Table of Contents

TXC CORPORATION

Vision Statement

To provide the frequency controlled application products for the computer, communication, optical, and automotive industry so as to become, in 2007, the most outstanding company in FCP industry judged by performance matrix and managerial capability.

Mission Statement

Through the continuous improvement and the urge for discipline and execution to enhance the productivity to interact with tier one vendors' requests by promoting company's professionalism and globalization framework.

Quality Policy

In accordance with the principles of customer orientation, problem prevention, and the pursuit of zero defect, TXC management team commits to deploy the quality policy as follows:

(1)Technological innovation
(2)Reliable quality
(3)Continuous improvement
(4)Customer satisfaction

Green Product Policy

- Based upon the most rigid legitimate rules or the requirements of our customers to set TXC's green product policy in order to be the fittest green products partner of our customer.
- Documented the environmental policy in details to promote the overall awareness of the environmental protection concept and the implementation methods.
- Through company-wide various activities to ensure the quality of our green products will meet or exceed the regulated or expected requirements.
- Continuously improving environmental management system through periodic auditing and system inspection.
- TXC's company policy, aimed at everlasting, is based upon the corner stones of green products designing, environmental protection, and customer satisfaction.

I. Business Report

When we look back 2005, to TXC, it was a challenge year. In that year, just as we have expected, our company was continuously growing, and we have overcome challenges and overall profitability was above the average. In glance the entire Taiwan crystal industry, our company has wider the gap from our competitors, and we are also narrowing down the technology gap with Japan and US large companies. And, at the present time, our company ranked 6th worldwide in the Crystal industry. Happily, we would like to share the experience with our shareholders.

Our 2005 business performance, with the consolidated net sales and the gross profit are: NT$ 3,730,181 (thousand) and 26.24% respectively. Comparing with 2004, the net sales and gross profit have increased by 22.11% 55.12% respectively. As this year (2006) we are looking forward to a greater level of increased operation performance and even a better profitability opportunity. Below we would like to present TXC Corporation 2005 operating performance, and then followed by the 2006 business planning：

A、**Operation results of 2005：**

1. Results of our Operating Plans Implementation

unit：NT$ 1,000

item \ years	2005	2004	Increase (decrease) amount	Ratio of change%
Consolidated net sales	3,730,181	3,054,729	675,452	22.11%
Consolidated gross profit	978,721	630,942	347,779	55.12%
Consolidated net profit after tax (loss)	480,468	258,155	222,313	86.12%

2. Financial income and expense; and profitability analysis

Item	Year	2005	2004
Financial structure（%）	Debt ratio	32.38	40.05
	Long-term fund to fixed asstes ratio (%)	267.62	224.12
Liquidity Analysis（%）	Current ratio	216.40	199.52
	Quick ratio	151.32	135.18
Profitability（%）	Turn on total assets (%)	12.51	7.23
	Turn on total equity(%)	18.18	12.18
	Basic earning per share(NT$)	2.73	1.63

3. Research and Development Status：

TXC Corp is continuously investing great amount of resources in the Research and Developments. In addition to the already mass production of TCXO（Temperature-Compensated Crystal Oscillator），we are also working on the Turning Fork（Crystal Oscillator used in the Electric Pulsed Clock）design and development. At the present time, we are at the stage of manufacturing proof and will be soon in the mass production stage. Also, for the various frequency requirements of the SAW Filter（Surface Acoustic Wave），we are continuously developing the front and back ends products, and will also invest on the procurements of the machinery and equipments. Finally, we have completed the manufacturing proof of the Automobiles Crystal Parts（ACAP）applications, and is currently on waiting to be certified by clients. And it is expected we will soon place it in the mass production.

4.Execution Results of Other Projects：

(1). According to the market needs, our company has expanded six more production lines in NGB and Taiwan; and a keeping increase of the small-scale mass production。

(2). Completed the ISO 14001(2004) renewal works, and we have further meet the environmental protection requirements。

B. Brief of the Operation Plan in 2006:

1. The Direction of Operations and the Key Sales and Marketing Plans：

(1) Reorganization：

With the industries become more refined and the changing of the environment we have to restructure our organization. We have divided our sales centers according to regions as: North America, Japan and China. And, in order to have a quicker market response and the grasp of the market trends, we have, based on the products' applications, divided our structure into the Product Planning and Sales Divisions. Additionally, to get a product quicker on the market and a faster market feedback, we have transformed the original Product Engineering Research Center into Product Research and Product Engineering two centers. Overall, the more established structure of a company becomes, the division of responsibilities should also be unambiguous.

(2) Add more Sales Centers：

To meet the market needs, and enhance our market share, our company will establish sales representative offices in North California and Beijing。

(3) Plannig for Environmental Protection：

Regarding to the environmental protection RoHS requirement from the European Union, our company has already place emphasis on the green products. In addition to the completion of renewal of the ISO14001 (2004), we have also worked hard to pass the well-known SONY's Green Partnet (GP) audition; which lead us to their green product partner. We are also assisting our suppliers and we will work as a team to improve the maneuver of the environmental material management。

(4) Production lines expansion：

With the company’s growth needs, our company is building a new seven storybuilding at Ping Zhen. It is expected to be completed in October 2006. And, gradually we will increase to 10 production lines.

(5) Quality Assurance System：

In March this year, in both of our plants in Taipei and Ping Zhen, we have passed the Audit Procedure lead by BVQi, and were certified with ISO/TS16949. We are formally joined as the *bona fide* supplier for the automobile industry. In addition, we have passed the 6-Sigma green belt training, and we are introducing the black belt courses which will further enhance our ability for better quality control and reduce the cost for materials.

(6) Planning for Research and Development：

For the year of 2006, our company has planed 10 products research projects. The 3215 Turning Fork slim down project, GT-CUT Crystal Prototype Research project, and High Frequency LV-PECL CXO project are all ahead the scheduled date. We also have four major engineering projects; and out of the four the 2520 CXO and 2016X’ TAL projects are ahead of the scheduled dates.

2. Forecast and Projected Sales：

According to our planned goal, we expect to gain significantly in the cellular phone and communication industries. Meanwhile we are still ahead in the current IT electronics industries. With this picture, and the expected potential clients’ needs we are continuously to expand our production lines. With our hard working employees and our suppliers’ support, we are optimistic to see a steady growth in 2006. The total sales are expected to exceed 850,000,000 units. With the addition of new clients, new production and an enhanced product quality, our profitability will remain the current level。

II、Company Overview

A、Company Introduction

1. Date of the company´s incorporation

TXC Corporation is specialized in the manufacturing of frequency control components. Since our establishment in December 1983, we have strived on the research, design, manufacturing and sales of the DIP and Surface Mounted Device (SMD) crystals series products. We are specialized in manufacturing high precision, high quality of Crystals, Crystal Oscillators, Surface Accoustic Device (SAW Devices) and Timing Module etc major series of products。For many years, our goal has been to promote the customers' values. We are meeting our clients' total needs by providing clients' total solutions from various frequency control components to module in-design. We have always exceeded our clients' expectation in terms of the pricing, quality, delivery, service and product performance。

2. Trends of Product Development

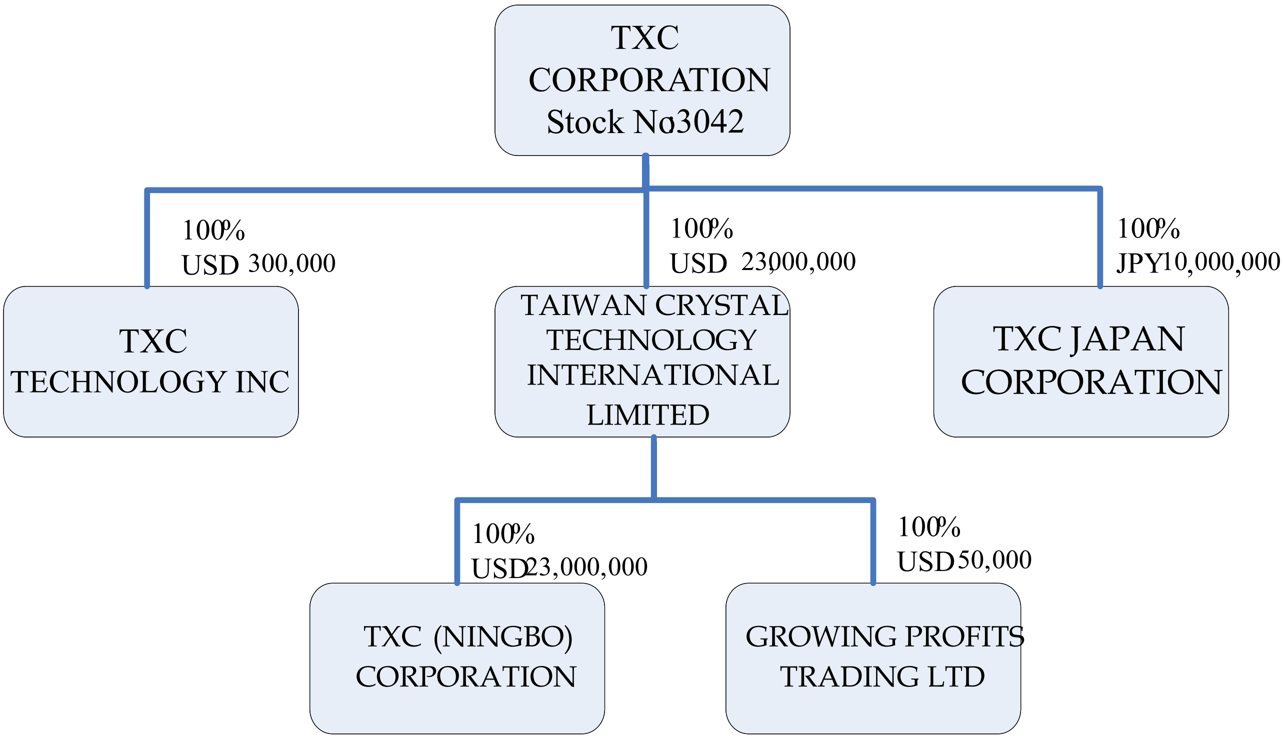
Products innovations are critical to our company's survival, and our innovations have reflected on our novel products. The diagram below shows the time schedule of our 2006, 2007 new products. Besdies the SMD, and DIP series products, from 2005 we have also added frequency controlled components used in the automobiles that can meet the current and future clients' needs.

