Vanguard International Semiconductor Corporation

Financial Statements for the Six Months Ended June 30, 2006 and 2005 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

We have audited the accompanying balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") as of June 30, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard International Semiconductor Corporation as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended, 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 ("Statements") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

We have also reviewed the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the six months ended June 30, 2006 and 2005 and have issued an unqualified opinion thereon with an explanatory paragraph in our report dated July 11, 2006..

July 11, 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 audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' 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 auditors' report and financial statements shall prevail.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

BALANCE SHEETS
JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 11,831,494	49	$ 11,628,109	44
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	6,309	-	-	-
Available-for-sale financial assets - current (Notes 2, 3 and 6)	160,147	1	157,900	1
Bond portfolios with no active market - current (Notes 2, 3 and 7)	159,812	1	265,719	1
Receivables from related parties (Note 20)	957,873	4	875,962	3
Notes and accounts receivable	1,228,494	5	927,375	4
Allowance for doubtful accounts (Note 2)	(25,221)	-	(19,215)	-
Allowance for sales returns and discounts (Note 2)	(71,865)	-	(151,185)	-
Inventories, net (Notes 2 and 8)	1,013,957	4	1,135,401	4
Prepaid expenses and other current assets	128,635	-	108,181	-
Deferred income assets - current (Notes 2 and 18)	767,339	3	586,756	2
Total current assets	16,156,974	67	15,515,003	59
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	1,081,253	4	1,000,065	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)	314	-	-	-
Total investments	1,542,982	6	1,461,480	6
PROPERTIES (Notes 2, 11 and 21)				
Cost				
Buildings	8,318,766	35	8,253,460	32
Machinery and equipment	36,111,423	150	35,409,875	135
Other equipment	272,267	1	248,990	1
Equipment under capital lease	-	-	530,674	2
Total cost	44,702,456	186	44,442,999	170
Accumulated depreciation	(39,542,870)	(164)	(36,934,089)	(141)
Prepayments and construction in progress	500,369	2	54,891	-
Net properties	5,659,955	24	7,563,801	29
OTHER ASSETS				
Deferred charges, net (Notes 2, 12 and 20)	126,759	1	103,453	-
Deferred income tax assets - noncurrent (Notes 2 and 18)	577,317	2	1,555,099	6
Refundable deposits	2,917	-	2,917	-
Total other assets	706,993	3	1,661,469	6
TOTAL	$ 24,066,904	100	$ 26,201,753	100

	2006		2005	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2, 3 and 5)	$ 21,590	-	$ 3,414	-
Payables to related parties (Note 20)	82,498	-	76,374	-
Notes and accounts payable	503,166	2	475,567	2
Payables to contractors and equipment suppliers	144,071	1	100,051	1
Current portion of capital lease obligations (Notes 2 and 11)	-	-	38,992	-
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)	100,706	1	160,215	1
Cash dividends and bonus payable (Note 15)	2,347,978	10	2,627,031	10
Accrued expenses and other current liabilities	1,059,531	4	1,339,824	5
Total current liabilities	4,809,540	20	5,371,468	21
LONG-TERM DEBTS BEARING INTERESTS, NET OF CURRENT PORTION				
Bonds payable (Notes 13 and 21)	-	-	550,000	2
Long-term bank loans (Notes 14 and 21)	24,352	-	1,398,627	5
Total long-term debts bearing interests	24,352	-	1,948,627	7
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	461,465	2	457,291	2
Guarantee deposits	1,254	-	1,144	-
Total other liabilities	462,719	2	458,435	2
Total liabilities	5,296,611	22	7,778,530	30
SHAREHOLDERS' EQUITY (Notes 2 and 15)				
Capital stock, $10 par value;				
Authorized - 3,300,000 thousand shares				
Issued and outstanding - 1,614,635 thousand shares in 2006 and 1,485,349 thousand shares in 2005	16,146,354	67	14,853,489	56
Stock dividends for distribution	278,279	1	1,163,601	4
Capital surplus				
Employee stock options	286,858	1	172,472	1
Long-term stock investments	21,093	-	16,868	-
Total capital surplus	307,951	1	189,340	1
Retained earnings				
Legal reserve	746,591	3	475,494	2
Special reserve	35,186	-	59,648	-
Unappropriated earnings	1,251,205	6	1,755,149	7
Total retained earnings	2,032,982	9	2,290,291	9
Others				
Unrealized gains on financial instruments (Notes 3 and 24)	51,402	-	-	-
Cumulative translation adjustments	(46,675)	-	(73,498)	-
Total others	4,727	-	(73,498)	-
Total shareholders' equity	18,770,293	78	18,423,223	70
TOTAL	$ 24,066,904	100	$ 26,201,753	100

