

January 26, 2006	NT\$bn	<u>TWM+TAT+MBT¹</u>				<u>TWM consolidated²</u>	
		<u>2005</u>	<u>YoY</u>	<u>4Q05</u>	<u>QoQ</u>	<u>YoY</u>	<u>2005</u>
	Revenue	59.51	2%	14.79	-4%	2%	60.05
	Telecom Service Revenue	59.37	3%	14.77	-4%	2%	59.35
	EBITDA	27.90	4%	6.73	-6%	2%	28.14
	Operating Income	20.19	4%	4.68	-10%	-2%	20.31
	Non-op. Income (Expense)	(1.35)	NM	(0.74)	NM	NM	(1.42)
	Pre-tax Income	18.84	-9%	3.93	-22%	4%	18.88
	Net Income	16.24	-3%	3.54	-21%	30%	16.24
	EPS (NT\$)	3.31	-7%	0.71	-22%	29%	3.31
	EBITDA margin	46.89%		45.55%			46.87%
	Operating margin	33.93%		31.64%			33.82%
		1. Unaudited pro forma for TWM, TAT, and MBT only 2. Audited consolidated for TWM and affiliates.					
Topics in This Report		Highlights of 4Q05 and Full Year 2005 Results					
• Revenue Analysis		Compared to the official guidance, 4Q05 revenue came in 1% lower while operating income was 3% higher due to less-than-expected marketing spend in a benign market environment. Net income showed a 30% increase from a year earlier, benefiting from the combination of good core business, lower asset write-off (NT\$759m loss in 4Q05 vs. NT\$942m in 4Q04), and lower taxes.					
• Cost & Expense Analysis		In 2005, TWM reported NT\$59.5bn in consolidated revenue, up 2.4% YoY and NT\$27.9bn in consolidated EBITDA, up 3.9%, on the pro forma basis. Net profits edged down only 2.5%, despite continuous increase in 3G depreciation/amortization and more asset-write-off. Net income in 2005 was lower than 2004 due to the lack of over NT\$1.3bn gains from the disposal of CHT in 2004.					
• Income Statement Analysis		Board Resolution on Earnings Distribution					
• Cash Flow Analysis		The board meeting today approved 2005 earnings distribution to pay NT\$2.6/share cash dividend, based on current shares outstanding, and to appropriate NT\$1.15bn in special reserve.					
• Balance Sheet Analysis		Management Remark					
• Forecast		In 2006, our key marketing objective is to ensure our healthy growth momentum will continue. We plan to achieve this goal by: 1. Create differentiation through our new rate plan My Zone. 2. Continue to improve our customer composition by gaining high tier users and increase our 3G penetration 3. Continuous growth in 3G and value added services. We will record stable earnings for the year on healthy revenue growth coupled with continuous operating expense controls. Therefore, our earnings distribution ability remains intact.					
• Management Remark		We expect 1Q06 telecom service to grow at the pace similar to 4Q05. Operating costs likely to go up by 8% YoY, of which 5% will come from depreciation and amortization charge increase. Cash cost will rise only mildly on the back of cost savings from network integration completed in 2005. With an aim to expand market share through differentiation rather than price competition, selling expense will be on the rise from a year earlier but to remain stable sequentially. Net income expects to take a hit in 1Q06 on planned NT\$1.7bn asset write-off, which is one of our measures to strengthen our cost competitiveness in the long term. Despite the NT\$1.7bn asset write-off in 1Q, we expect 2006 full-year net income to remain stable in view that 1) revenue growth to accelerate in 2H on rising 3G penetration, 2) operating expense cutting, and 3) net non-operating loss to be similar to 2005's level.					
• US GAAP Reconciliation		The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, future events or otherwise, and Taiwan Mobile Co., Ltd. (the "Company") undertakes no obligation to update or revise the information contained in this presentation. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.					
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I. Revenue Analysis

