TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
August 31, 2005

1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934
For the month of August 2005
Taiwan Semiconductor Manufacturing Company Ltd.
(Translation of Registrant s Name Into English)
No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan
(Address of Principal Executive Offices)

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

Form 20-F þ Form 40-F o

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

Yes o No þ

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: August 29, 2005

By /s/ Lora Ho

Lora Ho
Vice President & Chief Financial Officer

Taiwan Semiconductor Manufacturing Company, Ltd.
Financial Statements for the Six Months Ended June 30, 2005 and 2004 and Independent Auditors Report

INDEPENDENT AUDITORS REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company, Ltd.

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company, Ltd. as of June 30, 2005 and 2004, 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 Company 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 Taiwan Semiconductor Manufacturing Company, Ltd. as of June 30, 2005 and 2004, 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.

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company, Ltd. and subsidiaries as of and for the six months ended June 30, 2005, and have expressed an unqualified opinion with an explanatory paragraph stating that single period presentation of consolidated financial statements is permitted at the initial filing of semi-annual consolidated financial statements..

July 13, 2005

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
BALANCE SHEETS
JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	2005		2004	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 3 and 4)	$ 78,597,384	16	$ 78,778,150	18
Short-term investments, net (Notes 2 and 4)	49,408,608	10	41,199,013	9
Receivables from related parties (Note 18)	14,999,678	3	17,983,732	4
Notes and accounts receivable	20,040,283	4	16,712,863	4
Allowance for doubtful receivables (Note 2)	(978,577)		(983,077)	
Allowance for sales returns and others (Note 2)	(3,945,057)		(3,019,657)	
Other receivables from related parties (Note 18)	1,565,784		147,010	
Other financial assets (Notes 2 and 21)	1,682,240		664,058	
Inventories, net (Notes 2 and 5)	14,113,615	3	11,725,188	3
Deferred income tax assets (Notes 2 and 12)	5,330,000	1	6,144,000	1
Prepaid expenses and other current assets	1,012,915		1,099,819	
Total current assets	181,826,873	37	170,451,099	39
LONG-TERM INVESTMENTS (Notes 2, 6, 16 and 20)				
Equity method	48,351,666	10	39,606,640	9
Cost method	784,939		716,377	
Long-term bonds	16,342,005	3	8,893,477	2
Other investments	10,955,960	2	3,364,250	1
Total long-term investments	76,434,570	15	52,580,744	12
PROPERTY, PLANT, AND EQUIPMENT (Notes 2, 7 and 18)				
Cost				
Buildings	88,695,499	18	72,030,258	16
Machinery and equipment	441,034,330	88	353,594,669	81
Office equipment	7,586,253	1	6,486,523	2
	537,316,082	107	432,111,450	99
Accumulated depreciation	(330,854,258)	(66)	(275,065,953)	(63)
Advance payments and construction in progress	18,601,286	4	43,236,290	10

Net property, plant, and equipment	225,063,110	45	200,281,787	46
GOODWILL (Note 2)	1,741,951		2,090,341	
OTHER ASSETS				
Deferred charges, net (Notes 2, 8 and 20)	7,874,553	2	10,066,618	2
Deferred income tax assets (Notes 2 and 12)	6,313,825	1	4,169,929	1
Refundable deposits	87,542		26,241	
Assets leased to others, net (Note 2)	75,746		81,480	
Idle assets (Note 2)	13,995		78,609	
Total other assets	14,365,661	3	14,422,877	3
TOTAL	$ 499,432,165	100	$ 439,826,848	100

	2005		**2004**	
LIABILITIES AND SHAREHOLDERS EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Accounts payable	$ 5,680,946	1	$ 7,308,388	2
Payables to related parties (Note 18)	2,146,317		4,662,001	1
Payables to contractors and equipment suppliers	10,004,328	2	8,658,321	2
Cash dividends and bonus payable (Note 14)	49,590,312	10	12,841,599	3
Accrued expenses and other current liabilities (Notes 2, 10, 20 and 21)	8,802,291	2	10,576,449	2
Current portion of bonds payable (Note 9)	10,500,000	2	5,000,000	1
Total current liabilities	86,724,194	17	49,046,758	11
LONG-TERM LIABILITIES				
Bonds payable (Note 9)	19,500,000	4	30,000,000	7
Other long-term payables (Notes 10 and 20)	1,644,136		2,637,827	
Other payables to related parties (Notes 18 and 20)	1,727,133	1	3,622,369	1
Total long-term liabilities	22,871,269	5	36,260,196	8
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 11)	3,410,250	1	2,847,049	1
Guarantee deposits (Note 20)	1,517,584		599,091	
Deferred gain on intercompany transactions (Notes 2 and 18)	708,941			