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

(With Deloitte & Touche audit report dated July 11, 2006)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 20)	$ 5,523,747		$ 4,962,079	
SALES RETURNS AND DISCOUNTS (Note 2)	-		-	
NET SALES	5,523,747	100	4,962,079	100
COST OF SALES (Notes 19 and 20)	3,730,112	67	3,426,297	69
GROSS PROFIT	1,793,635	33	1,535,782	31
OPERATING EXPENSES (Notes 19 and 20)				
General and administrative	241,630	4	448,118	9
Marketing	84,967	2	78,151	2
Research and development	214,321	4	295,451	6
Total operating expenses	540,918	10	821,720	17
OPERATING INCOME	1,252,717	23	714,062	14
NONOPERATING INCOME AND GAINS				
Interest	90,556	2	64,063	1
Valuation gains on financial instruments (Notes 2, 5 and 24)	13,394	-	-	-
Dividends (Note 2)	6,713	-	6,713	-
Gain on disposal of properties (Note 2)	121	-	103	-
Gain on sales of investments (Note 2)	-	-	825,931	17
Foreign exchange gain, net (Note 2)	-	-	11,461	-
Others (Note 20)	13,827	-	17,504	1
Total nonoperating income and gains	124,611	2	925,775	19
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	24,405	1	-	-
Interest (Notes 2 and 11)	15,393	-	50,860	1
Investment loss recognized by the equity method (Notes 2 and 9)	14,178	-	15,048	-
Losses on inventory valuation and obsolescence (Note 2)	7,442	-	16,301	1
Loss on disposal of properties (Note 2)	1,525	-	57	-
Others	57	-	5,233	-
Total nonoperating expenses and losses	63,000	1	87,499	2

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 1,314,328	24	$ 1,552,338	31
INCOME TAX EXPENSE (Notes 2 and 18)	(276,996)	(5)	(184,159)	(3)
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,037,332	19	1,368,179	28
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (INCLUDING TAX SAVINGS OF $41 THOUSAND) (Notes 2, 3 and 18)	(123)	-	-	-
NET INCOME	$ 1,037,209	19	$ 1,368,179	28

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	$ 0.80	$ 0.63	$ 0.96	$ 0.85
Diluted	$ 0.80	$ 0.63	$ 0.95	$ 0.84

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

(With Deloitte & Touche audit report dated July 11, 2006) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Stock Dividends for Distribution (Note 15)	Advance Receipts for Common Stock	Capital Surplus (Notes 2 and 15)		Retained Earnings (Note 15)			Others		Total Shareholders' Equity
	Shares (Thousands)	Amount			Employee Stock Options	Long-term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Gains on Financial Instruments (Notes 2, 3 and 24)	Cumulative Translation Adjustments (Note 2)	
BALANCE, JANUARY 1, 2006	1,611,651	$ 16,116,512	$ -	$ -	$ 265,306	$ 16,868	$ 475,494	$ 59,648	$ 3,097,941	$ -	$ (35,186)	$ 19,996,583
Effect of accounting changes (Note 3)	-	-	-	-	-	-	-	-	-	1,220	-	1,220
Issuance of shares upon exercise of employee stock options	2,984	29,842	-	-	21,552	-	-	-	-	-	-	51,394
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	-	271,097	-	(271,097)	-	-	-
Special reserve	-	-	-	-	-	-	-	(24,462)	24,462	-	-	-
Stock dividends - 1%	-	-	161,165	-	-	-	-	-	(161,165)	-	-	-
Cash dividends - 14%	-	-	-	-	-	-	-	-	(2,256,312)	-	-	(2,256,312)
Bonus to employees - stock	-	-	117,114	-	-	-	-	-	(117,114)	-	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	-	(78,076)	-	-	(78,076)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(24,643)	-	-	(24,643)
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	1,037,209	-	-	1,037,209
Adjustment due to changes in ownership interests in investee	-	-	-	-	-	4,225	-	-	-	-	-	4,225
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	856	-	856
Equity in the valuation gain on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	49,326	-	49,326
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	-	(11,489)	(11,489)
BALANCE, JUNE 30, 2006	1,614,635	$ 16,146,354	$ 278,279	$ -	$ 286,858	$ 21,093	$ 746,591	$ 35,186	$ 1,251,205	$ 51,402	$ (46,675)	$ 18,770,293
BALANCE, JANUARY 1, 2005	1,468,389	$ 14,683,889	$ -	$ 2,330	$ 16,705	$ 16,865	$ -	$ -	$ 4,754,942	$ -	$ (59,648)	$ 19,415,083
Issuance of shares upon exercise of employee stock options	16,960	169,600	-	(2,330)	155,767	-	-	-	-	-	-	323,037
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	-	475,494	-	(475,494)	-	-	-
Special reserve	-	-	-	-	-	-	-	59,648	(59,648)	-	-	-
Stock dividends - 7%	-	-	1,028,567	-	-	-	-	-	(1,028,567)	-	-	-
Cash dividends - 16.5%	-	-	-	-	-	-	-	-	(2,424,481)	-	-	(2,424,481)
Bonus to employees - stock	-	-	135,034	-	-	-	-	-	(135,034)	-	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	-	(202,550)	-	-	(202,550)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(42,198)	-	-	(42,198)
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	1,368,179	-	-	1,368,179
Adjustment due to changes in ownership interests in investee	-	-	-	-	-	3	-	-	-	-	-	3
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	-	(13,850)	(13,850)
BALANCE, JUNE 30, 2005	1,485,349	$ 14,853,489	$ 1,163,601	$ -	$ 172,472	$ 16,868	$ 475,494	$ 59,648	$ 1,755,149	$ -	$ (73,498)	$ 18,423,223