Pro forma TWM+TAT+MBT only¹

Table 1. Full-Year Revenue

	2005	2004	YoY
Revenue (NT\$bn)	59.51	58.10	2%
MOU (bn)	15.46	15.01	3%
Ending Subscriber (m)	6.10	6.84	-11%
Avg. Subscriber (m)	6.39	7.87	-19%
Blended ARPU (NT\$)	776	605	28%
ARPM (NT\$)	3.84	3.84	0%
MOU per sub	202	159	27%

Table 2. Key Operational Data

	4Q05	3Q05	4Q04	QoQ	YoY
Revenue (NT\$bn)	14.79	15.47	14.52	-4%	2%
-Voice Revenue	13.91	14.58	13.66	-5%	2%
-VAS Revenue*	0.86	0.87	0.76	-1%	13%
-Others	0.01	0.03	0.10	-46%	-86%
-Data Rev as % to Total	5.8%	5.6%	5.2%		
End Subscribers (K)	6,101	6,140	6,843	-1%	-11%
-Postpaid	5,638	5,690	6,130	-1%	-8%
-Prepaid	463	450	712	3%	-35%
Monthly Churn	2.3%	3.2%	4.9%		
MOU (bn)	3.84	3.97	3.75	-3%	2%
ARPM (NT\$)	3.85	3.90	3.85	-1%	0%

*Definition of VAS revenue has been refined and the figures have been restated accordingly.

Table 3. Per Sub Spending & Usage

	4Q05	3Q05	4Q04	QoQ	YoY
ARPU (NT\$)²	807	826	675	-2%	20%
-Postpaid	825	847	736	-3%	12%
-Prepaid	576	534	256	8%	125%
MOU (minute)	210	212	176	-1%	21%

¹ Blended ARPU is based solely on telecom service revenue

Full-Year Revenue Analysis

In 2005, full year revenue grew by 2% year on year due to organic growth in MOU and stable ARPM. Although overall subscriber base decreased to 6.1 million due to cleanup of inactive subscribers at TAT and new prepaid regulation issued in 2005, blended ARPU and MOU per subscriber both increased by around 27% as TWM's strategy of improving its customer composition over the past two years paid off.

Quarterly Revenue Analysis

4Q revenue declined 4% sequentially due to a tough comparison from seasonally strong 3Q. However, compared to the same period last year, 4Q revenue grew by 2% aided by increases in MOU and double digit growth in value added services.

The cleanup of inactive subscribers at TAT has essentially been completed at the end of 4Q. Separately, pre-paid base had stabilized in 4Q. As a result, overall subscriber base was down by only 1% and blended churn rate improved to 2.3% in 4Q compared to 3.2% in 3Q.

TWM has not been negatively impacted by mobile number portability as post paid subscriber base remained quite stable.

4Q blended ARPU per sub improved by 20% year on year due to rising MOU per subscriber. On a combined basis, TWM's 4Q blended ARPU has experienced the highest YoY growth out of the three incumbents and has exceeded the largest operator's ARPU by more than 5%.

II. Cost and Expense Analysis

Pro forma TWM+TAT+MBT only

Table 4. Full-Year Cost & Expense

NT\$bn	2005	2004	YoY
Revenue	59.51	58.10	2%
Operating Cost	24.28	24.18	0%
Operating Exp.	15.03	14.43	4%
Total cost & expense	39.32	38.61	2%
Operating income	20.19	19.49	4%
Operating margin	33.9%	33.5%	
EBITDA	27.90	26.86	4%
EBITDA margin	46.9%	46.2%	

Full-Year Cost/Expense Analysis

Despite rising network cost pressure arising from adding more 3G capacity, operating cost was under control in 2005. Operating expenses increased by 4% due to higher selling expenses associated with higher acquisition volume but G&A expenses were well contained and declined by 2%. Operating margin expanded to 33.9% and EBITDA margin expanded to 46.9% on the back of higher revenue and well controlled cost and expenses.