	2005	2006	2007
SMD Crystal	7050/5032/3225	2520 2016	1610
SMD CXO	7050/5032/3225	2520	2016
Automotive Crystal	8045/5032/49S	6035	
SMD Tuning Fork	4115		3215
SAWR/SAWF	5050/3838/3030	2520	2016
SMD CXO (PECL/LVDS)	7050	5032	
SMD VCXO (CMOS)	7050	5032	
SMD VCXO (PECL/LVDS)		7050	5032
SMD Programmable CXO	7050	5032	
SMD TCXO	5032	3225	
OCXO		Customized	
Timing Modules		Customized	

(3). Company History

1983 Founded in Taiwan with US$95,000 capital.
1984 Began production on DIP type crystals and oscillators in Peitou factory.
1993 ISO9002 certified.
1995 Winner of the 4th National Award of Small and Medium Enterprises.
1997 Began production of SMD type crystals and oscillators in Taoyuan factory.
1998 Began production os SAW devices.
Implemented Oracle ERP system.
1999 Established US sales office.
2000 Increased capital to US$25.3 million.
2001 IPO'ed with capital increased to US$37 million.
2002 Listed in the Taiwan Stock Exchange(Code-3042)
ISO14001 certified.
Ranked among the top 10 worldwide frequency control product manufacturers.
2003 Began to offer value-added products(HF CXO/VCXO,OCXO,FX,etc.) for the telecom market.
Began production in new factory in NIngbo, China.
2004 Implemented QoS and 6-Sigma management systems.
QS9000 certified.
Established US Technology Center.
2005 ISO/TS16949 certified.
Ranked number 6 among the worldwide frequency control product manufacturers.
2006 Expanding Tauouan factory. Adding production lines in Taiwan and China. The capacity reached to 70 million units per month.
Authorized Capital: US$57.9 million.

B、Company Structure and the Subsidiaries



C、Capitals and Stocks

1. Source of Capitals

2006/03/31 unit: share

Shares Class	Approved Shares			Remark
	Circulated in Market (note)	Uncirculate shares	Total	
Common shares	188,908,827	71,091,173	260,000,000	

note:these shares are listed。

2. Shareholders structures

95.04.16

Shareholders / Numbers	Government	Financial institutions	Other institutions	Individuals	Foreign institutions and foreigners	Total(note)
Numbers	3	3	125	14,118	15	114,264
Number of Shares	6,487,000	2,856,000	58,662,649	119,400,786	1,536,097	188,942,532
Percentage of shares	3.43%	1.51%	31.05%	63.20%	0.81%	100.00%

note：The above based on the transactions end at 16/4/2006。

3. Data on share price, net value, profit, and dividend of the past two years

item / year			2004	2005	2006.03.31 end
Market price/share (note 1)	Highest		28.50	30.55	35.00
	Lowest		13.50	13.75	27.90
	Average		19.02	21.51	31.36
Net value per share (note 2)	Before distribution		14.20	16.12	16.92
	After distribution		13.09	Note 一	-
Earnings Per Share	Weight average number of shares (1000's share)		158,377	175,996	186,819
	earnings per share (note3)	Before retroactive adjustment	1.63	2.73	0.81
		After retroactive adjustment	1.48	note 一	-
Dividend/share	Cash dividend		0.50	note 一	-
	Stock dividend without compensation	Stock dividend from earnings	0.05	note 一	-
		Stock dividend from PICAP	-	note 一	-
	Accrued undistributed dividend (note 4)		-	-	-
Analysis of rate of return	P/E (note 5)		11.67	7.88	-
	P/C (note 6)		38.04	note 一	-
	C/P (note 7)		2.63%	note 一	-

＊ If use profits or capital reserve for raising capital shares appropriate, then it should announce the information of the number of appropriate shares and retroactivlye adjust market price and cash dividend。

note1：list the hightest and lowest price of the common stocks in that year, and the average market price for that year is calculated based on the transaction values and transaction amounts。

note2：Use the number of circulated shares at the end of the year as the base, then the dividend distributed determined in the coming year’s stockholders’ meeting。

note3：If there is any retroactive adjustment from the stock dividend without compensation, then it should list earning per share on before and after adjustment。

note4：If the equity investment has constraint that limits the undistributed dividend for that year and it is cumulated until to later profitable year. Then it should disclose the cumulative undistributed dividend up to that year。

note5：P/E＝current year average share price at closing／earning per share。

note6：P/C＝current year average share price at closing／cash dividend per share。

note7：C/P＝ cash dividend per share／current year average share price。

4. Company’s dividend policy and its current implementation status

(1) Dividend policy as defined in the articles of incorporation：

Our company, at the time being, is still in its growth stage. In considering the company’s long term financial plan as well as to satisfy shareholders’ cash income needs, therefore the method of profit distribution, after the current year legal reserve, and special reserve, will abide by this Chapter, title 19: profit distribution. The cash dividend out of the total dividend the shareholder received cannot be less than 20% of the sum of the cash dividend and stock dividend.

(2). Suggested dividend appropriate in this shareholders’ meeting：

Profit distribution for 2005

unit：NT$

Item	amount	
	Sum	total
Beginning period undistributed profits		13,441,082
plus：Available distributed profit for current year		
Net profit after tax for this year	480,468,391	
Reversal the 2003-2004 shareholder equity minus, that the appropriated retained earnings is added	34,087,018	
Profits available for distribution		527,996,491
minus：		
Appropriate legal reserve (10%)	(48,046,839)	(48,046,839)
Items of distribution：		
Shareholder bonus—transfer raising capital share appropriate ($0.6 per share)	113,345,300	
Shareholder bonus—cash ($1 per share)	188,908,830	
Employee bonus(10%)—transfer raising capital share appropriate	34,347,060	
Directors and supervisor remuneration (2%)—cash	6,869,410	
total		(343,470,600)
End period of undistributed profits		136,479,052

D、Directors and Supervisors

2006.04.16

Title	Name	Major academic (professional) experience	Current position in our company or other company
Chairman of the Board of Directors	Lin, Jin-Bao	MBA, West Texas A&M University, USA	President, TaiwanCrystal Industry Association
Vice-Chairman of the Board of Directors	Hsu, Der-Jun	Kei-Nan Institute of Technology and Business	Chairman of the Board of Director, Chan-Yu Corporation Chairman of the Board of Director,Kuan-Ya Int'l Corporation Chairman of the Board of Director,TXC Corporation
Director of Board	Kuo, Fa-Jin	Pei-Yun High School	-
Director of Board	Lin, Wan-Shing	Master in Management, Taipei Science and Technological University	Chairman of the Board of Director,Tai Shin Electronics Corporation Chairman of the Board of Director,TXC Ninpo Corp
Director of Board	Go, Tien-Chong	Electronics Dept, Taipei Institute	VP, ESS(USA) Asia-Pacific
Director of Board	Kuo, Shu-Hsin	Business Major, Taipei Business School	Vice-Chairman of the Board of Director, Chan-Yu Corporation
Director of Board	Kuo, Je-Hsiun	Taipei Business School	-
Independent Director of Board	Shen, Chi-Fong	BusinessAdministration, Taipei Cultural University	Board of Director, Shun-Ban Technology Corp. Chairman of the Board of Director,Hon-Sheng Technology Corp(Institution Representative) Auditor, Chun-Chong Optics-Electronics (Institution Representative)
Independent Director of Board	Chou, Ming-Zhi	Master in Management, Taipei Science and Technological University	Chairman of the Board of Director,Ming-Yang Consulting Corp Chairman of the Board of Director, Ron-Hwa Venture Capitals Chairman of the Board of Director, Ming-Shin Venture Capitals
Supervisor	Yang, Min-shou	Taipei Second Professional High School	-
Supervisor	Yang, Du-An	History Dept, TamKung University	-
Independent Supervisor	Yu, Biao-Shean	Electronics Dept, Taipei Institute	-

E.、Personnel data of the general manager, vice general manager, assistant vice general manager, chief of divisions