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

(With Deloitte & Touche audit report dated July 11, 2006)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,037,209	$ 1,368,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,243,677	1,905,991
Investment loss recognized by the equity method	14,178	15,048
Gain on sales of investments	-	(825,931)
Deferred income tax assets	274,812	184,159
Loss (gain) disposal of properties and other assets, net	1,404	(38)
Accrued pension cost	-	29,542
(Reversal of allowance) provision for doubtful accounts	(6,576)	1,837
Reversal of allowance for sales returns and discounts	(39,200)	(20,041)
Net changes in operating assets and liabilities		
Receivables from related parties	(358,488)	556,554
Notes and accounts receivable	175,635	(137,405)
Inventories	(1,375)	(90,813)
Prepaid expenses and other current assets	11,569	56,785
Financial assets for trading	(379)	19,378
Payables to related parties	(3,126)	24,878
Notes and accounts payable	9,862	44,243
Financial liabilities for trading	21,590	3,414
Accrued expenses and other current liabilities	(81,999)	97,608
Net cash provided by operating activities	2,298,793	3,233,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of bond portfolios with no active market	-	(265,719)
Decrease in bond portfolios with no active market	50,451	-
Acquisitions of available-for-sale financial assets	(484)	(157,900)
Proceeds from disposal of available-for-sale financial assets	-	1,691,438
Increase in long-term stock investments accounted for by the equity method	(32,000)	-
Acquisitions of properties	(560,820)	(619,785)
Proceeds from disposal of properties	2,609	237
Increase in deferred charges	(26,008)	(46,097)
Increase in refundable deposits	-	(105)
Net cash (used in) provided by investing activities	(566,252)	602,069

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	$ (200,000)	$ -
Decrease in long-term bank loans	(1,409,450)	(88,243)
Increase (decrease) in guarantee deposits	66	(15,911)
Proceeds from exercise of employee stock options	51,394	323,037
Net cash (used in) provided by financing activities	(1,557,990)	218,883
NET INCREASE IN CASH AND CASH EQUIVALENTS	174,551	4,054,340
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,656,943	7,573,769
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 11,831,494	$ 11,628,109
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized amounts of $5,429 thousand and $5,182 thousand for the six months ended June 30, 2006 and 2005, respectively)	$ 37,235	$ 46,844
NONCASH FINANCING ACTIVITIES		
Cash dividends and bonus payable	$ 2,334,388	$ 2,627,031
Current portion of long-term debts bearing interests	$ 650,706	$ 749,207
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Total acquisitions	$ 626,858	$ 303,617
Decrease (increase) in payables to contractors and equipment suppliers	(66,038)	237,897
Decrease in capital lease obligation	-	78,271
	$ 560,820	$ 619,785

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

(With Deloitte & Touche audit report dated July 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 June 30, 2006 and 2005, the Corporation had 1,986 and 1,925 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 de-recognized 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 receivables is provided on the basis of the aging and review of the collectibility of 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 for finished goods and work in process, and replacement value for 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 Accounted for by 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 in securities such as non-publicly traded stocks and emerging stocks with no quoted market prices in an active market and with fair value that cannot be reliably measured are stated 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 gain 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 bond 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 of the Corporation 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 or 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. Gains or losses resulting from the application of prevailing exchange rates when cash is converted to New Taiwan dollars or when assets and liabilities denominated in foreign currencies are settled, are recognized as 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 as 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 six months ended June 30, 2005 have been reclassified to be consistent with the financial statements as of and for the six months ended June 30, 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 six month ended June 30, 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 six months ended June 30, 2005 were reclassified to conform with the financial statements as of and for the six months ended June 30, 2006. The previously issued financial statements as of and for the six months ended June 30, 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 and open-end funds, 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 six months ended June 30, 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	$ 423,619	$ -
Available-for-sale financial assets - current	-	157,900
Long-term stock investments accounted for using the cost method	461,415	-
Bond portfolios with no active market-current	-	265,719
Financial assets carried at cost	-	461,415
Financial liabilities at fair value through profit or loss - current	-	3,414
Forward exchange contract payables (recognized as accrued expenses and other current liabilities)	132	-
Temporary credit (recognized as accrued expenses and other current liabilities)	3,282	-

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 six months ended June 30, 2006.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2006	**2005**
Bank deposits	$ 10,864,287	$ 9,952,207
Government bonds acquired under resale agreements	967,207	1,675,902
	$ 11,831,494	$ 11,628,109

As of June 30, 2005, there was US$9 thousand deposited 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:

	June 30 2006	June 30 2005
Financial assets for trading		
Cross-currency interest rate swap contracts	$ 3,728	$ -
Forward exchange contracts	2,581	-
	$ 6,309	$ -
Financial liabilities for trading		
Cross-currency interest rate swap contracts	$ 21,590	$ -
Currency-swap contracts	-	3,282
Forward exchange contracts	-	132
	$ 21,590	$ 3,414