Total other liabilities	5,636,775	1	3,446,140	1
Total liabilities	115,232,238	23	88,753,094	20
SHAREHOLDERS EQUITY (Notes 2, 14, 15 and 16)				
Capital stock $10 par value				
Authorized: 27,050,000 thousand shares in 2005,				
24,600,000 thousand shares in 2004				
Issued: 24,726,129 thousand shares in 2005,				
23,376,597 thousand shares in 2004	247,261,288	50	233,765,970	53
Capital surplus	56,720,875	11	56,885,914	13
Retained earnings				
Appropriated as legal reserve	34,348,208	7	25,528,007	6
Appropriated as special reserve	2,226,427			
Unappropriated earnings	47,808,698	10	43,517,207	10
Others				
Unrealized loss on long-term investments			(9)	
Cumulative translation adjustments	(2,612,996)	(1)	53,132	
Treasury stock (at cost) - 46,862 thousand shares in 2005				
and 170,690 thousand shares in 2004	(1,552,573)		(8,676,467)	(2)
Total shareholders equity	384,199,927	77	351,073,754	80
TOTAL	$ 499,432,165	100	$ 439,826,848	100

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005 Amount	%	2004 Amount	%
GROSS SALES (Notes 2 and 18)	$ 116,819,058		$ 124,982,265	
SALES RETURNS AND ALLOWANCES (Note 2)	2,649,624		2,599,819	
NET SALES	114,169,434	100	122,382,446	100
COST OF SALES (Notes 13 and 18)	69,315,398	61	71,514,061	59
GROSS PROFIT	44,854,036	39	50,868,385	41
OPERATING EXPENSES (Notes 13 and 18)				
Research and development	6,632,293	6	5,825,173	5
General and administrative	3,743,998	3	4,635,566	3
Marketing	617,811		733,496	1
Total operating expenses	10,994,102	9	11,194,235	9
INCOME FROM OPERATIONS	33,859,934	30	39,674,150	32
NON-OPERATING INCOME AND GAINS				
Interest (Notes 2 and 21)	1,625,725	1	558,592	
Settlement income (Note 20)	711,324	1		
Technical service income (Notes 18 and 20)	186,962		111,096	
Gain on disposal of property, plant, and equipment (Notes 2 and 18)	107,395		114,102	
Investment income recognized by equity method, net (Notes 2 and 6)			2,053,966	2
Gain on sales of investments (Note 2)			98,644	
Others (Note 18)	221,233		138,298	
Total non-operating income and gains	2,852,639	2	3,074,698	2
NON-OPERATING EXPENSES AND LOSSES				

Interest (Notes 2, 7, 9 and 21)	1,387,359	1	602,981
Investment loss recognized by equity method, net (Notes 2 and 6)	786,018	1	
Foreign exchange loss, net (Notes 2 and 21)	197,684		542,591
Loss on sales of investments, net (Note 2)	111,808		
Loss on idle assets (Note 2)	106,972		

(Continued)

	2005		2004	
	Amount	**%**	**Amount**	**%**
Loss on disposal of property, plant and equipment (Note 2)	$ 53,599		$ 32,913	
Unrealized valuation loss on short-term investments (Notes 2 and 4)	41,467			
Others	29,942		14,405	
Total non-operating expenses and losses	2,714,849	2	1,192,890	
INCOME BEFORE INCOME TAX	33,997,724	30	41,555,958	34
INCOME TAX BENEFIT (Notes 2 and 12)	1,189,610	1	642,844	
NET INCOME	$ 35,187,334	31	$ 42,198,802	34

	2005		2004	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (NT$, Note 17)				
Basic earnings per share	$ 1.38	$ 1.43	$ 1.68	$ 1.70
Diluted earnings per share	$ 1.38	$ 1.43	$ 1.68	$ 1.70