Table 5. Operating Cost Breakdown

NT\$bn	4Q05	3Q05	4Q04	QoQ	YoY
Operating Cost	6.26	6.23	6.04	1%	4%
Cost of Goods Sold	0.00	0.04	0.06	-89%	-93%
Telecom Service Cost	6.26	6.19	5.98	1%	5%
- Depreciation	1.56	1.45	1.55	8%	1%
- Amortization-3G	0.19	0.19	0.00	0%	NM
- Interconnection	2.52	2.70	2.51	-7%	1%
- BTS & leased line rental	0.89	0.91	0.90	-3%	-1%
- Spectrum fee/license concession/USO	0.50	0.48	0.42	5%	19%

Quarterly Cost/Expense Analysis

As TWM has completely outsourced handset procurement, it had no cost of goods sold in 4Q05. Depreciation expense increased sequentially along with TWM's continuous roll out of 3G infrastructure. Year on year, depreciation expense remained flat as the increases in 3G depreciation expense was offset by lower depreciation expense at MBT and the combination of asset disposal/write-off at TWM.

Selling expenses increased by 4% YoY due largely to 28% increase in new post-paid subscriber number. Subscriber retention volume also increased but total SRC remained stable as SRC per head decreased.

Table 6. Operating Expense Breakdown

NT\$bn	4Q05	3Q05	4Q04	QoQ	YoY
Total Op. Exp.	3.84	4.03	3.72	-5%	3%
Selling Exp.	2.70	2.84	2.59	-5%	4%
- SAC + SRC	1.81	1.93	1.49	-6%	22%
- Direct Store & Customer Service Exp	0.52	0.50	0.53	3%	-2%
G&A Exp.	1.14	1.18	1.12	-3%	2%

G&A expenses increased slightly YoY as savings in administration expenses were offset by increases in IT spending.

Table 7. Non-operating Item

NT\$bn	2005	2004	YoY	4Q05	3Q05
Non-Operating Items	(1.35)	1.14	NM	(0.74)	(0.18)
-Net interest expense	(0.52)	(1.08)	-52%	(0.11)	(0.11)
-Net investment income (loss)	0.87	1.61	-46%	0.05	0.90
-Asset disposal /exchange/write-off gain (loss)	(2.05)	(0.98)	110%	(0.80)	(1.04)
-CB buy-back (loss)	(0.19)	(0.27)	-29%	0.00	(0.00)
-Other non-ops.	0.53	1.86	-71%	0.12	0.08

Non-Operating Item Analysis

In 2005, interest expense decreased as a result of lowered bank borrowings. Asset write-off in 4Q totaled NT\$759m instead of the previous forecast of NT\$400m due to an additional NT\$381 write-off of TAT and MBT equipment. Year on year, other non-operating items declined due to the lack of gains from the disposal of CHT shares and the decrease in total cash dividend received from CHT.

III. Income Statement Analysis

Consolidated basis

Table 8. Income Statement

NT\$bn	2005	4Q05	3Q05
Revenue	60.05	14.92	15.64
Telecom Service Revenue	59.35	14.77	15.44
Other Revenue	0.71	0.15	0.20
Operating Cost*	24.36	6.23	6.20
Telecom Service Cost	24.21	6.23	6.17
Cost of Good Sold	0.15	0.01	0.02
Operating Expenses*	15.38	4.01	4.20
Operating Income	20.31	4.67	5.24
Non-op. Income (Expense)	(1.42)	(0.73)	(0.20)
Pre-tax Income	18.88	3.93	5.05
(Less Tax)	(2.39)	(0.40)	(0.52)
(Minority Interest)	(0.26)	0.01	(0.06)
Net Income - Attributed to the Parent	16.24	3.54	4.46
EPS (NT\$)	3.31	0.71	0.91

*Please note that the 4Q and 3Q operating cost and operating expense have been restated to account for the reclassification of TT&T labor cost from operation cost to operating expense.

Income Statement Analysis

The consolidated income statement is similar to the combined figures in Table 1-7 as the key difference is the revenue and expenses from TT&T. After accounting for inter-company transactions, TT&T contributed to around 1% in revenue and 2% in expenses to the consolidated income statement.