The Corporation entered into derivative transactions in the six months ended June 30, 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 and currency-swap contracts as of June 30, 2006 and 2005

Contract	Currency	Contract Expiry Date	Contract Amount (in Thousands)	
June 30, 2006				
Buy forward exchange contracts	US$ to EUR	2006.07.07	EUR	100
Buy forward exchange contracts	NT$ to US$	2006.07.18	US$	5,000
Sell forward exchange contracts	US$ to NT$	2006.07.07	US$	4,000
June 30, 2005				
Currency-swap contracts	US$ to NT$	2005.07.05-2005.07.27	US$	24,000
Sell forward exchange contracts	US$ to JPY	2005.07.06	US$	500

b. Outstanding cross-currency interest rate swap contracts as of June 30, 2006

Contract Amount (in Thousands)	Contract Expiry Date	Range of Interest Rate Paid	Range of Interest Rate Received
US$68,500	2006.07.05-2006.10.18	5.01%-5.55%	1.47%-1.59%

The Corporation did not enter into any cross-currency interest rate swap contracts in the six months ended June 30, 2005.

The gains on financial assets for trading were $6,309 thousand in the six months ended June 30, 2006. The losses on financial liabilities for trading were $21,590 thousand in the six months ended June 30, 2006.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	June 30	
	2006	**2005**
Open-end funds- Taishin Lucky Investment Trust Fund	$ 160,147	$ 157,900
Listed stocks - International Semiconductor Technology Ltd.	314	-
	160,461	157,900
Less: Financial assets classified as noncurrent assets	(314)	-
	$ 160,147	$ 157,900

7. BOND PORTFOLIOS WITH NO ACTIVE MARKET - CURRENT

	June 30	
	2006	**2005**
Chinatrust Bank- Residential mortgage-backed securities	$ 159,812	$ 265,719

8. INVENTORIES, NET

	June 30	
	2006	**2005**
Finished goods	$ 50,436	$ 126,909
Work in process	677,583	713,442
Raw materials	104,931	103,495
Supplies and spare parts	248,158	251,570
	1,081,108	1,195,416
Allowance for inventory losses	(67,151)	(60,015)
	$ 1,013,957	$ 1,135,401

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

	June 30			
	2006		**2005**	
	Carrying Value	**% of Owner-ship**	**Carrying Value**	**% of Owner-ship**
Unlisted stocks				
VIS Associates Inc.	$ 1,011,146	100	$ 948,902	100
CMSC, Inc.	70,107	33	51,163	34
	$ 1,081,253		$ 1,000,065	

The carrying value of the equity-method investments and the related investment losses were based on the investees' audited or unaudited 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.	$ (6,544)	$ (7,651)
CMSC, Inc.	(7,634)	(7,397)
	$ (14,178)	$ (15,048)

10. FINANCIAL ASSETS CARRIED AT COST - NON CURRENT

	June 30	
	2006	2005
Emerging stocks		
Walton Advanced Engineering, Inc. (WAE)	$ 302,559	$ 302,559
Megic Corporation (MC)	117,888	120,140
Unlisted stocks		
United Industrial Gases Co., Ltd.	38,716	38,716
Megica Corporation	2,252	-
	$ 461,415	$ 461,415

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

The MC and WAE's stock have been traded in the Emerging Stock Market.

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 for the spin-off of its intellectual property department to form a new company, Megica Corporation., and also approved a capital reduction by canceling 2,457 thousand shares amounting to $24,570 thousand. This spin-off took effect on March 23, 2006. The spin-off of MC's intellectual property department formed a new company which issued 2,457 thousand shares of new capital stock at a price of NT$10 per share. Thus, the shares held by the Corporation decreased by 205 thousand shares amounting to $2,252 thousand of MC; the shares increased by 205 thousand shares amounting to $2,252 thousand of Megica Corporation.

11. PROPERTIES

Accumulated depreciation was as follows:

	June 30	
	2006	2005
Buildings	$ 6,747,494	$ 6,126,697
Machinery and equipment	32,602,461	30,137,574
Other equipment	192,915	183,367
Equipment under capital lease	-	486,451
	$ 39,542,870	$ 36,934,089

Capitalized interest amounts were as follows:

	Six Months Ended June 30	
	2006	2005
Interest expense before interest capitalization	$ 20,822	$ 56,042
Interest capitalized	5,429	5,182
Interest rates used to calculate the amounts capitalized	3.17%-4.78%	2.83%-3.59%

To use certain equipment, the Corporation entered into capital lease agreements, which will expire in September 2005. The capital leases are summarized as follows:

	June 30, 2005
Total amount of equipment under capital lease	$ 530,674
Present value of obligation under capital lease	$ 38,992
Current portion	(38,992)
	$ -

12. DEFERRED CHARGES, NET

	June 30	
	2006	2005
Software design costs	$ 126,759	$ 98,960
Bank loan costs	-	4,350
Bond issue costs	-	143
	$ 126,759	$ 103,453

13. BONDS PAYABLE

	June 30	
	2006	2005
Repayable in two annual installments on November 15, 2005 and 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 June 30, 2006.