The pro forma net income and earnings per share (after income tax) are shown as follows, based on the assumption that the parent company stock held by subsidiaries is treated as an investment instead of treasury stock (Notes 2 and 16):

	2005	**2004**
NET INCOME	$ 35,278,370	$ 42,200,461
EARNINGS PER SHARE (NT$)		
Basic earnings per share	$ 1.43	$ 1.70
Diluted earnings per share	$ 1.43	$ 1.70

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

Capital Stocks			Retained Earnings				Others Unrealized		
hares (in housands)	Amount	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Long-term Investments	Loss on Translation Adjustments	Cumulativ Treasury Stock
3,251,964	$ 232,519,637	$ 56,537,259	$ 25,528,007	$	$ 88,202,009	$ 113,730,016	$	$ (2,226,427)	$ (1,595,18
			8,820,201		(8,820,201)				
				2,226,427	(2,226,427)				
					(3,086,215)	(3,086,215)			
308,622	3,086,215				(3,086,215)	(3,086,215)			
					(46,504,097)	(46,504,097)			
1,162,602	11,626,024				(11,626,024)	(11,626,024)			
					(231,466)	(231,466)			
					35,187,334	35,187,334			
		4,774							

								(386,569)	
2,941	29,412	87,806							
		84,285							
		6,751							42,61
4,726,129	$ 247,261,288	$ 56,720,875	$ 34,348,208	$ 2,226,427	$ 47,808,698	$ 84,383,333	$	$ (2,612,996)	$ (1,552,57
0,266,619	$ 202,666,189	$ 56,855,885	$ 20,802,137	$ 68,945	$ 50,229,008	$ 71,100,090	$ (35)	$ 225,408	$ (1,633,22
			4,725,870		(4,725,870)				
				(68,945)	68,945				
					(681,628)	(681,628)			
272,651	2,726,514				(2,726,514)	(2,726,514)			
					(184,493)	(184,493)			

		(12,159,971)	(12,159,971)
2,837,327	28,373,267	(28,373,267)	(28,373,267)
		(127,805)	(127,805)
		42,198,802	42,198,802

(Continued)

	Capital Stocks			Retained Earnings				Others			
	Shares (in Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Long-term Investments	Unrealized Loss on Translation Adjustments	Cumulative Treasury Stock	T Shar E
nt om n o e es		$	$ 28,370	$	$	$	$	$	$	$	$
of d ng nt es								26			
on nts									(172,276)		(
ns											
d es			1,659							16,559	
ed										(7,059,798)	(7
CE,	23,376,597	$ 233,765,970	$ 56,885,914	$ 25,528,007	$	$ 43,517,207	$ 69,045,214	$ (9)	$ 53,132	$ (8,676,467)	$ 351

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 35,187,334	$ 42,198,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,330,028	31,086,443
Loss on idle assets	106,972	
Deferred income tax	(1,149,822)	(921,333)
Investment loss (income) recognized by equity method, net	786,018	(2,053,966)
Gain on sales of long-term investments	(94)	(2,150)
Amortization of premium from long-term bond investments	58,771	327
Gain on disposal of property, plant and equipment, net	(53,796)	(81,189)
Accrued pension cost	309,054	246,798
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	1,186,405	(3,116,070)
Notes and accounts receivable	(4,713,402)	(2,795,056)
Allowance for doubtful receivables	(1,884)	(32,945)
Allowance for sales returns and others	617,143	893,632
Other receivables from related parties	(1,145,538)	(14,047)
Other financial assets	287,847	(120,308)
Inventories, net	58,330	(818,030)
Prepaid expenses and other current assets	888,434	1,030,139
Increase (decrease) in:		
Accounts payable	(807,671)	1,224,512
Payables to related parties	(1,619,155)	161,861
Accrued expenses and other current liabilities	(648,995)	1,900,027
Net cash provided by operating activities	63,675,979	68,787,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	3,570,487	(32,042,407)
Acquisitions of:		
Long-term investments	(6,418,368)	(9,307,272)
Property, plant and equipment	(51,194,392)	(39,179,243)
Proceeds from disposal of:		
Long-term investments	1,515,356	7,552
Property, plant and equipment	1,430,769	250,080
Increase in deferred charges	(503,079)	(640,653)
(Increase) decrease in refundable deposits	(2,129)	151,138