On a consolidated basis, operating cost as % of total revenue is lower while operating expense as % of total revenue is higher due to the inclusion of TT&T. The call center service that TT&T provides to TWM, TAT, and MBT are classified as expenses to be consistent with TWM's accounting classification of costs and expenses.

IV. Cash Flow Analysis

Consolidated basis

Table 9. Cash Flow

NT\$bn	2005	4Q05	3Q05
Net Income	16.50	3.54	4.53
Depreciation	6.41	1.69	1.56
Amortization	1.43	0.40	0.41
Other Op Sources/(Uses)	1.94	1.37	0.83
Total Op Sources/(Uses)	26.28	7.00	7.32
Net Investing Sources/(Uses)	5.03	(1.73)	1.10
Net Financing Sources/(Uses)	(24.34)	0.01	(12.18)
Net Cash Position Chg.	6.97	5.27	(3.77)

Table 10. Capex & FCF

NT\$bn	2005	4Q05	3Q05
Total Capex	3.22	1.07	0.69
% of Revenue	5%	7%	4%
Free Cash Flow*	23.06	5.93	6.63

*Free cash flow: operating cash flow minus capex

Cash Flow Analysis

Net income in 4Q declined sequentially due to non-cash asset write-off of NT\$759m. As such, operating cash flow remained stable in 4Q

Major investing cash outflows in 4Q is NT\$1bn in capital expenditures and NT\$600m in bond funds.

For the full-year, operating cash flow and capex remain stable with free cash flow at NT\$23.1bn. As company's gearing is at the low level, cash outflow for repayment of debt decreased from NT\$16.9bn in 2004 to NT\$11.5bn in 2005. In total, 2005 year-end cash balance more than tripled YoY to NT\$15bn.

Capex and Free Cash Flow Analysis

Fixed asset gross adds for 2005 of NT\$3.9bn (70% for 3G, 30% for 2G) came in lower than our expectation as some 3G equipment delivery will be pushed into 2006. Accordingly, cash outflow for capex in 2005 was only 5% of revenue at NT\$3.2bn.

We expect total gross adds for 2006 to be around NT\$6.5bn, including NT\$1.5bn deferred capex from 2005. Breakdown between 3G and 2G is the same as 2005 (70/30%).

V. Balance Sheet Analysis

Consolidated basis

Table 11. Balance Sheet

NT\$bn	4Q05	3Q05
Total Assets	119.83	116.03
Current Assets	32.40	26.98
- Cash & Cash Equivalents	14.79	9.52
- Short-Term Investment	9.88	9.34
- Other Current Assets	7.74	8.13
Long-Term Investment	4.03	4.01
Property and Equipment	64.53	65.08
Intangible Assets	16.13	16.41
-3G License	9.72	9.91
-Goodwill	6.41	6.50
Other Assets	2.73	3.55
Liabilities	32.03	32.16
Current Liabilities	16.64	15.41
- ST Debts	4.54	3.36
- Other Current Liabilities	12.10	12.06
Long-Term Borrowings	14.58	15.84
Other Liabilities	0.80	0.91
Shareholders' Equity	87.80	83.87

Table 12. Ratios

	4Q05	3Q05
Current Ratio	195%	175%
Interest Coverage (x)	32.7	33.9
Net Debt to Equity	5%	12%
ROE (annualized)	19%	21%
ROA (annualized)	14%	15%

Balance Sheet Analysis

Cash and cash equivalents of NT\$14.79bn as of 4Q end consists of NT\$9.1bn from Taiwan Mobile, NT\$2.5bn from TAT, NT\$1.9bn from MBT, and NT\$1.3bn from other affiliates.

CB1 will mature in August 2006. Based on year-end outstanding amount of NT\$1.48bn, CB1 will cause around 1.3% dilution if fully converted.

NT\$1.25bn worth of domestic unsecured bond will be due in one year and has been reclassified from long term borrowings to short-term debt.