14. LONG-TERM BANK LOANS

	June 30	
	2006	2005
Bank loans		
Repayable in quarterly installments through July 2007, interest of 1.22%-1.30% in 2006 and 1.50%-1.66% in 2005	$ 82,000	$ 100,000
Repayable in semiannual installments through December 2007; 2006 - US $852 thousand, 4.94%-5.92% interest; 2005 - US$1,420 thousand, 3.22%-4.10% interest	27,604	44,762
Repayable in semiannual installments through December 2007; 2006 - US$477 thousand, 4.94%-5.92% interest; 2005 - US$795 thousand, 3.22%-4.10% interest	15,454	25,061
Repayable in semiannual installments through August 2009 (early repayment on February 22, 2006); US$35,000 thousand, 2.67%-3.89% interest	-	1,103,305
Repayable in semiannual installments through October 2007 (early repayment on January 13, 2006); 2.25%-2.37% interest	-	285,714
	125,058	1,558,842
Current portion	(100,706)	(160,215)
	$ 24,352	$ 1,398,627

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 by 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. (Related information is shown in Note 18-d.)

The appropriation of earnings for 2005 and 2004 were approved in the shareholders' meetings held on May 11, 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 $16,424,633 thousand. However, the actual stock dividends per share will be subject adjusted if the number of outstanding common shares changes in connection with the exercise of employee stock options. The Board of Directors is authorized to determine adjustments in stock dividends per share and propose related appropriations. These appropriations have been approved by the Financial Supervisory Commission, Executive Yuan and will take effect on July 9, 2006.

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Securities and Futures Commission (the former name of the SFB) of its adoption of Employee Stock Option Plans (hereinafter 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$)**
Six months ended June 30, 2006						
Beginning balance	61,009	$22.45	27,648	$16.40	6,488	$20.66
Options exercised	-	-	(2,225)	16.40	(309)	17.81
Options canceled	(2,869)	22.55	(636)	16.40	(64)	21.30
Ending balance	58,140	22.44	24,787	16.40	6,115	20.80
Six months ended June 30, 2005						
Beginning balance	65,085	$ 25.35	48,578	$ 18.60	9,679	$ 22.69
Options exercised	-	-	(16,131)	18.60	(1,641)	19.77
Options canceled	(1,410)	23.95	(425)	18.60	(84)	24.19
Ending balance	63,675	25.38	32,022	18.60	7,954	23.28

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 June 30, 2006 were 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					
$17.8-$23.7	58,140	7.42-8.22	$ 22.44	28,342	$ 22.56
2002 plan					
$16.4	24,787	6.24	16.40	18,590	16.40
2001 plan					
$17.0-$22.8	6,115	4.90-5.61	20.80	6,115	20.80

No employee stock options were granted in the six months ended June 30, 2006 and 2005. The Corporation used the intrinsic value method to evaluate compensation cost for 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, 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

[c3]

	Six Months Ended June 30	
	2006	2005
Net income:		
Net income as reported	$ 1,037,209	$ 1,368,179
Pro forma net income	$ 971,662	$ 1,289,205
Earnings per share (EPS) (NT$):		
Basic EPS as reported	$0.63	$0.85
Pro forma basic EPS	$0.59	$0.80
Diluted EPS as reported	$0.63	$0.84
Pro forma diluted EPS	$0.59	$0.79

The average number of shares outstanding for pro forma consolidated EPS calculation was adjusted retroactively for appropriations of dividends. The retroactive adjustment caused the basic and diluted consolidated earnings per share after income tax for the six months ended June 30, 2005 to decrease from NT$0.87 to NT$0.80 and from NT$0.87 to NT$0.79, respectively.

16. EARNINGS PER SHARE

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
Income before cumulative effect of changes in accounting principles	$ 0.80	$ 0.63	$ 0.96	$ 0.85
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$ 0.80	$ 0.63	$ 0.96	$ 0.85
Diluted EPS				
Income before cumulative effect of change in accounting principles	$ 0.80	$ 0.63	$ 0.95	$ 0.84
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$ 0.80	$ 0.63	$ 0.95	$ 0.84

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	$ 1,314,328	$ 1,037,209			
Basic EPS					
Income of common and potential common shareholders	$ 1,314,328	$ 1,037,209	1,641,442	$ 0.80	$ 0.63
Effect of dilutive securities					
Employee stock option rights	-	-	7,022		
Diluted EPS					
Income of common shareholders	$ 1,314,328	$ 1,037,209	1,648,464	$ 0.80	$ 0.63
2005					
Net income	$ 1,552,338	$ 1,368,179			
Basic EPS					
Income of common shareholders	$ 1,552,338	$ 1,368,179	1,617,759	$ 0.96	$ 0.85
Effect of dilutive securities					
Employee stock option rights	-	-	9,080		
Diluted EPS					
Income of common and potential common shareholders	$ 1,552,338	$ 1,368,179	1,626,839	$ 0.95	$ 0.84