Net cash used in investing activities	(51,601,356)	(80,760,805)

(Continued)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	$ 1,105,191	$ (164,398)
Proceeds from exercise of stock options	117,218	
Bonus to directors and supervisors	(231,466)	(127,805)
Repurchase of treasury stock		(7,059,798)
Cash dividend paid for preferred stocks		(184,493)
Net cash provided by (used in) financing activities	990,943	(7,536,494)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,065,566	(19,509,852)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	65,531,818	98,288,002
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 78,597,384	$ 78,778,150
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding the amount capitalized of NT$157,109 thousand for the six months ended June 30, 2004; please see Note 7)	$ 1,029,064	$ 268,006
Income tax paid	$ 87,315	$ 11,689
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term bonds payable	$ 10,500,000	$ 5,000,000
Current portion of other payables to related parties (under payables to related parties)	$	$ 177,161
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 1,417,437	$ 1,757,476
Reclassification of short-term investments to long-term investments	$	$ 3,402,413

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

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

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

As of June 30, 2005 and 2004, the Company had 18,734 and 17,559 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Use of Estimates

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

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

Government bonds under repurchase agreements, treasury bills, notes, and commercial papers acquired with maturities less than three months from the date of purchase are classified as cash equivalents.

Short-term Investments

Short-term investments primarily consist of corporate bonds, agency bonds, asset-backed securities, bond funds, government bonds and others.

Short-term investments are recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance for decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value.

The costs of funds and listed stocks sold are accounted for using the weighted-average method; whereas other securities sold are accounted for using the specific identification method.

The market value of funds is determined using the net asset value of the funds at the end of the period, and the market value of listed stocks is determined using the average-closing price of the listed stocks for the last month of the period. The market value of other short-term investments is determined using the average of bid and ask prices as of the balance sheet date.

Cash dividends are recorded as investment income in the current period.

Allowance for Doubtful Receivables

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

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

Long-term Investments

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company s proportionate share in the net income or net loss of investee companies is recognized in the investment income/loss recognized by equity method, net account. When equity investments are made, the difference, if any, between the cost of investment and the Company s proportionate share of the investee s net equity is amortized using the straight-line method over five years and is also recorded in the investment income/loss recognized by equity method, net account.

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

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as investment income in the year received but are accounted for as reductions in the carrying amount of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income or the carrying amount of the investment.

Investments in mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the net asset value of the funds is lower than their cost, with the corresponding amount recorded as a reduction to shareholders equity. A reversal of the allowance will result from a subsequent recovery of the net asset value.

When an indication of significant impairment is identified in an investee company, the carrying amount of this investment is reduced to reflect an other-than-temporary decline, with the related impairment loss charged to current income.

The costs of stocks and mutual funds sold are determined using the weighted-average method.

Investments in long-term bonds are stated at amortized cost. The discount or premium is amortized over the duration period using the interest method, and recorded as an adjustment to interest income.

When investments in publicly-traded stocks are reclassified from short-term investments to long-term investments or from long-term investments to short-term investments, the Company recognizes a loss to the extent, if any, that the market value of such investments is lower than the carrying amount, and the market value becomes the new basis.

If an investee company recognizes an unrealized loss on its long-term investments using the lower-of-cost-or-market method, the Company also recognizes a corresponding unrealized loss in proportion to its ownership percentage in the investee company and records the amount as a component of its shareholders equity.

Gains or losses on sales from the Company to investee companies accounted for using the equity method are deferred in proportion to the Company s ownership percentages in the investee companies until realized through transactions with third parties. The entire amount of the gains or losses on sales to majority-owned subsidiaries is deferred until such gains or losses are realized through the subsequent sales of the related products to third parties. Gains or losses on sales from investee companies to the Company are deferred in proportion to the Company s ownership percentages in the investee companies until realized through transactions with third parties. Gains or losses on sales between investee companies accounted for using the equity method are deferred in proportion to the Company s weighted-average ownership percentages in the investee companies which record such gains or losses until realized through transactions with third parties.

