Taiwan Mobile

2nd Quarter Results

for the period ended June 30, 2006

August 15, 2006

NT$bn	TWM+TAT+MBT[1] 1H06	YoY	2Q06	QoQ	YoY	TWM consolidated[2] 1H06
Revenue	**29.20**	**0%**	**14.69**	**1%**	**-2%**	**29.34**
Telecom Service Revenue	**29.18**	**0%**	**14.68**	**1%**	**-1%**	**29.17**
EBITDA	**13.12**	**-6%**	**6.68**	**4%**	**-7%**	**13.23**
Operating Income	**9.28**	**-10%**	**4.78**	**6%**	**-9%**	**9.35**
Non-op. Income (Expense)	**(0.35)**	**-20%**	**0.51**	**NM**	**NM**	**(0.38)**
Pre-tax Income	**8.94**	**-9%**	**5.29**	**45%**	**4%**	**8.97**
(Less Tax)	**(1.14)**	**-21%**	**(0.61)**	**16%**	**-15%**	**(1.17)**
(Less Minority Interest)	**(0.04)**	**-78%**	**(0.03)**	**81%**	**-72%**	**(0.04)**
Net Income	**7.75**	**-6%**	**4.65**	**50%**	**8%**	**7.75**
EPS (NT$)	**1.57**	**-7%**	**0.94**	**49%**	**7%**	**1.57**
EBITDA margin	44.94%		45.44%			45.10%
Operating margin	31.79%		32.53%			31.86%

1. Unaudited pro forma for TWM, TAT, and MBT only 2. Same as audited financials

Highlights of 2Q and 1H Results

TWM's 2Q06 service revenue declined by 1% year on year, less than the industry's decrease of 2%. 2Q EBITDA margin came in higher than expectation due to sequential drop in selling expenses. 2Q non-operating income was largely in line with our official guidance with the main contributing item being the realisation of NT$553m deferred income associated with Howin divestment.

Annualised ROE expanded to 18% at the end of 2Q on the back of higher net profits and lower equity base resulting from share buyback and appropriation of a hefty NT$12.8bn cash dividend.

For 1H06, TWM reported a flattish result in revenue. We maintained a stable cash network cost and saw a YoY drop in G&A expense. Nevertheless, the rising selling expenses, arising from strong new subscriber acquisition momentum, led to lower EBITDA. Non-operating expense in 1H06 was slightly lower than a year ago as NT$1.1bn divestment gains from CHT and Howin compensated for the NT$1.7bn asset write-off losses. EPS reached NT$1.57 for the period.

Management Remark

We forecast 3Q06 service revenue to grow 4% QoQ. Compared to a year ago, it will decline by 1%, in light of the slowdown of the industry growth. To cope with the slowdown in revenue, TWM is geared up toward cost optimization, in addition to usage stimulation and revenue rejuvenation plans, to equip itself with long-term competitive edge. 3Q EBITDA margin is anticipated to be 44.4%, reflecting the rise in cash network costs along with the increased deployment of 3G base stations. Net non-operating income is expected to enlarge, contributed by CHT disposal gains and dividend income. Net income for 3Q is forecast to be NT$5.1bn, representing an EPS of NT$1.03, the highest quarter for the yea

Topics in This Report

IR contact:

Shirley Chu
Deputy Director
Investor Relations
shirleychu@taiwanmobile.com

Rosie Yu
Vice President
rosieyu@taiwanmobile.com

18Fl, No. 172-1, Sec.2, Ji-Lung Rd.,Taipei 106, Taiwan, ROC
Tel: 8862 6636 3159

ir@taiwanmobile.com
http://www.taiwanmobile.com

I. Revenue Analysis

Pro forma TWM+TAT+MBT only

Table 1. Key Operational Data

	2Q06	1Q06	2Q05	QoQ	YoY
Revenue (NT$bn)	**14.69**	**14.51**	**14.93**	**1%**	**-2%**
Telecom service revenue	14.68	14.50	14.88	1%	-1%
-Voice Revenue	13.76	13.57	14.05	1%	-2%
-VAS Revenue	0.91	0.93	0.84	-2%	9%
Others	0.01	0.01	0.04	-9%	-75%
Data Rev as % to Total	6.2%	6.4%	5.6%		
End Subscribers (K)	**6,119**	**6,090**	**6,364**	**0%**	**-4%**
-Postpaid	5,649	5,633	5,856	0%	-4%
-Prepaid	471	457	509	3%	-7%
Monthly Churn	**2.0%**	**2.3%**	**2.9%**		
MOU (bn)[1]	**3.57**	**3.53**	**3.72**	**1%**	**-4%**
ARPM (NT$)[1]	**4.12**	**4.11**	**4.00**	**0%**	**3%**

Note 1: excluding TAT&MBT roaming minutes

Table 2. Per Sub Spending & Usage

	2Q06	1Q06	2Q05	QoQ	YoY
ARPU (NT$)[2]	**802**	**793**	**764**	**1%**	**5%**
-Postpaid	822	810	797	1%	3%
-Prepaid	561	578	419	-3%	34%
MOU (minute)	**195**	**193**	**191**	**1%**	**2%**

Note 2: Blended ARPU is based solely on telecom service revenue

Revenue Analysis

Compared to a 2% YoY revenue decline for the mobile industry, TWM's 2Q06 service revenue declined by 1.4% year on year, attributable to the decline in incoming minutes.

Overall subscriber base saw an increase in this quarter with positive net adds in both postpaid and prepaid customer numbers. Postpaid gross additions hit record-high in June despite the launch of new rate plans by competitors for the quarter. Churn rate trended down thanks to gradually improved customer loyalty.

2Q blended ARPU increased by 5% compared with the same period last year. Prepaid ARPU even rose 34% YoY benefited from the gradual reduction in free airtime offered. Among the big three, TWM was the only operator with YoY ARPU growth this quarter.

VAS revenue increased by an unsatisfactory 9% YoY due to higher data revenue drops at TAT and MBT.

II. Cost and Expense Analysis

Pro forma TWM+TAT+MBT only

Table 3. Operating Cost Breakdown

NT$bn	2Q06	1Q06	2Q05	QoQ	YoY
Operating Cost	**6.09**	**6.03**	**6.03**	**1%**	**1%**
Cost of Goods Sold	0.00	0.00	0.05	NM	NM
Telecom Service Cost	6.09	6.03	5.99	1%	2%
- Depreciation	1.55	1.58	1.45	-2%	7%
-Amortization-3G	0.19	0.19	0.19	0%	NM
- Interconnection	2.50	2.44	2.43	3%	3%
- BTS related	1.33	1.32	1.41	1%	-5%
- Spectrum fee/license concession/USO	0.50	0.50	0.50	1%	0%

Table 4. Operating Expense Breakdown

NT$bn	2Q06	1Q06	2Q05	QoQ	YoY
Total Op. Exp.	**3.83**	**3.98**	**3.66**	**-4%**	**5%**
Selling Exp**.**	**2.70**	**2.95**	**2.49**	**-9%**	**8%**
- SAC + SRC	1.91	2.15	1.62	-11%	18%
- Direct Store & Customer Service Exp	0.41	0.47	0.50	-12%	-17%
G&A Exp.	**1.13**	**1.02**	**1.17**	**11%**	**-3%**

Table 5. Non-operating Item

NT$bn	2Q06	1Q06	2Q05	QoQ	YoY
Non-Operating Items	**0.51**	**(0.85)**	**(0.13)**	**NM**	**NM**
-Net Interest Expense	(0.05)	(0.07)	(0.13)	-28%	-62%
-Net Investment Income (Loss)	0.58	0.02	(0.04)	2555 %	NM
-CHT Disposal Gain	0.00	0.63	0.00	NM	NM
-Asset Disposal /Write-off Gain (Loss)	(0.18)	(1.54)	(0.07)	-88%	165%
-CB Buy-back Gain (Loss)	(0.01)	(0.04)	(0.01)	-66%	42%
-Other Non-ops.	0.17	0.15	0.12	11%	38%

Cost/Expense Analysis

Network costs, exclusive of depreciation and amortization, remained flat compared with a year ago. BTS related opex decreased by 5% primarily aided by network integration cost synergies. Depreciation expense increased year over year as the decrease in 2G depreciation expense can not compensate for around 850 YoY increase in new 3G sites deployed during the period.