2006.04.16

Title	Name	Date of employment	Major academic (professional) experience	Other part time position with other companies
General Manager	Lin, Wan-Hsing	1989.11.11	Master in Management, Taipei Science and Technological University	Chairman of the Board of Director, Tai-Shin Electronics Corp Chairman of the Board of Director, TXC Ninpo Corp
Vice General Manager of Research and Development (Chief of Technology)	Lin, Zhen-Zheng	2002.04.01	Ph.D., Princeton Univ, USA	-
Vice General Manager of Marketing and Sales(TXM China Corp President)	Chen, Shan-hsing	2002.04.01	Mt．San Antonio College	-
Assistant Vice General Manager of Research and Development	Lin, Shi-Bo	2002.04.01	MS (Physics), Univ of California,USA	-
Assistant Vice General Manager Manufacturing Center	Shi, Shen-Hsiung	2004.10.01	Industrial Engineering Management, Taiwan IndustrialTechnology Institute	-
Assistant Vice General Manager Quality Assurance	Kuo, Chi-Ron	2002.04.01	MS, Technical Management, Cheng-Chi University	-
Assistant Vice General Manager Procurement	Tsai, Ron-Yian	2002.04.01	Dept of Econiomics, Ba Dai Institute Japan	-
Assistant Vice General Manager Marketing and Sales	Kuo, Ya-Ping	2005.06.01	BOSTON UNIVERSITY, MBA	-
Chief of Finance	Hong, Gon-Wen	2003.03.11	Accounting and Statistics, TamShui School of Technology and Business	-

III、Business Information

A、Business Contents

1、Business Scope

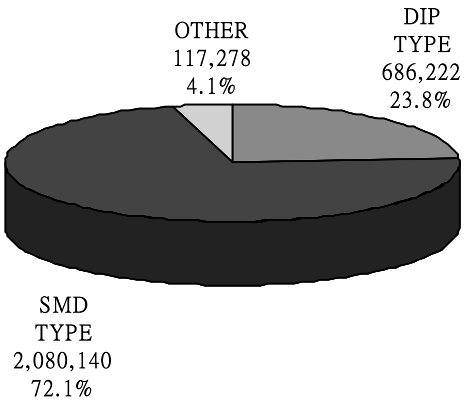
(1). The Major Business Contents

TXC Corporation is specialized in the manufacturing of frequency control components. Since our establishment in December 1983, we have strived on the research, design, manufacturing and sales of the DIP and Surface Mounted Device (SMD) crystals series products. We are specialized in manufacturing high precision, high quality of Crystals, Crystal Oscillators, Surface Accoustic Device (SAW Devices) and Timing Module etc major series of products。For many years, our goal has been to promote the customers' values. We are meeting our total client's needs by providing clients' total solutions from various frequency control components to module in-design. We have always exceeded our clients' expectation in terms of the pricing, quality, delivery, service and the product's performance. In recent years, TXC Corp is strengthening on the automobiles industry and SONET market and their products applications. We are steady engaging the markets and are expecting the challenge of a new stage.

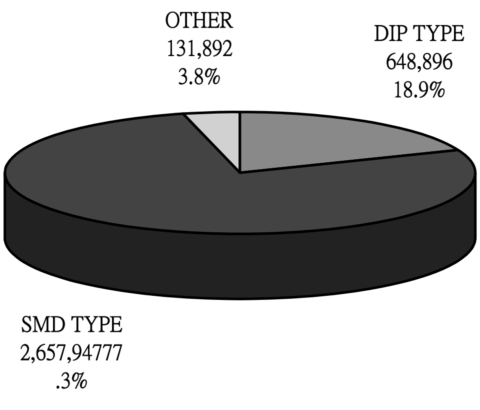
(2). Business Proportions

(unit NT$ 1000's)

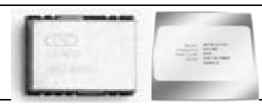
2004 (NTD2,883,640 thousand dollars)



2005 (NTD3,438,735 thousand dollars)



(3). Company’s current products

Product type	Type	Product description	Product picture
Crystals	DIP	HC-49U / HC49S / HC-49S SMD	
	Glass Sealed Crystal	8*4.5mm / 5*3.2mm	
	Seam Sealed Crystal	7*5mm / 6*3.5mm / 5*3.2mm / 3.2*2.5mm / 2.5*2mm	
	Tuning Fork Type	8.3*3.5mm / 6.9*1.4mm / 4.1*1.5mm	
Crystal Oscillators	CXO	14.4*9.5mm / 7*5mm / 5*3.2mm / 3.2*2.5mm / 2.5*2mm	
	VCXO	14.4*9.5mm / 7*5mm	
	TCXO	5*3.2mm / 3.2*2.5mm	
	OCXO	36*27mm / 25.5*22mm	
SAW Devices		5*5mm / 3.8*3.8mm / 3*3mm	
Timing Module		25.4*20.3mm / 20*20mm	
Automotive	DIP / Glass Seaded Crystal / Seam Sealed Crystal	HC49S / HC-49S SMD / 8*4.5mm / 6*3.5mm / 5*3.2mm	

(4). Scheduled new products development

Our company research & development will continue to invest more resources in the new products of the high-end niche market, as well as in the basic research. As a matter of fact, in the past, these products that didn’t consider the crystal components dimension; but now with the maturity of the surface package crystal components technology and better cost efficient with the mass production approach; the overall cost of the surface package component has dropped to the acceptable level that can be widely used by more products. In facing of domestic as well as other regional competitions and fierce catching up of the IT products, our company has our research & development in the following strategies:

(a). Slim down SMD product development

After several design experience of the scale-down product, our company has greatly narrow the gap with these major Japanese companies in the design capabilities and mass production of these SMD Crystal Unit and Crystal Oscillator. Our company is able to place 2.5 x 2.0 x 0.7mm SMD Crystal Unit and Crystal Oscillator into mass production in Q2 2006; and trial production of 2.0 x 1.6 x 0.7mm crystal components in Q4, 2006. And, to meet the market needs, mass production will begin at early of 2007. From 2004 to the end of 2006, in the three years our company has improved the SMD components design from 5.0 x 3.2 x 1.0mm to 2.0 x 1.6 x 0.7mm, and the volume of this product has cut down by 7 times. In addition to the continuous product modularized, we are also making strategy advance in slim-down manufacturing technology and the development of the manufacturing equipments. At the end of 2005, our company has trial production of the 2.5 x 2.0 x 0.7 mm components with our own designed manufacturing process and equipments. We are currently at the second phase of developing the manufacturing process and equipments. It will be used at the beginning of 2007 for the 2.0 x1.6 x 0.7mm products. Eventually it will lead to a better product quality and lower our costs.

(b).Product development for automobile use

In 2005 we have introduced the TS-16949 early product development quality operating system, and it has shortened our product design time, and has resulted a lower design cost, and a faster response to the client needs. From 2006-2007 we will expand to several different oscillatory control components used in car’s front-end of the automobile industry, and a directly link with the top five global auto makers; and further to differentiate us from the competitiveness of these car’s rear end automobile market. To assure the quality certified of auto use frequency controlled products, our R&D department are developing the reliable testing technology as well as the testing equipments; and it is expected that before the end of 2006, we will be able to build the most completed reliable certified ability in Taiwan that is used for auto-use frequency control components; and to upgrade the quality that meets a strict quality requirements that will satisfy our customers.

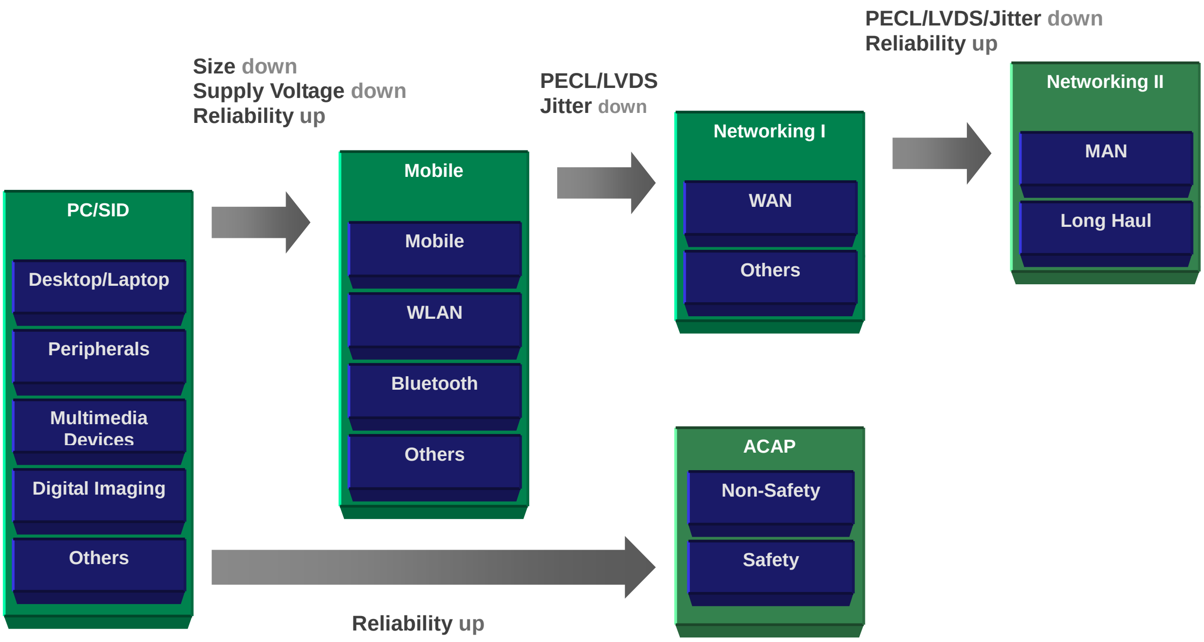
(c).Development of high end modular products

In 2005, our production developments in broad-band network and communication have contributed handsomely to our financial results. In 2006-2007, we will further target the niche market of the high-end frequency control components to develop products with more depth and breadth. Examples include the special communication equipment TCXO, the fiber optics communication module VCSO, high frequency communication LVPECL CXO and various high frequency controlled components used for the infrastructure constructions. These high end modular niche products will tend to be technology oriented, lower investment on the product equipment, and to gain a high product value and a high net profit in the market.