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

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

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

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

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

Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair market value of identifiable net assets acquired and acquisition costs. Goodwill is amortized using the straight-line method over the estimated life of 10 years. If an event occurs or circumstances change that more likely than not reduce the fair value of goodwill below its carrying amount, an impairment loss is charged to current income. Subsequent recovery in the fair value of the goodwill may not be recorded such as to reverse the impairment loss previously recorded.

Deferred Charges

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

Pension Costs

The Company records net periodic pension costs on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gains or losses are amortized over 25 years.

Income Tax

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Any tax credits arising from the purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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

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

Stock-based Compensation

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

Treasury Stock

When the Company repurchases its outstanding common stock, the cost of the reacquired stock is recorded as treasury stock as a reduction to shareholders equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus additional paid-in capital are reversed in proportionate to the equity percentage of the retirement. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount. The Company s stock held by its subsidiaries is also treated as treasury stock and reclassified from long-term investments to treasury stock. The cash dividends received by the subsidiaries from the Company are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

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

Derivative Financial Instruments

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

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

The Company enters into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. The cash settlement receivable or payable computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to interest income or expense associated with the hedged items.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2004 have been reclassified to conform to the financial statements as of and for the six months ended June 30, 2005.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2005	**2004**
Cash and bank deposits	$ 48,158,582	$ 66,348,727
Government bonds acquired under repurchase agreements	29,804,199	10,165,256
Treasury bills	349,892	842,873
Corporate issued notes	172,291	884,533
Agency notes	112,420	435,526
Commercial papers		101,235
	$ 78,597,384	$ 78,778,150

4. SHORT-TERM INVESTMENTS

	June 30 2005	June 30 2004
Corporate bonds	$ 12,846,798	$ 7,190,519
Agency bonds	11,554,410	6,974,162
Corporate issued asset-backed securities	11,482,685	6,720,188
Bond funds	10,140,224	9,900,000
Government bonds	2,750,355	7,052,471
Money market funds	491,465	
Corporate issued notes	158,052	
Commercial papers	94,770	
Listed stocks	6,528	6,528
Government bonds acquired under repurchase agreements		3,355,145
	49,525,287	41,199,013
Allowance for valuation losses	(116,679)	
	$ 49,408,608	$ 41,199,013
Market value	$ 49,408,608	$ 41,491,242

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage investment portfolios for the Company. In accordance with the investment guidelines and terms in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of June 30, 2005, the Company had investment portfolios with these fund managers that aggregated to an original amount of US$1,200,000 thousand. The investment portfolios included securities such as corporate bonds, agency bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

5. INVENTORIES, NET

	June 30 2005	June 30 2004
Finished goods	$ 2,600,225	$ 2,372,138
Work in process	11,380,115	9,213,016
Raw materials	937,820	785,848
Supplies and spare parts	658,803	755,052
	15,576,963	13,126,054
Allowance for losses	(1,463,348)	(1,400,866)
	$ 14,113,615	$ 11,725,188

6. LONG-TERM INVESTMENTS

	June 30			
	2005		2004	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Equity method				
TSMC International Investment Ltd. (TSMC International)	$ 23,057,382	100	$ 23,708,232	100
TSMC (Shanghai) Company Limited (TSMC-Shanghai)	9,967,851	100	1,758,405	100
Vanguard International Semiconductor Corporation (VIS)	5,115,164	27	4,667,952	28
TSMC Partners, Ltd. (TSMC Partners)	3,873,176	100	4,113,671	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,514,280	32	3,181,111	32
Emerging Alliance Fund, L.P. (Emerging Alliance)	820,765	99	912,982	99
TSMC North America (TSMC-North America)	794,692	100	474,695	100
VentureTech Alliance Fund II, L.P. (VTAF II)	469,749	98	165,190	98
Global Unichip Corporation (GUC)	403,208	46	362,629	47
TSMC Japan K. K. (TSMC-Japan)	95,013	100	100,521	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)	77,971	36	42,990	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	77,256	36	42,673	36
VisEra Technologies Company, Ltd. (VisEra)	62,668	25	51,825	25
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	22,491	100	23,764	100
	48,351,666		39,606,640	
Cost method				
Non-publicly traded stocks	482,500		432,500	
Funds	302,439		283,877	
	784,939		716,377	
Long-term bonds				
Government bonds	11,817,146		8,893,477	
Corporate bonds				
China Steel Corporation	2,936,934			
Taiwan Power Company	908,645			
Nan Ya Plastics Corporation	272,612			
Formosa Plastics Corporation	271,181			
Formosa Chemical & Fiber Corporation	135,487			
	16,342,005		8,893,477	

