	$ 190,629	-	$ 190,668	Note 1
	Fund							
	Taishin Lucky Investment Trust Fund	-	Available-for-sale financial assets - current	15,721	159,623	-	159,623	Note 2
	Stock							
	International Semiconductor Technology Ltd.	-	Available-for-sale financial assets - noncurrent	1	45	-	45	Note 3
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for using the equity method	21,070	1,026,406	100	1,026,406	Note 4
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	7,768	40,380	34	40,380	Notes 4 and 6
	Walton Advanced Engineering, Inc.	Investee	Financial assets carried at cost - noncurrent	34,166	302,559	8	368,971	Notes 5 and 7
	Megic Corporation	Investee	Financial assets carried at cost - noncurrent	11,450	120,140	8	131,246	Note 5
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	60,296	Note 5
VIS Associates Inc.	Stock							
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for using the equity method	63	US$ 651	100	US$ 651	Note 4
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - noncurrent	208	US$ 2,375	-	US$ 2,375	Note 3
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for using the equity method	10,000	US$ 9,730	100	US$ 9,730	Note 4
	VIS Singapore Pte Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for using the equity method	250	US$ 89	100	US$ 89	Note 5
	Equity							
	Silicon Valley Equity Fund	-	Financial assets carried at cost - noncurrent	-	US$ 1,283	34	US$ 1,283	Note 5
	Silicon Valley Equity Fund II	-	Financial assets carried at cost - noncurrent	-	US$ 4,250	14	US$ 4,250	Note 5

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2006 Shares/Units (Thousands) (Notes 8 and 9)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	Note
VIS Investment Holding, Inc.	Stock							
	VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for using the equity method	200	US$ 424	100	US$ 424	Note 5
Specialty TechFarm, Inc.	Stock							
	Goyatek Technology Inc.	Investee	Financial assets carried at cost, noncurrent	5,000	US$ 1,956	16	US$ 1,956	Note 5
	LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	1,563	US$ 276	47	US$ 276	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	1,250	US$ 385	33	US$ 385	Note 5
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for using the equity method	5,000	US$ 1,554	40	US$ 1,390	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	2,188	US$ 697	34	US$ 697	Note 5

Note 1: The market value was based on the resale price.

Note 2: The market value was based on the net asset value as of March 31, 2006.

Note 3: The market value was based on stock value as of March 31, 2006.

Note 4: The net asset value was based on reviewed financial statements as of March 31, 2006.

Note 5: The net asset value was based on unreviewed financial statements or book value as of March 31, 2006.

Note 6: As of March 31, 2006, the above marketable securities had not included prepayments for the long-term stock investment in CMSC, Inc.

Note 7: The shares decreased by 385 thousand shares because of the investee’s capital reduction.

Note 8: As of March 31, 2006, the above marketable securities had not been pledged or mortgaged.

Note 9: In thousands, except residential mortgage-backed securities, for which units were used.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Security Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units (Thousands) (Note 1)	Amount (US$ in Thousands)	Shares/Units (Thousands)	Amount (US$ in Thousands)	Shares/Units (Thousands)	Amount (US$ in Thousands)	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount (US$ in Thousands)
VIS Associates Inc.	Stock Specialty TechFarm, Inc.	Long-term investments accounted for using the equity method	-	-	6,000	US$ 5,738	4,000	US$ 4,000	-	$ -	$ -	$ -	10,000	US$ 9,730

Note: Net of investment loss of US$51 thousand recognized by the equity method, capital surplus - long-term stock investments of US$26 thousand and cumulative translation adjustments amounting to US$17 thousand.

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	$ 897,925	(35%)	45 days	-	-	$ 716,048	44%	-

TABLE 4

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	$716,048	5.59	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
MARCH 31, 2006
(In Thousands of New Taiwan Dollars)

Investor Company	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				March 31, 2006	December 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investment	$ 686,503	$ 686,503	21,070	100	$ 1,026,406	$ (3,617)	$ (3,617)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	80,650	80,650	7,768	34	40,380 (Note)	(9,854)	(3,373)	Equity-method investee

Note: The above carrying value as of March 31, 2006 did not include prepayments for the long-term stock investment in CMSC, Inc.