(d).Basic Research

Our company will continue the basic research and design of the quartz crystal and other major materials. In order to achieve the top three of frequency controlled components provider, we will need to invest more in the hardware, software and human resources. We will be able to see a gradually increase in the research publications, and the patents applications. With better basic research abilities, we can speed the new products entry into the market, and a better position in negotiation of the supply chain strategies.

(e). Research and Development trends



future end product application

2、The Industry

(1). Current industry status and development

The current domestic quartz industries are mainly for producing components such as crystals, crystal oscillators, and crystal filters. The basic manufacturing process of making crystals starts from cutting the quartz, and then after grinding and polish to the desired sizes; followed by depositing thin metal film electrodes on its surface under the vaccum, and subsequently, it is connected with condut wires; afterward it is packaged. In addition, by assembling and packaging the crystal components with IC oscillators then it will result the crystal oscillators. Assembling and packaging the crystal components and capacitors, wires, and resistors then it will be the crystal filters.

Earlier quartz crystal has being used widely in the aerospace and consuming industries and it is considered to be the low end applications. With the growth of wireless communication, and other optic-electronics applications such as digital cameras and automobile sensors; which have lead the quartz to the high end applications. With the continuous growth of the consumer market, we can category quartz components into three application areas: “communications”, ”information technology”, and “consumers and others”. Roughly estimates, quartz components have its use in 45% of the communications, 30% in communication technology, and 25% in consumers’ electronics and others.

With the extend use of the information technology we have seen more applications such as in the auto industry such as the automobile frequency components, automobile remote keyless entry system, electronic TC system, automobile guideance system, tire pressure auto-detection system, safety air bag, constant temperature control system etc. As for the mobile phone market, we have seen the consumers are actively seeking “functional” mobile phone upgrades such as usage of mobile phone for digital camera, and color monitor. As the market overall, the market demand of crystal components in the next few years will be rather stable.

When you comparing the three crystal technologies: frequency, precision, and size dimension you can see that the European and US manufacturers are strong in the frequencies development. It was because of their development of the wireless technology during World War II that it gives them an advantage in the design and development; but production efficiency is lower. Japan manufacturers are the technology leaders and they are excellent in the precision and the scale size of the products. They have the advantages of products improvement, and can further to make it in mass production and automatic production. To the Taiwanese manufacturers, most of them are buying the material & know-how, machinery equipments, or purchasing the manufacturing process of which usually lead to a faster time in marketing the product. But recently, the manufacturers have improved their manufacturing process, and the manufacturing equipments; also the learning of the manufacturing process further improves it. Mainland’s manufacturers produce more then 1.3 billion units annually. But 80% of the products are low end and for export purpose. But China’s market needs 1.3 to 1.5 billion units and their domestic products can only meet the 20% demand. Hence Chinese manufacturers have yet to meet their huge domestic needs. In recent years Chinese manufacturers are aggressively to promote their technology abilities and to advance to the middle and high end. Below table is a comparison of advantages/disadvantages of competitions from the major producers.

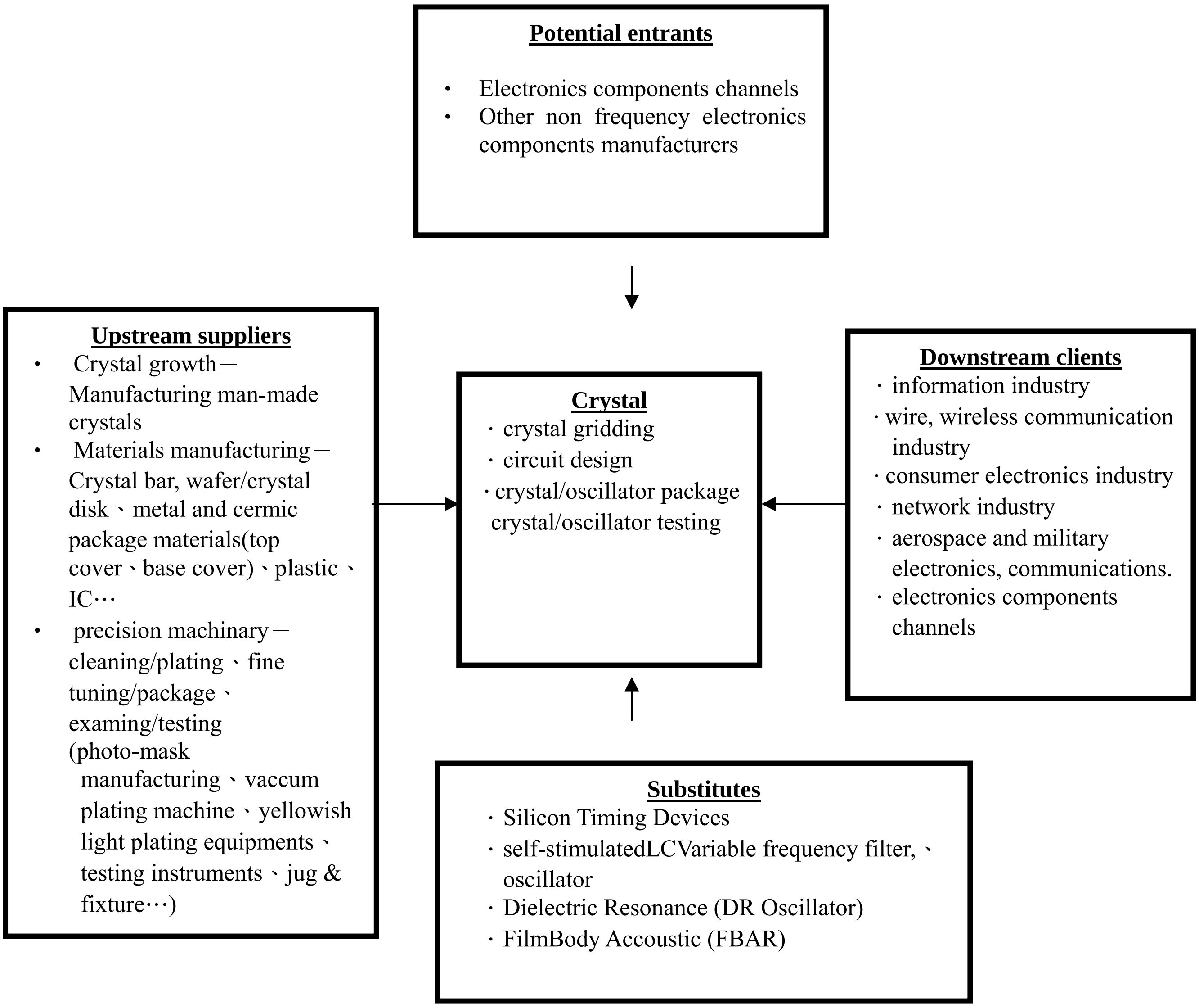
Key technology	European, USA manufactures	Japanese manufactures	Taiwanese manufactures	China manufactures
Frequency	high	High	High-middle	Middle-low
Precision	high	Very high	High-middle	Middle-low
Sizes	High-middle	High	High-middle	Middle-low

Currently, in Taiwan the major crystal manufacturers are TXC Corp, Siward Crystal Technology, Harmony Electronics, Tai-Saw Technology, and EChina Technology. TXC Corp has the highest market share and Harmony Electronics is next.

(2). Market relationship of up, middle, and down stream companies

Crystal components are our major product and it is also the basic electronics parts.

Our upstream industries include crystal growth, material manufacturing, and precision machinery. The downstream applications include information technology, wire and wireless communications, consumer electronics, and network products etc. The relationship between the up, middle, and downstream manufacturers is given in the below diagram:



Crystal products are important components in the electronics products. To sponsor the future 3C growth and trend, the future product style, its size, and the precision will have the following trend：

(3). Slim down and usage of SMD：

In terms of the technology aspect, we have achieved the slim down level for use the single crystal IC, crystal design & manufacturing, and packaging & testing etc. For example take the case of SMD quartz crystal, its dimension has downsized from 11.8×5.5mm、8×4.5mm、7×5mm to 6×3.5mm、5×3.2mm，and further to 4×2.5mm、3×2.5mm、2.5×2.0mm、even to the dimension of 2.0*1.6mm；its height has also improved from 2mm、1.8mm、1.5mm、1.2mm to 1mm、0.9mm。By the effective SMD scale down improvement, we are also toning with the SMT production from our downstream clients.