Other investments	10,955,960	3,364,250
	$ 76,434,570	$ 52,580,744

For the six months ended June 30, 2005 and 2004, net investment loss and income recognized from the equity method investees was NT$786,018 thousand and NT$2,053,966 thousand, respectively. The carrying amounts of investments accounted for under the equity method and the related investment loss or income were determined based on the audited financial statements of the investees as of and for the same periods as the Company.

Other investments consisted of the following structured time-deposits:

	Principal Amount	Interests Receivable	Range of Interest Rates	Maturity Date
June 30, 2005				
Step-up callable deposits				
Domestic bank	$ 2,000,000	$ 7,624	2.05-2.20%	Jul. 2007 to Aug. 2007
Foreign bank	2,000,000	10,403	1.40-2.44%	Jul. 2006 to Jul. 2007
Callable range accrual deposits				
Foreign bank	6,955,960	20,237	(See below)	Sep. 2009 to Jan. 2010
	$ 10,955,960	$ 38,264		
June 30, 2004				
Step-up callable deposits				
Foreign bank	$ 3,364,250	$ 2,474	1.44%-3.25%	Jun. 2007 to Jun. 2009

The interest rate of the step-up callable deposits is determined by the Company and the related banks. The amount of interest earned by the Company for the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.1% and 3.45%. Based on the terms of the deposits, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the term of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of June 30, 2005 and 2004, deposits that resided in banks located in Hong Kong amounted to NT$2,529,440 thousand and NT$1,688,750 thousand, respectively; those that resided in banks located in Singapore amounted to NT$632,360 thousand and NT$675,500 thousand, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	June 30	
	2005	2004
Buildings	$ 39,229,473	$ 32,452,205
Machinery and equipment	286,453,058	238,344,951
Office equipment	5,171,727	4,268,797
	$ 330,854,258	$ 275,065,953

There was no capitalized interest for the six months ended June 30, 2005. Interest expense for the six months ended June 30, 2004 was NT$760,090 thousand (before deducting the amount capitalized of NT$157,109 thousand for the six months ended June 30, 2004). The interest rate used for purposes of calculating the capitalized amount was 2.80% for the six months ended June 30, 2004.

8. DEFERRED CHARGES, NET

	June 30 2005	June 30 2004
Technology license fees	$ 5,836,060	$ 7,518,432
Software and system design costs	1,942,091	2,444,985
Other	96,402	103,201
	$ 7,874,553	$ 10,066,618

9. BONDS PAYABLE

	June 30 2005	June 30 2004
Domestic unsecured bonds:		
Issued in October 1999 and repayable in October 2004, 5.95% interest payable annually	$	$ 5,000,000
Issued in December 2000 and repayable in December 2005 and 2007 in two payments, 5.25% and 5.36% interest payable annually, respectively	15,000,000	15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three payments, 2.60%, 2.75% and 3% interest payable annually, respectively	15,000,000	15,000,000
	$ 30,000,000	$ 35,000,000

As of June 30, 2005, future principal repayments for the Company s bonds were as follows:

Year of Repayment	Amount
2005 (3rd to 4th quarter)	$ 10,500,000
2007	7,000,000
2009	8,000,000
2010 and thereafter	4,500,000
	30,000,000
Current portion	(10,500,000)
	$ 19,500,000

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor-related patents. Future payments under the agreements as of June 30, 2005 were as follows:

Year of Repayment	Amount
2005 (3rd to 4th quarter)	$ 1,144,732
2006	462,413
2007	442,652
2008	252,944
2009	252,944
2010 and thereafter	505,888
	3,061,573
Current portion (under accrued expenses and other current liabilities)	(1,417,437)
	$ 1,644,136

11. PENSION PLAN

The Company has a defined benefit plan for all regular employees that provides benefits based on the employee s length of service and average monthly salary or wage for the six-month period prior to retirement.