At the end of 4Q05, face value of convertible bonds outstanding decreased by NT\$84.2m QoQ to NT\$2.23bn.

Ratio Analysis

Current ratio grew to 195% due to current assets increasing at a faster pace than current liability.

Net debt to equity decreased to 5% due to the increase in cash on hands from core earnings.

VI. Forecast

Table 13. TWM Consolidated Results vs Forecast

NT\$bn	4Q05 Actual	4Q05 Forecast	% of Forecast Achieved
Revenue	14.92	15.11	99%
Operating Income	4.67	4.55	103%
Pre-tax Income	3.93	4.07	97%
Net Income	3.54	3.58	99%
EPS (NT\$)	0.71	0.73	97%
EBITDA	6.76	6.72	101%
EBITDA margin	45.3%	44.4%	

Compared to the official guidance, 4Q05 revenue came in 1% lower while operating income was 3% higher due to less-than-expected marketing spend in a benign market environment. We took a more aggressive approach to write-off 2G assets in the quarter, but net income was not affected due to higher than expected core earnings. Overall, net income showed a 30% increase from a year earlier, benefiting from the combination of good core business, lower asset write-off (NT\$759m loss in 4Q05 vs. NT\$942m in 4Q04), and lower taxes.

Table 14. TWM Consolidated Q1Forecast

NT\$bn	1Q06	YoY
Revenue	14.55	1%
-Telecom Service Revenue	14.54	2%
Operating Income	4.59	-10%
Pre-tax Income	2.82	-41%
Net Income	2.48	-37%
EPS (NT\$)	0.50	-38%
EBITDA	6.55	-4%
EBITDA margin	45.0%	

We expect 1Q06 telecom service to grow at the pace similar to 4Q05.

Operating costs likely to go up by 8% YoY, of which 5% will come from depreciation and amortization charge increase. Cash cost will rise only mildly on the back of cost savings from network integration completed in 2005.

With an aim to expand market share through differentiation rather than price competition, selling expense will be on the rise from a year earlier but to remain stable sequentially.

Net income expects to take a hit in 1Q06 on planned NT\$1.7bn asset write-off, which is one of our measures to strengthen our cost competitiveness in the long term. Despite the NT\$1.7bn asset write-off in 1Q, we expect 2006 full-year net income to remain stable in view that 1) revenue growth to accelerate in 2H on rising 3G penetration, 2) operating expense cutting, and 3) net non-operating loss to be similar to 2005's level.

VII. Management Discussion & Analysis

Key Messages

Over the past two years, we have built a good foundation for a better future. In 2006, our key marketing objective is to ensure our healthy growth momentum will continue.

We plan to achieve this goal by:

1. Create differentiation through our new rate plan My Zone.
2. Continue to improve our customer composition by gaining high tier users and increase our 3G penetration.
3. Continuous growth in 3G and value added services.

We will record stable earnings for the year on healthy revenue growth coupled with continuous operating expense controls. Therefore, our earnings distribution ability remains intact.

MNP Updates

MNP has basically been a non event in Taiwan. The total number of applications per month remains very low. TWM has not been negatively impacted by mobile number portability as post paid subscriber base remained quite stable.

APBW and VIBO, the most aggressive promoter in of MNP, have achieved minimal net gain in subscriber base so far.

3G Updates

Our cumulative spending on 3G will be around NT\$11bn by end of 2006. This will provide us with around 3,200 3G sites focusing on major metropolitan cities and covering approximately 80% of total Taiwan population.

We have around 150K 3G subscribers at the end of 2005 and our 3G subscriber target by end of 2006 is 1 million. We expect around 20% of the 3G subscribers to have 3G handsets.

As for content and applications, streaming Video has been the most popular application while online game has seen the fastest growth. And we expect to introduce more video related service this year.