(a). High frequency、high frequency modularized、high precision：
Because the low frequency has more interference and there are more saturated with application in the low frequency ranges, the development of high frequency has become more important。In the communication industries, the cellular phones、wireless LAN、simultaneous optics network (SONET)、and simultaneous digital system (SDH)，are developing in the direction of high frequency, and high speed; and also a higher demand of higher precision. Also the developing tendency of modularized components gives clients' simplified and easy tasks in their applications and design.。

3. Competitions

For quite some time Taiwan electronics industry usually take the OEM fashion to function as a supplier to world's largest electronics and information technology companies. Applying Taiwan's capital, technical skills, labor or other market unique advantages that takes the advantages of "global labor division"、"regional labor division" to achieve the vertical integration purpose。With the advance of Taiwanese electronics manufacturer's technical level, their business operatios have transformed from the parts assembled in the early days, to the OEM, and even promoted to the ODM scale. In order to gain a more added value, many Taiwan electronics companies, reposition their value chain locations, and have gradually extended themselves from manufacturing to product R&D, design and even further to sales and marketing, post-sale and brand management; and amid the global work divisions, have stance in a unique place . The major global companies with their procurement arranging, are team with Taiwan electronics companies in value creations; and themselves would be able to intend more on their brand and sales management. This ends up in a win-win situation for both parties。

With Taiwanese electronics industry forms in the nature cluster groups, and it thus has a demand of 25% of the global crystal component product. But Taiwanese manufactures can only produce no more than the 10% of total global production, and this domestic market would provide growing space for Taiwanese companies. But the crystal component industries are in the border of oligopoly competition since the five largest manufacturers in the world have a total combination of production of 50% and more. This illustrates the great differences of the manufacturers in this industry, and this can be said it is a oligopoly competition market. But because the wide applications of the products, each manufacturer emphasizes its own product and the market. The lower end, and mature market has a stronger tendency in cutting price to competition. This results a very strong competition market。

In the global crystal component industry, Japan is still the largest producer and it has about 65% of the worldwide productions. Our domestic competitors are SiWard Crystal Corporation, EChina Technology, Harmony Electronics and Tai-Saw Technology. Each corporation differentiates by specializing in different products and market. Our company has the highest market share which demonstrates our leading role in the crystal component industry。

4. Technology and Recent Research and Development

(1) Ratio of R&D expense in Total Operating Cost during recent years up to 2006.03.31

units：NT$ 1,000's，%

Year	2004	2005	2006.03.31
Net Operating Cost	2,883,640	3,438,735	1,041,684
Cost for Research and Development	102,201	114,374	27,447
R&D cost/net operating Cost(%)	3.54	3.33	2.63

(2). Research and Development Results

Products development	1. SMD Seam Crystals 2.5 × 2.0 mm 24~54 MHz for handset application 2. SMD Tuning Fork 4.1 x 1.5 mm 32.768 KHz for real time clock 3. SMD Seam CXO 3.2 × 2.5 mm 12~48 MHz for media, WLAN, digital camera, blue-tooth and other applications. 4. SMD Seam CXO 2.5 x 2.0 mm 4~54 MHz for media, WLAN, digital camera, Bluetooth applications. 5. SMD High Fundamental Frequency LVDS/LVPECL CXO 7.0 × 5.0 mm 155~187 MHz for Networking application 6. SMD Programmable CXO 7.0 × 5.0 mm for variable applications. 7. SMD 3.2 x 2.5 mm TCXO for GPS application 8. SMD VCSO 7.0 × 5.0 mm dual frequency for Networking application 9. SMD SAW Resonator 368MHz
Patents and Academic publications	1. " Packing Structure and Component Installation Method for Oscillator " patent in Taiwan and USA 2. "Development of Voltage-Controlled SAW Oscillator (VCSO) for Fiber-Optic Communication System," 2005 Communication Electronic Technology and Application (CETA 2005) College of Marine Engineering, September 2005, National Kaohsiung Marine University. 3. S.Y. Pao, M.K. Chao, C.H. Chiu, C.S. Lam, and P.Z. Chang, "Beveling AT-cut Quartz Resonator Design by an Efficient Numerical Method," 2005 Proc. IEEE Frequency Control Symposium, pp.1848-1851, 2005.

5. Long and short term sales and marketing plan

(1). Short term Development Plan

(a). Sales and Marketing Strategy：

- Affirm the IT industry，take on the communication industry，and engage the automobile industry。
- From the major domestic clients out of the main industries，then slot in the global Tier 1 clients，and eventually align with global major companies。
- Target the industry and clients，start from the Deign in, to secure the business opportunities and time and to promote the profitability。
- In addition to the continuous strengthening the sales activities in North America and China, more aggressively in expanding market territories in Japan, Kprea, and Europe.。
- Strengthening the Marketing PM functions，that to fulfill the pre-sale operations and planning。
- Construct a complete global Logisticnetwork, that would meet clients' delivery on time needs, and also provides clients' technical integration services in real time basis。
- An overall strategy to improve the revenue and enhance profitability, Staretgy and policy need to be adjust or change with the shifting of external factors。

(b). Manufacturing Strategy：

- Time to Volume，Time to Market. Orders taking and planned production policy run in parallel，delivery on time，and have the appropriate amounts of products in stock。
- Taiwan plant is mainly used to produce high end products; whereas NGB, China plant is more tailored to the mature and highly competitive products. This different approach is in consitent with our overall maintaining or promoting our competitiveness。
- Seeking for high operating efficiency of our equipments, and the "zero" idle time. Challenging and also fulfill our projected production rate. Actively to improve as well as maintaining our stability and growth。
- Strictly follow company's manufacturing policy to achieve the "Zero Defect" target，based on the believe that quality comes from the manufacturing, the entire unit needs to carry out thoroughly。
- Collaborate the Outsourcing policy，helping and assisting with all of our efforts to our outsourcing partners that their products meet the quality requirements and the market needs. This would enable us in projecting an overall production rate。
- Targeting the "ideal cost"，by using the "comparing cost" as the base，gradually improve monthly until the cost becomes reasonable。
- An effective operation, management; and well organizedin driving the business projects。

(c). Quality Assurance Strategy：

- The manufacturing specification needs to become systematic，control of the DCC and its actual implementation。
- Adhere the ISO 9001、ISO 14000、QS 9000、TS16949 systems as well as monitoring and improving our major clients' quality system, pursuing and actual implementations。
- Executing KPI audit, supervising, and improvement of all the divisions. Place more emphasis on the manufacturing unit, such as Practical environment、SOP manufacturing process、CPK、SPC of the end products etc. The primary responsibility would be monitoring the product quality。

- Drive the TQM and 6-Sigma concept，promote the overall clients' satisfaction level。
- Strengthening QA department's engineering ability. They would have the technical ability to handle these IPQC, OQC inquires. They will also be effectively in handling the needed service to vendors, manufacturing units, and clients as well。
- To our suupliers and outsourcing partners we need to further raise their quality requirements and management level. Looking for the SCM system implementation，and further in link up with global companies。
- Managing and executing the instruments calibrations of Taiwan and China's plants. Fulfill the demand of quality certificate from our important client Golden Sample; and this would reduce any disagreement and waste of the resources。

(d). Product R&D Strategy：

- According to the marketing & sales strategy and needs; we need to map the direction of the product that it should go. We will aim the product's specifications meet the clients' needs.
- According to the new specifications from the clients, our RD or engineering can provide the product within the scheduled time frame that will help us to win the business opportunity。
- According to our business strategy and planning; our RD will fix on the product development or work as team with other company in the industry that we could bring the new product to the market。
- Execute the scheduled progress RD project management，effectively monitoring and managing the RD development that to shorten the RD time。
- Continuously to strengthen the RD staff, conduct the effective training and upgrade the overall professional attribute。
- Have an effective RD management practice, reasonable reward system, and to motivate the group's efficiency and attitude。

(2). Long term development

- Assertively developing the applications of SDH-SONET(synchronous fiber optics transmission) and frequency controlled component used in terminal communications。
- Actively developing frequency controlled component used in automobile accessories; and the primary goal would be their converge to the strict high quality requirements。
- Continuously expanding sales and services offices. Need to strengthen the marketing & sales phase in Europe and North America; and to add the marketing & sales centers in South China (ShenZhen), East China (Soochow, Shanghai), and North China (Beijing). These newly added sales centers in China will provide the market needs and service for the Taiwanese business and overseas companies that are investing manufacturing in China. It can also expand the China market share and setup as a foundation for future expansion in China. Eventually the above approach will help us to position into the top five worldwide of the crystal components manufacturers。
- Continuously seeking alliance that would provide good joint opportunities, and this would strengthen our overall competitiveness。

B、Marketing & Sales Situation

1、Market Analysis

(1). Market for our major products

The product trend is toward to small and light . The products that use the SMD crystal will have a higher percentage than others. In the future, Asia still is the major OEM center, and the products from Asia are still very high. TXC would still need to work hard on the market expansion in America and Europe。

Regional sales distribution of our major products in the past two years：

unit: NT$ 1000's

Region / year	2004		2005	
	$ dollars	%	$ dollars	%
America	160,883	5.58	155,400	4.52
Europe	16,506	0.57	60,950	1.77
Asia	1,814,354	62.92	2,078,080	60.43
Domestic	891,897	30.93	1,144,305	33.28
Total	2,883,640	100.00	3,438,735	100.00