Selling expenses rose 8% to 18% of revenue vs. 17% a year ago, due mainly to the surging subscriber acquisition costs. More than 30% YoY increase in postpaid gross adds and rising number of customers who signed up for higher-tier rate plans led to the sharp increase in selling expense. That said, selling expense trended down in 2Q from the previous quarter on the back of effective marketing resources allocations.

The YoY decline in G&A expense was due to no more goodwill amortization for this year, whilst the continuous investments into IT system drove up G&A expense on a sequential basis.

Non-Operating Item Analysis

Non-operating items came in with a gain of NT$0.51bn in 2Q compared with a loss of NT$854m in 1Q because of a much less asset write-off loss (NT$1.54bn in 1Q vs. NT$0.18bn in 2Q), and an additional investment income from the disposal of Howin Technology (as we guided in the previous quarter). We disposed of our stake in Howin and booked NT$553m in profits which was previously deferred, pursuant to SFAS No. 5.

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III. Income Statement Analysis

Consolidated basis

Table 6. Income Statement

NT$bn	2Q06	1Q06	2Q05
Revenue	**14.75**	**14.60**	**15.04**
Telecom Service Revenue	14.67	14.49	14.84
Other Revenue	0.07	0.10	0.19
Operating Cost	**6.09**	**6.03**	**6.04**
Telecom Service Cost	6.09	6.03	5.98
Cost of Good Sold	0.00	0.00	0.06
Operating Expenses	**3.84**	**4.03**	**3.71**
EBITDA	6.75	6.48	7.24
Operating Income	**4.82**	**4.53**	**5.28**
Non-op. Income (Expense)	0.48	(0.86)	(0.16)
Pre-tax Income	5.30	3.67	5.12
(Less Tax)	(0.63)	(0.55)	(0.73)
(Minority Interest)	(0.03)	(0.02)	(0.10)
Net Income - Attributed to the Parent	**4.65**	**3.10**	**4.29**
EPS (NT$)	0.94	0.63	0.88

Income Statement Analysis

The consolidated income statement is similar to the combined figures in Table 1 to Table 5 as the key difference is the revenue and expenses from TT&T. TT&T is fully-owned by TWM and provides call center services mainly to TWM group.

Our 2Q06 consolidated income statement reviewed by CPA showed a 2% YoY decline in total revenue with 45.8% EBITDA margin for the same period.

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IV. Cash Flow Analysis

Consolidated basis

Table 7. Cash Flow

NT$bn	2Q06	1Q06	2Q05
Total Op Sources/(Uses)	**(3.00)**	**8.12**	**7.66**
Consolidated Net Income	4.67	3.12	4.39
Depreciation	1.67	1.68	1.56
Amortization	0.27	0.28	0.40
Disposal Loss (Gain) on Investment	0.00	(0.63)	0.00
Changes in Working Capital & Others	(9.61)	3.67	1.31
Net Investing Sources/(Uses)	**(1.64)**	**1.45**	**0.53**
Divestment (Acquisition)	0.00	2.94	(0.02)
Capex	(1.40)	(1.43)	(0.64)
Net Financing Sources/(Uses)	**(2.82)**	**(2.60)**	**(2.69)**
Debt Repayment	0.00	(1.50)	(2.40)
CB Buyback	(0.40)	(0.94)	(0.09)
Shares Buyback	(1.82)	0.00	0.00
Net Cash Position Chg.	**(7.46)**	**6.97**	**5.51**

<u>Cash Flow Analysis</u>

Operating cash flows were a negative NT$3bn due to the transfer of NT$9.6bn into bond funds for cash management purpose. Cash flows associated with the aforementioned investments were re-classified from investing activity since 2006 pursuant to recent ROC GAAP changes. Bond fund is essentially a money market instrument and is considered as cash equivalent.