The average number of shares outstanding for 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 six months ended June 30, 2005 to decrease from NT$0.93 to NT$0.85 and from NT$0.92 to NT$0.84, 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 $31,093 thousand for the six months ended June 30, 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 defined benefit pension fund and accrued pension cost are summarized as follows:

	Six Months Ended June 30	
	2006	2005
Pension fund		
Balance, beginning of period	$ 202,112	$ 180,476
Contributions	9,298	9,832
Interest	4,245	2,016
Balance, end of period	$ 215,655	$ 192,324
Accrued pension liabilities		
Balance, beginning of period	$ 461,465	$ 427,749
Provisions	-	29,542
Balance, end of period	$ 461,465	$ 457,291

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 was shown below:

	Six Months Ended June 30	
	2006	2005
Income tax expense based on income before income tax at statutory rate (25%)	$ 328,541	$ 388,084
Additional 10% on the unappropriated earnings	-	79,981
Permanent differences	7	(206,814)
Temporary differences	(53,735)	7,909
Current income tax expense before income tax credits	$ 274,813	$ 269,160

b. Income tax expenses were as follows:

[c6]

	Six Months Ended June 30	
	2006	2005
Current income tax expense before income tax credits	$ 274,813	$ 269,160
Operating loss carryforwards	(274,813)	(67,470)
Cumulative effect of changes in accounting principles	41	-
Income tax credits	-	(201,690)
Net change in deferred income tax assets for the periods		
Investment tax credits	(115,144)	42,150
Operating loss carryforwards	279,510	160,688
Temporary differences	56,161	(7,275)
Valuation allowance	54,285	(11,404)
Prior years' adjustment	2,143	-
Income tax expense	$ 276,996	$ 184,159

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

	June 30	
	2006	**2005**
Current		
Investment tax credits	$ 500	$ 178,298
Operating loss carryforwards	774,319	441,395
Loss on inventory valuation and obsolescence	16,788	15,004
Other	30,464	20,473
	822,071	655,170
Valuation allowance	(54,732)	(68,414)
	$ 767,339	$ 586,756
Noncurrent		
Investment tax credits	$ 964,707	$ 575,858
Operating loss carryforwards	694,516	1,829,336
Depreciation and amortization	446,174	472,898
Investment gain recognized by the equity method, net	(40,460)	(48,256)
Accrued pension costs	115,366	114,323
	2,180,303	2,944,159
Valuation allowance	(1,602,986)	(1,389,060)
	$ 577,317	$ 1,555,099

The effective tax rates for deferred income tax as of June 30, 2006 and 2005 were 25%

d. The balances of the imputation credit account as of June 30, 2006 and 2005 were $3,836 thousand and $14,344 thousand, respectively.

   The actual creditable ratios for distributing the earnings of 2005 and 2004 were 0.12% and 0.30%, respectively.

e. The unappropriated retained earnings as of June 30, 2006 and 2005 had no unappropriated earnings generated before January 1, 1998.

f. As of June 30, 2006, the tax credits and operating loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Item	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 297,695	$ 22,882	2006
		995,110	995,110	2007
		450,843	450,843	2008
		$ 1,743,648	$ 1,468,835	

(Continued)

Regulatory Basis of Tax Credits	Item	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
		37,752	37,752	2009
		12,339	12,339	2010
		$ 447,468	$ 447,468	
Statute for Upgrading Industries	Research and development expenditures	$ 46,124	$ 46,124	2006
		136,294	136,294	2007
		78,550	78,550	2008
		206,696	206,696	2009
		32,046	32,046	2010
		$ 499,710	$ 499,710	
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
		734	734	2010
		$ 7,949	$ 7,949	
Statute for Upgrading Industries	Investments in important technology-based enterprise	$ 5,400	$ 5,400	2006
		4,680	4,680	2007
		$ 10,080	$ 10,080	

(Concluded)

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 AND AMORTIZATION AND LEGAL SERVICE EXPENSE

	Six Months Ended June 30					
	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	$ 567,213	$ 178,325	$ 745,538	$ 528,298	$ 151,019	$ 679,317
Labor/health insurance	34,429	11,782	46,211	33,373	10,710	44,083
Pension	30,063	10,289	40,352	29,820	9,570	39,390
Others	22,358	8,507	30,865	20,853	7,016	27,869
	$ 654,063	$ 208,903	$ 862,966	$ 612,344	$ 178,315	$ 790,659
Depreciation	$ 1,193,026	$ 21,938	$ 1,214,964	$ 1,871,323	$ 17,754	$ 1,889,077
Amortization	$ 5,091	$ 23,622	$ 28,713	$ 3,634	$ 12,482	$ 16,116
Legal service expenses	$ -	$ 9,003	$ 9,003	$ -	$ 223,726	$ 223,726

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 of the Corporation.

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 of the Corporation.