(2). Market share

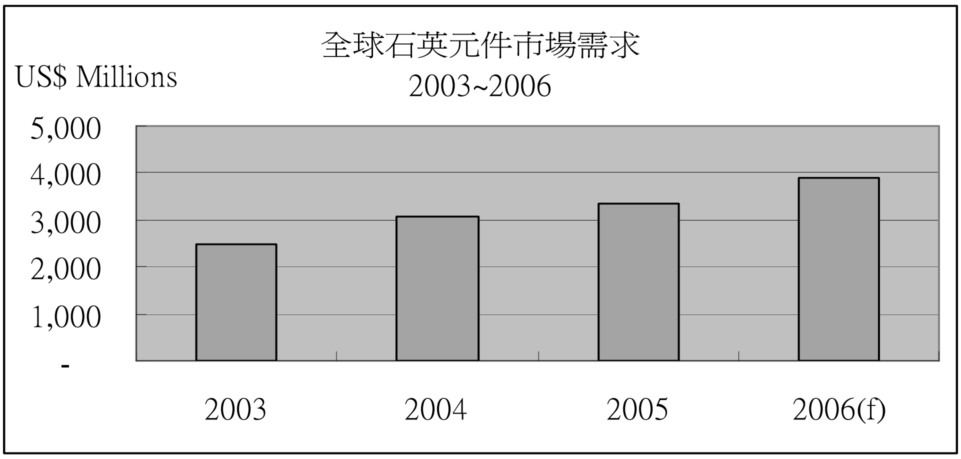
unit：million USD$

Corporation	2003		2004		2005	
	revenue	Market share	revenue	Market share	revenue	Market share
NDK	407	16.3%	478	15.6%	565	17.0%
Epson-Toyocom	495	19.8%	570	18.7%	502	15.1%
KED	329	13.2%	334	10.9%	343	10.3%
KDS	258	10.3%	267	8.7%	325	9.8%
Vectron(Corning)	165	6.6%	183	6.0%	200	6.0%
TXC Technology	64	2.6%	92	3.0%	116	3.5%
Harmony Electronics	40	1.6%	52	1.7%	83	2.5%
Siward Crystal	28	1.1%	38	1.2%	40	1.2%
Tai-SawTechnology	16	0.6%	24	0.8%	29	0.9%
Others	698	27.9%	1,018	33.4%	1,282	33.7%
Worldwide total	2,500	100.0%	3,056	100.0%	3,333	100.0%

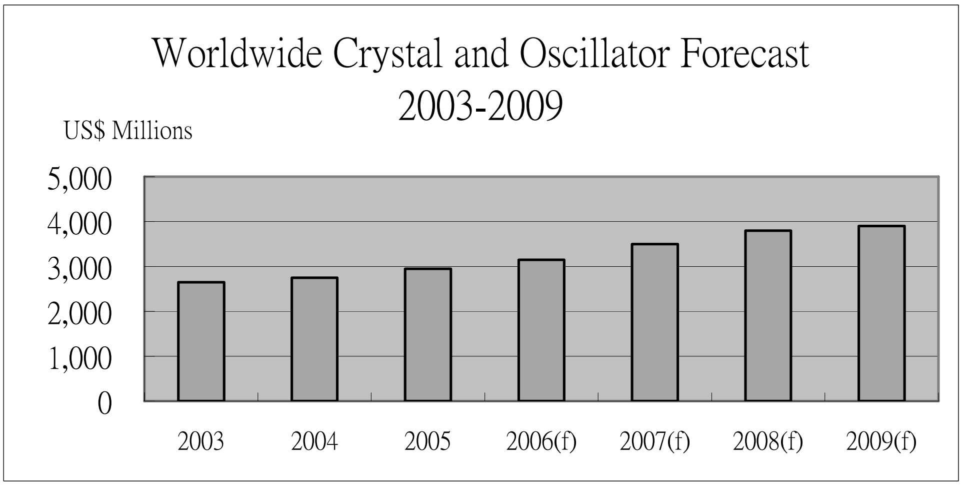
source：each company's financial statement。

(3). Market future demand and supply condition, and its growth potential

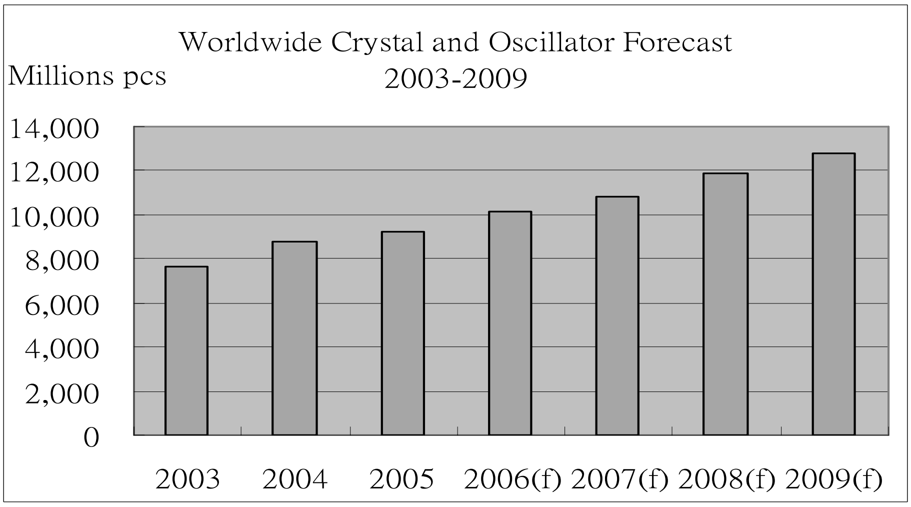
(a). Demand side



2003-2006worldwide crystaland oscillator demand
(source：IEK -2006/02)



2003-2009worldwidecrystal and oscillator forecast
(source：iSuppli)



2003-2009 worldwide crystal and oscillator forecast
(source：iSuppli)

IEK has made an estimate of the crystal components used in the total number of terminal products at the major application market, and the average crystal components be used in the products and has resulted the forcast demand for the crystal components. On the other hand, iSuppli, categoried the products, and, the crystal components needed for the different category product, and they came out their estimate for global crystal components sales. From the above data, we can see that from 2002, the global crystal component market has illustrated that it has been in a steady and upswing direction in terms of either the demand or the quantities sold. Up to 2005 the annual crystal components total demands will be more than 9.2 billion units. The demand growth rate between 2003 and 2004 is estimated to be 15%; whereas the growth between 2004 and 2005 is about 5%. According the forcast made by iSuppli, the global sales of crystal components and oscillators in 2008 will reach US$ 3.8 B, with a 7% annual compounded growth rate. According to the study from IDC of the electronics technology industry, they estimated that from 2003 to the following five years there would be a 7.1% compounded annual growth rate in the global information technology market。

By combining the market prediction from iSuppli and IDC，we know that from the growth path, the global crystal components has a steady growth needs. Meanwhile, we have also seen the extension of the information technology applications to other areas such as the automobile frequency component, automobile used remote keyless entry, Electronic Toll Collector (ETC), automobile guide system, tire pressure detection system, the safety bag, and the constant temperature monitoring etc。These applications are possible by using the “wireless”, “computer”, and “sensor” to achieve the system control. “Electronics” has made a major leap in creating the differentiation and “value-added” of the automobile industry; and it also promotes a rapid advance in the electronics-automobile application and development. According the estimate made by IC Insights，in 2010 an average automobile would have 40% electronics products. In 2008, the annual auto electronics industry will reach a magnitude of USD$ 166B dollars. And IEEE estimated that by 2010, 40% of an automobile costs will come from the electronics parts. Clearly, the 4C (car) demand has become stronger. In the communication market, recent users are seeking more upgrade of their mobile phones for having multifunctional use, and they are looking for a phone can be used as camera or color monitor attribute. According to the estimate by iSuppli, in 2004, 73% of the global mobile sales came from users’ upgrade. In 2008, the new functional mobile phone might take 90% of the total mobile phones. Even crystal can be applied in the bio-monitoring use, there is the bio technology company uses the microelectronics package technology to develop its application in blood screening. From the demand side, the demand of crystal components in the next few years is relatively stable。

(b) Supply side

From the supply side, Japan has 65-70% of the global production, and it is the largest worldwide supplier. Taiwan, Europe, USA, Korea, China and other regions have a total of 30-35% of the global production. However, Taiwan has the highest density of the electronics industry and has a crystal components need of 25%+ of the global production, yet, Taiwan only produces less then 10% of the total global production. Hence, it is expected as long as the domestic manufacturers can promote their manufacturing technology and product quality, there would still be space for the domestic market growth.

(c) Market growth

iSuppli predicted that up to 2008, the global market for crystal components and oscillators would reach a revenue of USD$ 3.8 B dollars, and with a 7% annual growth rate.。A market estimate of the electronics industry made by IDC that after 2003, for the following five years, the global electronics industry will have an estimate of 7.1% compound annual growth rate。

As the crystal component is a vital part of the information technology product, and with the continuously growing of the application products in the market, it is believed the demand of the crystal component should show a growth trend, coupled with the growth of the information technology market。

In summary，with the global 3C industry tends to assimilate, the new products are keeping coming out, and by combining the current high development of the 4C (car) industry，it is expected the needs of the crystal component would maintain a certain level. The Taiwanese crystal components manufacturers, with the continuous demand growth, higher technology level and strengthened supply ability, will see a prosperous growth future.

(4). Niches competition, the advantages/disadvantages of the future development, and the response strategies.