Board Resolution on Earnings Distribution

TWM's board approved FY05 financial results and cash dividend distribution of NT\$2.6 per share, based on current shares outstanding. The NT\$2.6 cash dividend per share represents a 9% dividend yield based on stock price of NT\$28.5.

New Rate Plan: My Zone

Based on the unique experiences gained from servicing TAT and MBT's regional-based subscribers, TWM launched a brand new regional zone-based rate plan product, My Zone, which created a paradigm shift in the industry for consumers choosing rate plans. Differentiated from the conventional operator thinking of offering on-net and off-net rates, My Zone provides the customer with a much more consumer-oriented and simpler choice. The consumer can designate one of five regional zones as his/her My Zone and enjoy the same rate when calling from within the zone to any mobile network anywhere in Taiwan. It is expected that Myzone will create significant differentiation for TWM from its major competitors, attract considerable new customers, and become the driving force for TWM's growth momentum in 2006.

Investment Updates

- TWM acquired 100% ownership of Mobitai in January 2006 and have completed the integration of MBT's network
- TWM's received back NT\$2.97bn in cash from the liquidation of its four investment holding companies in December 2005
- TWM formed a wholly owned subsidiary TAT International Telecommunications Co. Ltd. and injected NT\$12.5bn worth of TAT shares

Management Change

Mr. Hui-Ming Cheng, CFO of TWM, will be leaving the company at the end of January 2006. Mr. Cheng has accepted an offer from Fubon Financial Holding to become its new CFO. Effective February 1, 2006, Ms. Vivien Hsu, currently Senior Vice President and Chief of Staff of TWM, will take over the role of CFO.

ROC SFAS No. 34 and No. 36

The impact of ROC SFAS No. 34 and No. 36 to TWM is minimal. As of year-end 2005, TWM will book around NT\$2bn of gain under shareholders' equity from its investments in CHT and book around NT\$350m of loss under shareholders' equity from the IRS it entered in 2002 to hedge its interest rate risk.

Information Security

In January 2005, TWM and its customer service center subsidiary, TT&T, became the first Taiwanese companies to receive both Norway's ISO 27001 certification and Sweden and England's BS 7799 certification from Det Norske Veritas. These certificates prove that TWM/TT&T have taken necessary precautions to protect sensitive information against unauthorized access and changes and TWM/TT&T's information security management system have been measured against a best practice standard and found to be compliant.



Appendix I: US GAAP Reconciliation

TAIWAN MOBILE CO.,LTD

PRO FORMA CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

(In thousands of NT dollars)

Net income based on ROC GAAP	\$	<u>16,236,698</u>
Adjustments:		
1 Recognition of bonuses to employees, directors and supervisors		(510,676)
2 Reversal of goodwill amortization expense		444,129
3 Recognition of compensation expenses		(327,710)
4 Market value valuation adjustment for trading securities		58,091
5 10% tax on undistributed earnings		75,010
6 Others		(4,377)
7 Income tax effect of U.S. GAAP adjustments		553
		<u> </u>
Net decrease in net income		(264,980)
		<u> </u>
Net income based on U.S. GAAP	\$	<u><u>15,971,718</u></u>



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 respects from U.S. GAAP. "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 is 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 and the fair market value of the bonuses upon the payment of cash bonuses and the 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. Under ROC SFAS No. 35, effective January 1, 2005, goodwill should also be tested for impairment annually and should be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To comply with ROC SFAS No. 35, the impairment assessment of goodwill was completed as of March 31, 2005 and no material impairment of goodwill was recorded. During the nine months ended December 31, 2005, 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 the amount of the amortization for the remaining goodwill would have been smaller than the amount presented herein.

C. Compensation expenses

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 sold. 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 employee stock purchase plan, under which the Company is required to record compensation expenses for discounts over 15% of the market value and such expenses should be amortized over the service period (if any).

D. Investments in marketable securities

Under ROC GAAP, investments in marketable securities are classified as short-term investments and long-term investments. 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. Short-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.

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.

E. 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.

F. 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 12.64% is applied to generate the related tax effect on such adjustments.