Capital expenditures were NT$1.4bn in this quarter.

For financing activities, cash outflows for CB buyback and share buyback were NT$0.4bn and NT$1.8bn, respectively.

Table 8. Capex & FCF

NT$bn	2Q06	1Q06	2Q05
Total Capex	**1.40**	**1.43**	**0.64**
% of Revenue	**10%**	**10%**	**4%**
Free Cash Flow*	**(4.40)**	**6.69**	**7.02**

*Free cash flow: operating cash flow minus capex

<u>Capex and Free Cash Flow Analysis</u>

Capex was NT$1.4bn and fixed asset gross adds for 2Q was around NT$1.0bn with 3G/2G split of 80%/20%. Capex will rev up in the second half with full-year targets of NT$6.5bn unchanged.

Free cash flow turned to negative in 2Q as we transferred excess cash to money market instruments.

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V. Balance Sheet Analysis

Consolidated basis

Table 9. Balance Sheet

NT$bn	2Q06	1Q06	2Q05
Total Assets	**124.90**	**123.64**	**123.08**
Current Assets	40.18	38.18	31.54
- Cash & Cash Equivalents	14.36	21.82	13.28
-Available-for-Sale Financial Asset	8.78	9.18	9.28
-Financial Assets at Fair Value	9.57	0.00	0.10
- Other Current Assets	7.48	7.19	8.88
Long-Term Investment	4.01	4.01	4.32
Property and Equipment	61.38	62.21	66.62
Intangible Assets	16.18	15.99	16.63
-3G License	9.35	9.53	10.09
-Goodwill	6.84	6.46	6.54
Other Assets	3.16	3.25	3.97
Liabilities	**42.89**	**30.70**	**43.98**
Current Liabilities	28.10	15.01	26.67
- ST Debts	1.59	1.94	2.52
- Other Current Liabilities	26.51	13.07	24.15
Long-Term Borrowings	14.47	14.89	16.88
Other Liabilities	0.32	0.79	0.43
Shareholders' Equity	**82.01**	**92.94**	**79.10**

Balance Sheet Analysis

TWM's investment in CHT shares, classified as financial assets available for sale, was marked down to NT$8.775bn, based on the closing price of NT$58.5/share as of June end, from NT$61.2/share at March end. Same amount was deducted against shareholders' equity account in 2Q.

Compared with 1Q end, despite NT$1.0bn of gross adds, gross fixed assets reduced. So did the accumulative depreciation due to continuous asset write-offs.

Short-term debt balance reduced due to the continuous CB buyback and conversion. CB I will mature on August 24, 2006.

Unrealized gain of financial assets under shareholders' equity amounted to NT$1.5bn, comprising NT$1.8bn unrealized gain of CHT stake (150m shares at the cost of NT$46.4/share), and NT$0.3bn unrealized loss from the interest rate swap transaction.

The decline in shareholders' equity from 1Q was due to a combination of NT$13.3bn earnings distribution and the NT$1.8bn increase in treasury shares.

Table 10. Ratios

	2Q06	1Q06	2Q05
Current Ratio	143%	254%	118%
Interest Coverage (x)	40.4	30.6	32.3
Net Debt (Cash) to Equity	-10%	-5%	8%
ROE (annualized)	18%	14%	20%
ROA (annualized)	13%	11%	14%

Ratio Analysis

Current ratio fell to 143% due to an increase in current liability arising from cash dividend payable, which is the norm for 2Q each year.

2Q ROE expanded sequentially to 18% on higher profits and lower equity base.

Net cash further increased aided by the Company's strong cash generation ability.