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	$ 1,969,238	36	$ 2,174,400	44
Goya	66,094	1	51,076	1
CMSC	5,909	-	4,037	-
GUC	3,512	-	585	-
MC	324	-	172	-
	$ 2,045,077	37	$ 2,230,270	45

(Continued)

	2006		2005	
	Amount	**%**	**Amount**	**%**
Purchase				
TSMC	$ 4,011	-	$ -	-
MC	9	-	-	-
	$ 4,020	-	$ -	-
Manufacturing expenses				
TSMC	$ 119,907	4	$ 83,597	2
Research and development expenses				
GUC	$ 320	-	$ -	-
TSMC	-	-	12,240	4
Goya	-	-	567	-
MC	-	-	208	-
	$ 320	-	$ 13,015	4
Marketing expenses				
VIS Micro	$ 22,830	27	$ 32,644	42
GUC	32	-	-	-
	$ 22,862	27	$ 32,644	42
Nonoperating income and gains				
Goya	$ 242	2	$ 718	4
MC	-	-	88	1
TSMC	-	-	7	-
	$ 242	2	$ 813	5
Purchase of deferred charges				
TSMC	$ -	-	$ 1,988	4
At end of the period				
Receivables				
TSMC	$ 943,134	99	$ 862,965	99
Goya	12,978	1	12,600	1
GUC	1,134	-	-	-
CMSC	627	-	397	-
	$ 957,873	100	$ 875,962	100
Payables				
TSMC	$ 75,332	91	$ 62,294	82
VIS Micro	6,204	8	13,405	18
Goya	898	1	567	-
GUC	64	-	-	-
MC	-	-	108	-
	$ 82,498	100	$ 76,374	100

(Concluded)

VIS Micro provides marketing services to the Corporation. The Corporation pays actual expenses incurred for these services plus a 5% mark-up.

The terms of sales and purchase transactions with related parties were not significantly different from those for third parties. However, for certain related-party transactions, license fees, marketing expenses and research and development expenses, there were no similar transactions in the market; thus, transaction terms were based on related contracts.

21. PLEDGED ASSETS

The following assets had been pledged as collateral for bonds payable and long-term bank loans:

	June 30	
	2006	2005
Properties, net	$ 155,515	$ 1,894,149

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 from April 2010 and June 2015. Annual rentals aggregate $27,088 thousand.

Future minimum annual rentals under the leases are as follows:

Year	Amount
2006 (3rd and 4th quarter)	$ 13,544
2007	27,238
2008	27,288
2009	27,288
2010	18,606
2011 to 2015	63,719
	$ 177,683

23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of June 30, 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. Both parties authorized the other party to use their patents in manufacturing and selling semiconductor products; and waive 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. (TSMC), 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. (ARM), 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 (SST), the Corporation should pay royalty for 7 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. (eMemory), 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. (AATI), 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 June 30, 2006, unused letters of credit aggregated about US$795 thousand and JPY18,696 thousand.

24. ADDITIONAL DISCLOSURES

Following are the additional disclosure required by 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. Receivables 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 instrument transactions

1) Fair values of financial instruments were as follows:

	June 30			
	2006		2005	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 11,831,494	$ 11,831,494	$ 11,628,109	$ 11,628,109
Available-for-sale financial assets (including current and noncurrent portions)	160,461	160,461	157,900	158,161
Bond portfolios with no active market - current	159,812	159,850	265,719	265,761

(Continued)

	June 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Receivables from related parties	$ 957,873	$ 957,873	$ 875,962	$ 875,962
Notes and accounts receivable	1,228,494	1,228,494	927,375	927,375
Financial assets carried at cost - noncurrent	461,415	-	461,415	-
Liabilities				
Payables to related parties	82,498	82,498	76,374	76,374
Notes and accounts payable	503,166	503,166	475,567	475,567
Payables to contractors and equipment suppliers	144,071	144,071	100,051	100,051
Long-term bank loans (including current portion)	125,058	125,058	1,558,842	1,558,842
Bonds payable (including current portion)	550,000	555,981	1,100,000	1,125,777
Derivative financial instruments				
Assets				
Cross-currency interest rate swap contracts	3,728	3,728	-	-
Forward exchange contracts	2,581	2,581	-	-
Liabilities				
Cross-currency interest rate swap contracts	21,590	21,590	-	-
Currency-swap contracts	-	-	3,282	4,899
Forward exchange contracts	-	-	132	378

(Concluded)

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 six months ended June 30, 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, notes and accounts payable and payables to contractors and equipment suppliers.

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	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 11,831,494	$ 11,628,109	$ -	$ -
Available-for-sale financial assets (including current and noncurrent portion)	160,461	158,161	-	-
Bond portfolios with no active market current	-	-	159,850	265,761
Receivables from related parties	-	-	957,873	875,962
Notes and accounts receivable	-	-	1,228,494	927,375
Liabilities				
Payables to related parties	-	-	82,498	76,374
Accounts payable	-	-	503,166	475,567
Payables to contractors and equipment suppliers	-	-	144,071	100,051
Long-term bank loans (including current portion)	-	-	125,058	1,558,842
Bonds payable (including current portion)	555,981	1,125,777	-	-
Derivative financial instruments				
Assets				
Cross-currency interest rate swap contracts	-	-	3,728	-
Forward exchange contracts	-	-	2,581	-
Liabilities				
Cross-currency interest rate swap contracts	-	-	21,590	-
Currency-swap contracts	-	-	-	4,899
Forward exchange contracts	-	-	-	378

4) Net gain recognized for the changes in fair value of derivatives estimated using valuation techniques was $13,394 thousand for the six months ended June 30, 2006.