SWOT analysis

Advantages	Disadvantages
1. Have been in the industry for long time, and a higher market share, have good knowledge of customers and their production base, can team with their design and technical service。 2. High flexible in adjust production line, has large and complete capability in production lines, excellent manufacturing improvement ability, efficient in production, and good competitness in unit cost。 3. Global operation management, fast product delivery, a good customer service team, wide product line, can satisfy clients' one stop shop。 4. High technical in vertical integration; better quality management and fast response in proposing total solution to clients application needs。	1. Need to develop the Europe, Japan and Korea market, and insufficient channel in America。 2. Insufficient guidance in areas of critical materials, equipment development。 3. Extent of Automation is limited in the front end manufacturing process。 4. High requirements for the communication and automobile quality requirements 5. Insufficient application researchers in the communication and automobile industries。

<table>
<tr><th>Opportunities</th><th>Threatens</th></tr>
<tr><td>1. Plants in China can provide products easily to the nearby downstream clients。
2. Low cost mobile phone and color monitor mobile phones becomes popular which will boost the product demand。
3. With the new products replace the older model, and will increase the needs of the crystal components。
4. Wirelesscommunication grows rapidly and the future growth of Wireless LAN, Blue-toothis expected。
5. Automobile industry is very large, and it will have a high demand of the product in future。</td><td>1. Competitors takeaway orders with lower price。
2. Japanese manufacturers still have the advantages of crystal products used in mobile phone and automobiles, and the entry level is high。
3. Some clients, with the cost considerations, might switch high end products to cheaper lower end products。
4. With cost consideration, when clients design the end application products, they tend to integrate (or reduce) the number of crystal components used。</td></tr>
<tr><th colspan="2">Respond Strategies</th></tr>
<tr><td colspan="2">1. Enhance abroad sales teams，actively seeking Europe, USA,Japan and Korea etc Tier 1 clients。
2. Set manufacturing plants in China, train material handling/ automatic professionals in China。
3. Continuously to hire domestic trained as well as from abroad the research scientists and professionals in the communication and automobile parts industries.
4. Create more advantageous products，may take strategic alliance and partnership in some of the products for cost reduction。
5. Enhance product R&D ability，develop smaller size and high end products that to improve the overall profitability。
6. Enhance the development of quartz crystal modularized products。</td></tr>
</table>

2、Major products' important applications and their manufacturing process

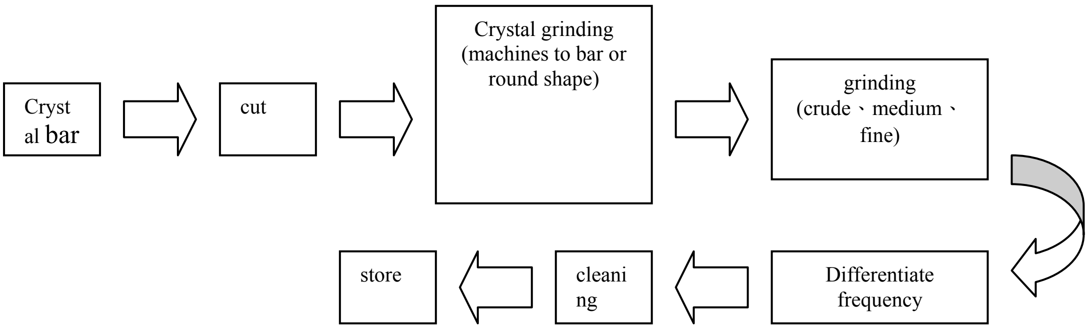
(1). Major products' important applications

Crystal components product		Major Applications
Crystals		Mobile phone、 wireless equipment、、W-LAN、wireless telephone、bluetooth、telephone terminal equipment 、 intelligent transport(ITS) 、 car accessories、LCDprojector、coping machine、computer 、 printer 、 scanner 、 audio-visual equipments、camera、games、beeper
Crystal Oscillators	CXO	base、wireless equipments、W-LAN、coxial cable communication、fiber optics communication、telphony terminal equipments 、 counter/sythesizers、intelligent transport(ITS)、computer、storage device、printer、audio-isual device、camera、games
	VC-TCXO、TCXO	Mobile phone 、 base 、 wireless equipment 、 satellitecommunication 、 W-LAN 、 bluetooth 、 global positioning systems 、 coaxial cable communication、fiber optics communication
	VCXO	base 、 wireless equipments 、 satellite communication 、 W-LAN 、 coaxial cable communication、fiber optics communication、phony terminal equipment、counter/synthesizer
	OCXO	base 、 wireless equipments 、 satellite communication、global positioning systems、coaxial cable communication 、 fiber optics communication、counter/synthesizer
Filters	Crystal Filters	Mobile phone、base、wireless equipments、beeper
	SAW Filters	Mobile phone、wireless equipments、W-LAN、wireless telephone、global positioning systems

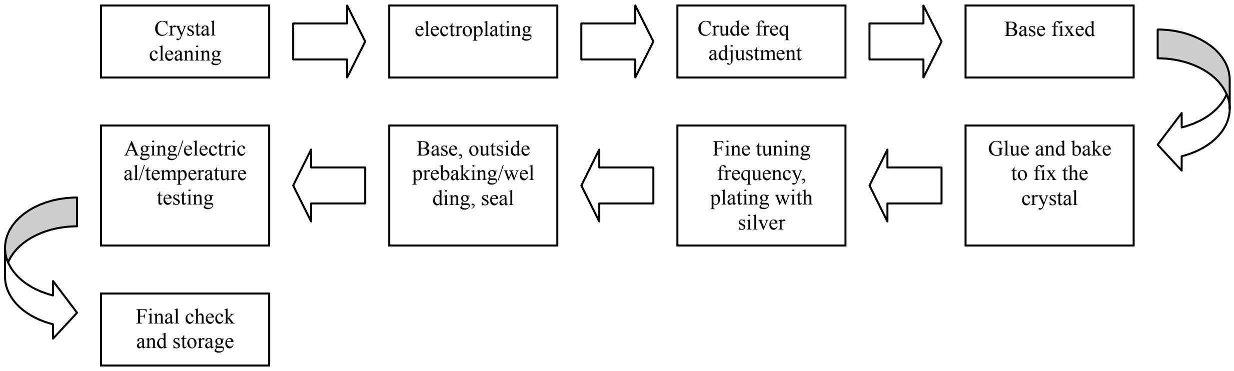
(2). Manufacturing Process

Steps for crystal components manufacturing are: first we need to manufacture the quartz crysal needed for the electrical material. It involves the cutting, polish, cleaning of the wafer form. Then with the mechanical arms to place the wafer on the base and fixed with the silver based glue. Then package it under vaccum. For oscillator then we need to add a layer IC beneath the crystal. By the metal conductvity property, we could control the crystal oscillation properties。

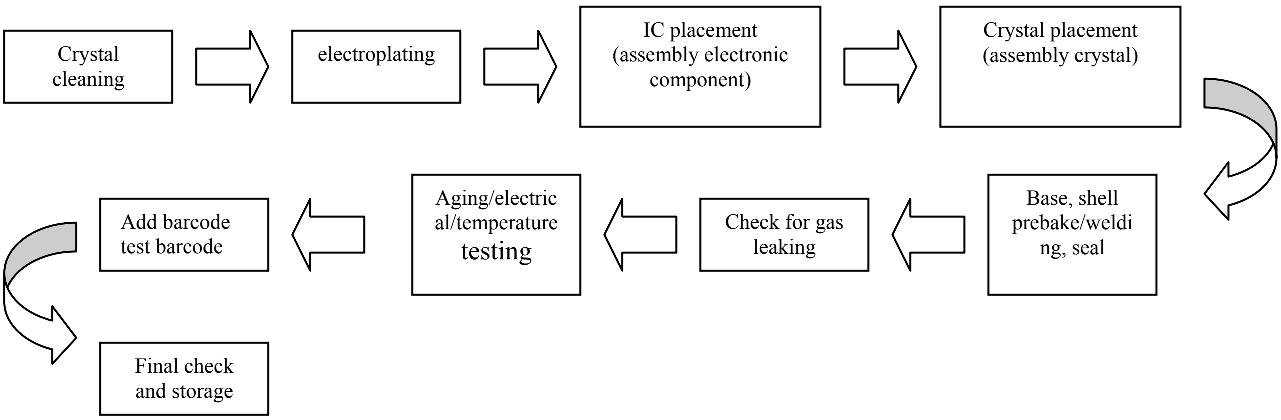
(a). Pre-manufacturing process—quartz crystal (During the entire manufacturing process, there is a loss of 20% of the quartz materials.)



(b). Post-manufacturing process—quartz crystal (use silver, gold, nickel for electroplating, and the process would reduce crystal frequency. Fine tuning the electroplating that would reduce frequency error to 3~10ppm)



(c). Post manufacturing process—crystal oscillator (use silver, gold, nickel for electroplating, and the process would reduce crystal frequency. Fine tuning the electroplating process that could reduce frequency error to 3~10ppm)



(3)、State of the major materials suppliers

The major materials for crystal and crystal oscillators include the base, wire bond, IC package, crystal slice and crystal bars。

(a). All the materials come from the at least three suppliers, and this would minimize the risk of all materials coming from a single supplier. Our company's procurement depends on the buying terms, state of supply, and specifications; before the materials to be ordered. And, it also depends on some special conditions that we would adjust the ratio of buying materials and this approach would help us not too concentrated the ordering from a single supplier, or running the risks of the orders being interrupted。

(b). All the suppliers have long term relationship with us. And, our friendship is good. With our company is growing strongly, these suppliers would also take highest priority to satisfy our company needs。Annually, we also meet with our suppliers on regular or irregular base to review our purchasing terms and any room for the improvement. This also helps a stable and continuous relationship in the materials supply。

(c). In considering the steady material supply, our company will provide the Rolling Forecast，to the suppliers and the production preparations. This can shorten the delivery time and an assurance of on time delivery. If there is any unusual situation, these suppliers will accommodate our needs to assure a stable supply.