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VI. Forecast

Table 11. TWM Consolidated Results vs Forecast

NT$bn	2Q06 Actual	2Q06 Forecast	% of Forecast Achieved
Revenue	14.75	15.11	98%
Operating Income	4.82	4.87	99%
Pre-tax Income	5.30	5.26	101%
(Less Tax)	(0.63)	(0.77)	81%
(Less Minority Interest)	(0.03)	(0.01)	333%
Net Income	4.65	4.48	104%
EPS (NT$)	0.94	0.91	103%
EBITDA	6.75	6.77	100%
EBITDA margin	45.78%	44.82%	

Compared to 2Q06 guidance, EBITDA margin was better than expected due to well-contained cash costs and expenses, despite flattish performance in revenue. Less income tax resulted from the amendment of the Income Tax Law (which allows us to include unrealized losses as income deductions for the calculations of 10% tax on undistributed earnings) made our net income 4% higher than the guidance.

Table 12. TWM Consolidated Q3 Forecast

NT$bn	3Q06	QoQ	YoY
Revenue	15.34	4%	-2%
-Telecom Service Revenue	15.27	4%	-1%
Operating Income	4.86	1%	-7%
Pre-tax Income	5.89	11%	17%
(Less Tax)	(0.81)	30%	56%
Net Income	5.07	9%	14%
EPS (NT$)	1.03	10%	13%
EBITDA	6.82	1%	-5%
EBITDA margin	44.43%		

We forecast 3Q06 service revenue to grow 4% QoQ. Compared to a year ago, it will edge down 1% YoY, in light of the slowdown of the industry.

3Q EBITDA margin is anticipated to be 44.4%, reflecting the rise in cash network costs along with the increased deployment of 3G base stations while marketing and G&A expenses, as percentages of revenue, would be well-controlled.

Operating income is projected to decline 7% YoY but to increase 1% QoQ.

Net non-operating income is expected to enlarge, contributed by CHT disposal gains and dividend income. To save opex for the future, TWM/TAT network integration will start in 3Q. Part of TAT's equipment is anticipated to be written down accordingly. Loss from asset write-down would be NT$0.5bn in 3Q.

Net income for 3Q is forecast to be NT$5.1bn, representing an EPS of NT$1.03, the highest quarter for the year.

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VII. Management Discussion & Analysis

Key Messages

TWM posted better-than-expected net income in 2Q, though revenue was 2% behind target.

To cope with the slowdown in revenue growth and equip itself with long-term competitive edge, TWM is geared up toward further cost optimization, in addition to usage stimulation and revenue rejuvenation plans. Separately, the Company has launched Excel Customer Experience program to ensure enhancement of brand equity. We are confident that we will be well positioned to take up future challenges.

3G Updates

At the end of 2Q06, we had 436K 3G SIM users, accounting for 7% of TWM's total subscriber base. We observe the data usage of 3G SIM holders is more than three times of 2G's whilst data ARPU is around 1.6 times of 2G's. This indicates 3G customers not only transmit more data but also have higher adoption of VAS contents which require monthly subscription fees. However, we do not expect customers' migration from 2G to 3G to accelerate before 3G handset prices drop to a certain level and 3G network coverage in metropolitans to be comparable to 2G's levels.

By the end of this year, our accumulative 3G investments are expected to reach NT$11bn. Additionally, the Board today (August 15, 2006) approved to spend additional NT$4.8bn to expand our 3G infrastructure with Nokia, the preferred vendor.

Change of Board Members

The board meeting passed the resolution of changing the Company's Chairman into Richard Tsai and ex-Chairman, Daniel Tsai, becoming the Vice Chairman, effective today (August 15).

New Data Rate Plan

On July 1, TWM launched a differentiated and brand-new data rate plan – Catch 99, Catch 399, and Catch 699 to target customers with different data usage. TWM is the pioneer in Taiwan to offer bundled unlimited mobile portal and internet browsing with a flat rate. With eight promoted handset models, TWM provides customers an easier access to unlimited mobile portal and internet browsing.