5) As of June 30, 2006 and 2005, financial assets exposed to fair value interest rate risk amounted to $11,053,374 thousand and $11,284,027 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 $778,120 thousand and $344,082 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk amounted to $125,058 thousand and $1,558,842 thousand, respectively.

6) Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the six months ended June 30, 2006 and 2005 were $90,556 thousand and $64,063 thousand, respectively; Interest expenses resulting from the financial instruments other than the financial assets or liabilities at fair value through profit or loss in the six months ended June 30, 2006 and 2005 were $20,822 thousand and $56,042 thousand, respectively. The Corporation recognized an unrealized gain of $2,076 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets in the six months ended June 30, 2006. The Corporation also recognized an unrealized gain of $49,326 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity-method investees in the six months ended June 30, 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 decrease by $638 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 June 30, 2006, financial assets exposed to credit risk amounted to $6,309 thousand.

   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 June 30, 2006, the Corporation's future cash demand for the outstanding forward exchange contracts and cross currency interest rate swap contracts was as follows:

Term	Inflow (in Thousands)		Outflow (in Thousands)	
Within one year	US$	5,000	NT$	159,447
	NT$	129,468	US$	4,000
	EUR	100	US$	126
	NT$	2,200,750	US$	68,500

   The exchange rates for forward exchange contracts and cross currency interest rate 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 $820 thousand and US$13 thousand.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES HELD
JUNE 30, 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	June 30, 2006				Note
				Shares/Units (Thousands) (Note 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	$ 159,812	-	$ 159,850	Note 1
	Fund							
	Taishin Lucky Investment Trust Fund	-	Available-for-sale financial assets - current	15,721	160,147	-	160,147	Note 2
	Stock							
	International Semiconductor Technology Ltd.	-	Available-for-sale financial assets - noncurrent	11	314	-	314	Note 3
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for using the equity method	21,070	1,011,146	100	1,011,146	Note 4
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	9,902	70,107	33	70,107	Notes 4
	Walton Advanced Engineering, Inc.	Investee	Financial assets carried at cost - noncurrent	34,166	302,559	8	393,598	Notes 5 and 6
	Megic Corporation	Investee	Financial assets carried at cost - noncurrent	11,245	117,888	8	123,847	Note 5
	Megica Corporation	Investee	Financial assets carried at cost - noncurrent	205	2,252	8	2,088	Note 5
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	55,819	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$ 649	100	US$ 649	Note 4
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - noncurrent	188	US$ 1,974	-	US$ 1,974	Note 3
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for using the equity method	10,000	US$ 9,733	100	US$ 9,733	Note 4
	VIS Singapore Pte Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for using the equity method	250	US$ 103	100	US$ 103	Note 4
	Equity							
	Silicon Valley Equity Fund I	-	Financial assets carried at cost - noncurrent	-	US$ 1,202	34	US$ 1,202	Note 7
	Silicon Valley Equity Fund II	-	Financial assets carried at cost - noncurrent	-	US$ 4,162	14	US$ 4,162	Note 7

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units (Thousands) (Note 9)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
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$ 431	100	US$ 431	Note 4
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	2,344	US$ 523	36	US$ 523	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	1,250	US$ 360	33	US$ 360	Note 5
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for using the equity method	5,000	US$ 1,611	40	US$ 1,447	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	2,188	US$ 683	34	US$ 683	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 June 30, 2006.

Note 3: The market value was based on stock value as of June 30, 2006.

Note 4: The net asset value was based on audited financial statements as of June 30, 2006.

Note 5: The net asset value was based on unandited financial statements or book value as of June 30, 2006.

Note 6: The shares decreased by 385 thousand shares because of the investee's capital reduction.

Note 7: The market value was based on the book value as of June 30, 2006.

Note 8: As of June 30, 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.

(Concluded)

TABLE 2

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
SIX MONTHS ENDED JUNE 30, 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)	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) (Note)
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$ 9,733

Note: Net of investment loss of US$80 thousand recognized by the equity method, capital surplus-long-term investment of US$70 thousand and cumulative translation adjustments amounting to US$5 thousand.

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
SIX MONTHS ENDED JUNE 30, 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	$1,969,238	(36%)	Note	-	-	$ 943,134	43%	-

Note: 45 days after monthly closing.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 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	$943,134	5.21	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
JUNE 30, 2006
(In Thousands of New Taiwan Dollars)

Investor Company	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 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	$ 1,011,146	$ (6,544)	$ (6,544)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	80,650	9,902	33	70,107	(22,635)	(7,634)	Equity-method investee