The Company contributes an amount equal to 2% of salaries and wages paid each month to a pension fund (the Fund). The Fund is administered by a pension fund monitoring committee (the Committee) and deposited in the Committee s name in the Central Trust of China.

For the six months ended June 30, 2005 and 2004, the changes in the Fund and accrued pension cost are summarized as follows:

	Six Months Ended June 30	
	2005	**2004**
The Fund		
Balance, beginning of period	$ 1,428,001	$ 1,191,702
Contribution	122,103	116,844
Interest	15,629	15,562
Payment	(8,419)	
Balance, end of period	$ 1,557,314	$ 1,324,108
Accrued pension cost		
Balance, beginning of period	$ 3,101,196	$ 2,600,251
Accruals	309,054	246,798
Balance, end of period	$ 3,410,250	$ 2,847,049

The Labor Pension Act became effective on July 1, 2005 and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee s monthly salary or wage.

12. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at statutory rate and current income tax expense before income tax credits was as follows:

	Six Months Ended June 30	
	2005	**2004**
Income tax expense based on income before income tax at statutory rate (25%)	$ (8,499,431)	$ (10,388,989)
Tax-exempt income	4,734,183	6,233,394
Temporary and permanent differences	(635,273)	(294,984)
Current income tax expense before income tax credits	$ (4,400,521)	$ (4,450,579)

b. Income tax benefit consisted of the following:

Current income tax expense before income tax credits	$ (4,400,521)	$ (4,450,579)
Additional tax at 10% on unappropriated earnings	(1,489,709)	(821,767)
Income tax credits	5,890,230	5,272,346
Other income tax adjustments	39,788	(278,489)
Net change in deferred income tax assets		
Investment tax credits	2,512,133	(883,812)
Temporary differences	1,708,642	528,349
Net change in valuation allowance of deferred income tax assets	(3,070,953)	1,276,796
Income tax benefit	$ 1,189,610	$ 642,844

c. Deferred income tax assets (liabilities) consisted of the following:

	June 30	
	2005	**2004**
Current deferred income tax assets		
Investment tax credits	$ 5,330,000	$ 6,144,000
Noncurrent deferred income tax assets, net		
Investment tax credits	$ 23,066,717	$ 18,622,082
Temporary differences	(741,893)	(2,957,102)
Valuation allowance	(16,010,999)	(11,495,051)
	$ 6,313,825	$ 4,169,929

d. Integrated income tax information:

The balance of the imputation credit account (ICA) as of June 30, 2005 and 2004 was NT$15,569 thousand and NT$347 thousand, respectively.

The expected and actual creditable ratios for distribution of earnings of 2004 and 2003 were 0.11% and 0.03%, respectively.

The imputation credit allocated to the shareholders is based on its balance as of the date of dividend distribution. The expected creditable ratio may be adjusted when the actual distribution of the imputation credits is made.

e. All earnings generated prior to December 31, 1997 have been appropriated.

f. As of June 30, 2005, investment tax credits consisted of the following:

Regulation	Item		Total Creditable Amount		Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$	134,467	$		2005
			4,886,421		2,325,728	2006
			4,139,371		4,139,371	2007
			11,007,440		11,007,440	2008
			2,189,404		2,189,404	2009
		$	22,357,103	$	19,661,943	
Statute for Upgrading Industries	Research and development expenditures	$	3,127,586	$		2005
			3,346,930		3,346,930	2006
			1,976,913		1,976,913	2007
			2,332,557		2,332,557	2008
			987,076		987,076	2009
		$	11,771,062	$	8,643,476	
Statute for Upgrading Industries	Personnel training	$	29,448	$		2005
			27,311		27,311	2006
			26,780		26,780	2007
			37,207		37,207	2008
		$	120,746	$	91,298	
Statute for Upgrading Industries	Investments in important technology-based enterprises	$	38,036	$		2005

g. The sales generated from the following expansion and construction of the Company s manufacturing plants are exempt from income tax:

	Tax-Exemption Period
Construction of Fab 8 module B	2002 to 2005
Expansion of Fab 2 modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6	2003 to 2006
Construction of Fab 12	2004 to 2007

h. The tax authorities have examined income tax returns of the Company through 2001.

13. LABOR COST, DEPRECIATION AND AMORTIZATION

Six Months Ended June 30, 2005
Classified
as

Classified
as &nbs