Cost Reduction Measure

Given higher than expected non-operating profits, we expect full-year write-down loss to increase from NT$2.0bn to NT$2.9bn, with the increment mainly associated with TWM/TAT network integration. The completion of the above mentioned integration is slated for the beginning of next year. Once it is completed, we would save around NT$0.3bn in opex on a yearly basis from the reduction of leased-line and base station rentals as well as savings of maintenance workforce.

Execution of Share Buyback Program

TWM completed its fourth share buyback program during the period from April 28 to June 27, with 96.34% of the board's approved amount executed. We spent NT$1.8bn and bought back 57,804 thousand shares or 1.2% of total shares outstanding.

Investment Updates

- TWM's ownership of TAT rose to 100% in June. The outlay for buying back TAT's minority interests amounted to NT$1.0bn.
- TWM sold 48.3m CHT shares in the open market since August with sales proceeds and disposal gains of NT$2.7bn and NT$485m, respectively.

Recognition of Corporate Transparency

In June 2006, Taiwan's Securities and Futures Institute (SFI) released the results of information disclosure assessment of all the listed companies in Taiwan. TWM, together with another 10 companies, received A+, the highest ranking in the assessment, which proved again the management's strong commitment and efforts in corporate governance and better information transparency.

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Appendix I: US GAAP Reconciliation

TAIWAN MOBILE CO.,LTD

PRO FORMA CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2006

(In thousands of NT dollars)

Net income based on ROC GAAP	$	7,750,031
Adjustments:		
1. Recognition of bonuses to employees, directors and supervisors		(260,834)
2. Others		6,851
3. 10% tax on undistributed earnings		0
4. Income tax effect of U.S. GAAP adjustments		(898)
Net decrease in net income		(254,881)
Net income based on U.S. GAAP	$	7,495,150

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

Our income statement is prepared and presented in accordance with ROC GAAP, which differs in certain material aspects from U.S. GAAP. A "full" US GAAP analysis has not been performed and the pro forma income statement was based on certain assumptions as noted below. Given the number and nature of differences between ROC GAAP and U.S. GAAP, users of ROC GAAP financial statements should not assume that those financial statements are comparable to financial statements prepared in accordance with U.S. GAAP. This summary should not be taken as inclusive of all ROC GAAP/U.S. GAAP differences.

a. Bonuses to employees, directors and supervisors

According to ROC regulations and the Company's Articles of Incorporation, a portion of the Company's distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are usually paid in cash. However, bonuses to employees may be paid in cash or stock or a combination of both. Under ROC GAAP, the bonuses, including stock bonuses which are valued at par value of NT$10, are treated as appropriation of retained earnings and are charged against retained earnings after such bonuses are formally approved by the shareholders in the following year.

Under U.S. GAAP, such bonuses are treated as compensation expenses and are charged to earnings. The amount of compensation expenses related to stock bonuses shall be determined based on fair market value which is determinable upon approval of distribution by the shareholders' in the subsequent year. The total amount of the aforementioned bonuses to be paid in the following year is initially accrued based on management's estimate pursuant to the Company's Articles of Incorporation. Any difference between the amount initially accrued at par value and the fair market value of the bonuses upon the payment of cash bonuses and issuance of shares is recognized in the year of approval by shareholders.

b.Goodwill

Under ROC GAAP, goodwill is the difference between the cost of investment and the investee's proportionate net value and is amortized systematically. The amortization of goodwill is charged to income over the period estimated to be benefited. Starting from January 1, 2006, goodwill is no longer amortized but instead tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable under ROC SFAS No. 35, effective January 1, 2005. To comply with ROC SFAS No. 35, the impairment assessment of goodwill was completed as of December 31, 2005 and no material impairment of goodwill was recorded. During the six months ended June 30, 2006, the assumptions used to assess the goodwill impairment under ROC SFAS No. 35 have not significantly changed.

Under U.S. GAAP, purchase price allocation was not performed in accordance with SFAS No.141 in order to identify goodwill and other intangible assets as two separate components of the premium paid for acquisition and test for impairment loss in accordance with SFAS No.142. If intangible assets with determinable lives were identified, they would be amortized and charged to income over the period estimated to be benefited.

c. Compensation expense

Under ROC GAAP, no income or expense is recognized in connection with a sale of the Company's treasury stock. Instead, the capital surplus account was increased or decreased accordingly by an amount equal to the difference between the aggregate sales price and the aggregate cost of treasury stock. If the balance of capital surplus from treasury is not sufficient to absorb this difference, the remaining amount is recorded as a reduction of retained earnings.

Under U.S. GAAP, the sale of treasury stock to employees is considered to be a compensatory employee stock purchase plan if the purchase price discount from the market value of the stocks is greater than 5%, under which the Company is required to record compensation expenses. The Company offered employees the treasury stocks with a purchase price discount from the market value of the stocks of less than 5% and therefore is not considered compensatory. Accordingly no such compensation expense was recorded under U.S. GAAP for the six months ended June 30, 2006.

d. Investments in marketable securities

Under U.S. GAAP, investments in marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to maturity securities are reported at amortized cost; and debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity.

Under ROC GAAP, investments in marketable securities were classified as short-term investments and long-term investments before December 31, 2005. Short-term investments are stated at the lower of cost or market value, while long-term investments in listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at the lower of cost or market value, and unrealized gains/losses are recorded in stockholders' equity. Long-term investments in non-listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at cost, subject to permanent impairment test.

Starting from January 1,2006, investments in marketable equity securities except for those accounted for under equity method are classified in one of four categories: trading, held-to-maturity , available-for-sale or financial assets measured by cost. Under ROC SFAS No. 34 .The treatment under ROC GAAP and US GAAP are similar. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to maturity securities are reported at amortized cost; debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity, and investment classified as financial assets measured by cost are carried at cost.

There is no difference in the accounting of investments in marketable securities between ROC GAAP and US GAAP for the six month ended June 30, 2006

e. Assets retirement obligations

Under ROC GAAP, a liability is not required to be recognized for the legal obligations associated with the retirement of long-lived assets, while the recognition of such legal obligation is required under U.S. GAAP.

The obligation associated with the retirement of long-lived assets has not been regulated by law or contract as of June 30, 2006. Accordingly, no liability is recognized under US GAAP.

f. 10% tax on undistributed earnings

In ROC, a 10% tax is imposed on any undistributed earnings. Prior to 2002, for ROC GAAP purposes, the 10% tax on undistributed earnings was recorded in the year of shareholders' approval. The accounting policy with respect to the 10% tax on undistributed earnings under U.S. GAAP was consistent with the policy used for ROC GAAP. During 2002, the American Institute of Certified Public Accountants International Practices Task Force (the "Task Force") concluded that in accordance with Emerging Issues Task Force (EITF) 95-10, "Accounting for tax credits related to dividends in accordance with SFAS 109," the 10% tax on undistributed earnings should be accrued during the period the earnings arise and adjusted to the extent that the distributions are approved by the shareholders in the following year. The U.S. GAAP policy is modified to comply with the Task Force's conclusion.

Income tax expense related to the 10% undistributed earnings tax is accrued and recorded in the year which the profits were earned. Adjustments to earnings are recorded in the following year based on the earnings appropriation approved by the shareholders.

The effect of 10% undistributed earnings tax was not shown on the reconciliation statement to avoid misleading the users. The 10% undistributed earnings tax will be affected significantly by the last year's adjustment based on the approval of the stockholders. However, the effect of last year's adjustment will be mitigated due to the estimated income tax of current year by the end of this year. The actual impact of 10% undistributed earnings tax to income before income tax were 1.80% and 2.16% for the years ended December 31, 2004 and 2005, respectively based on the past experience.

g. Income tax effect of U.S. GAAP adjustments

Differences exist between ROC GAAP and tax basis for certain reconciling items presented in the pro forma income statement. Related impact on deferred taxes and income tax expense was calculated based on the timing differences between book and tax basis in accordance with ROC SFAS No.12. The effective tax rate 13.09% is applied to generate the related tax effect on such adjustments.