(4)、The ten largest suppliers and customers of the past two years

(a). Ten largest suppliers

unit：NT$1,000

2004			2005		
Company	amount	The Percentage of annual procurement (%)	Company	amount	The Percentage of annual procurement (%)
GROWING PROFITS	413,773	20.9%	GROWING PROFITS	403,015	19.0%
SUMITOMO METAL	256,529	13.0%	EAST CRYSTAL	244,367	11.5%
EAST CRYSTAL	210,576	10.7%	SEIKO ISTRUMENTS	199,450	9.4%
KYOCERA ASIA	164,041	8.3%	FAITH VICTORY	188,816	8.9%
SEIKO ISTRUMENTS	150,424	7.6%	KYOCERA ASIA	158,219	7.5%
ASIALINKS JAPAN	104,475	5.3%	SUMITOMO METAL	150,161	7.1%
HUILONG ECECTRONIC	64,200	3.3%	TROQ ELECTRONIC	117,936	5.6%
FAITH VICTORY	52,844	2.7%	PRINCETON TECHNOLOGY	80,854	3.8%
TROQ ELECTRONIC	50,314	2.5%	HUILONG ECECTRONIC	69,729	3.3%
CHANGXING ECECTRONIC	48,025	2.4%	TAIWAN CRYSTAL SUPERIOR TECHNOLOGY	47,893	2.3%

(b). Ten largest clients

unit：NT$ 1,000's

2004			2005		
Name of client	amount	Percentage of annual sale (%)	Name of Client	amount	percentage of annual sale (%)
QUANTA COMPUTER INC.	322,733	11.36%	QUANTA COMPUTER INC.	403,179	11.72%
ASUSTEK COMPUTER INC.	232,708	8.19%	HON HAI PRECISION IND. CO.,	281,940	8.20%
SEAGATE TECH	135,894	4.78%	ASUSTEK COMPUTER INC.	258,444	8.20%
MOTOROLA BCS	130,274	4.59%	INVENTEC CORPORATION	216,774	6.30%
HON HAI PRECISION IND. CO.,	128,316	4.52%	Compal Communications Inc.	176,036	5.12%
INVENTEC CORPORATION	124,024	4.37%	MOTOROLA BCS	155,737	4.53%
MITAC INTERNATIONAL CORP.	120,791	4.25%	PREMIER IMAGE TECHNOLOGY	114,366	3.32%
Compal Electronics, Inc.	112,643	3.96%	SEAGATE TECH	113,404	3.30%
EAST CRYSTAL ELECTRONIC CO.	100,592	3.54%	MITAC INTERNATIONAL CORP.	110,190	3.20%
JYI SHEN INDUSTRIAL CO., LTD.	74,574	2.62%	Compal Electronics, Inc.	94,311	2.74%

(5) 、Production and monetary values for the past two years

unit: 1000's，$1000's

Year / Major products	2004			2005		
	capacity	Production	value	capacity	production	value
DIP Crystal product	260,000	257,835	559,511	320,000	304,498	514,129
SM Crystal products	350,000	312,221	1,686,164	400,000	365,066	2,107,429
Others	-	-	105,618	-	-	217,341
Total	610,000	570,056	2,351,293	720,000	669,564	2,838,899

(6) 、Volumes of sales and monetary values of the past two years

unit1000's， $1000's

year / Major products	2004				2005			
	Domestic sales		export		Domestic sales		Export	
	quantity	value	quantity	value	quantity	value	quantity	value
DIP Crystal product	75,911	205,867	177,127	480,355	65,125	160,032	220,442	493,455
SM Crystal products	90,709	686,030	211,655	1,394,110	72,401	984,273	295,084	1,666,675
Others	-	-	-	117,278	-	-	-	134,300
total	166,620	891,897	388,782	1,991,743	137,526	1,144,305	515,526	2,294,430

C、Employees' average years in service, age, and educational background distribution of the past two years

Year		2004	2005	2006/03/31
Total number employees	engineer	120	137	146
	administrative	130	163	153
	Sales	42	55	63
	Technicians/operators	298	335	355
	total	590	690	717
Average age		33.50	33.51	33.59
Average years in service		3.95	3.82	3.85
Distribution of educational background	Ph.D.	0.68%	0.72%	0.84%
	M.S.	6.95%	6.96%	6.83%
	B.S.	53.56%	52.03%	51.05%
	High School	35.09%	36.81%	37.94%
	Below High School	3.72%	3.48%	3.34%

D、Data on our environmental protection expense

1 Total loss of the past two years from the environmental pollution, penalty; and the future response and its possible expenses ： no

2. The environmental protection regulatory requires the permit for pollution control equipments, or the permission to discharge, or a fee charged for the pollution prevention, or designated personnel for the environment protection affairs. To illustrate the filing, pay fee or implementation as follows:

Item	Description
Permit for air pollution equipment	has applied to Taoyun county, environ protection agency
Paid fee for pollution prevention	monthly pollution treatment fee is about NT$100,000
Designated environment protection personnel	According to law, our company doesn't need to designate personnel for environment protection affair

Our Pinzhen plant is responsible for the manufacturing of crystal and microelectronics products. We have already paid attention to the noise level; and have taken precautious in dealing with the possible pollution from the dust from grinding, and waste. We have implemented the water treatment plant to deal with the waste water from the grinding operations. The treatment plant is certified and we also receive certificate to release the treated water. Our Peitou plant deals only with testing and packaging, and will not cause any pollution.

Our green product policy:

The protection of our planet is a common topic in the 21 century for all the mankind. To believe in the protection of our planet and the creation of a well living environment for our future generations, and it is the corporate responsibility to protect the environment as well as maintaining a health living environment for all living life. TXC also carries the social duty, and we are actively engaging the environment management activities.

- ■Pursue the most restrict environmental regulations or, follow our clients' green standard, and then we will take them as TXC green product standard. It will make TXC the best partner with our clients。
- ■You need to document the environment guidelines. We will drive training sessions on the environmental protection topics, and our employees must have a good understanding and knowledge on the environmental protection issues。
- ■ With the help of company activities we will assure that our green products meet the quality requirements, or even exceed the green products' quality requirements。
- ■Regularly auditing, managing review; and continuously improve the environment management system。
- ■We need to design the green products. And the long lasting of any company operations will depend on the environmental protection focusing and customer satisfaction focusing。

In addition, in order to meet the RoHS requirements, or the European Union's environmental protection regulations, our company has also concentrated on the green product requirements. We have completed the updated of the ISO14001(2004); and in February 2006, with the efforts from all of our employees, we were certified SONY's Green Partner (GP) auditing; and have become one of their green partners. In future we will assist our suppliers; and we both will work together on the improvement of the management of the environment materials.

Status of our products reponse to European Union environmental protection regulatory by our export directly and indirectly to Europe：

	Under investigation	Under improvement	Completed
product 26 items	0	0	26
components 5 piece	0	0	5
suppliers 24 numbers	0	0	24

RoHS progress in responding of EU′s environmental protection regulatory 100 %

IV. An Overview of the Company's Financial Status

A. Abbreviated Balance Sheets and P/L Statements for the Past 5 Years

(1)、Abbreviated Balance Sheets

Unit：NT$ 1,000

Item \ Year		Financial information for the post 5 years					
		2001	2002	2003	2004	2005	Up to 2006.03.31
current assets		1,389,305	1,304,082	2,025,924	1,920,141	2,212,806	2,508,929
long-term equity investments		153,764	183,459	411,191	517,397	856,082	876,090
Property, plant and equipment		1,125,815	1,250,064	1,189,022	1,268,713	1,274,863	1,340,366
Intangible assets		-	-	-	7,396	7,947	7,947
Other assets		25,899	29,102	22,069	95,632	86,849	100,217
Total assets		2,694,783	2,766,707	3,656,148	3,809,279	4,438,547	4,833,549
current liabilities	Before distribution	782,055	714,593	1,080,174	962,358	1,022,552	1,078,255
	After distribution	782,055	714,593	1,080,174	962,358	Note 2	-
Long-term liabilities		199,029	210,803	614,127	559,818	410,499	554,089
Other liabilities		5,164	5,450	4,742	3,512	4,201	5,788
Total liabilities	Before distribution	981,084	930,846	1,699,043	1,525,688	1,437,252	1,638,132
	After distribution	981,084	930,846	1,699,043	1,525,688	Note 2	-
Common stock		1,203,485	1,376,731	1,441,405	1,607,847	1,861,987	1,889,088
Capital surplus		358,960	299,209	295,691	369,246	496,842	514,726
Retained earnings	Before distribution	211,286	154,436	220,418	340,585	633,770	785,093
	After distribution	71,345	77,912	82,430	153,302	Note 2	-
Unrealized gains on financial instruments		-	-	-	-	-	208
Cumulative translation adjustments		8,338	5,485	-409	-34,087	8,696	6,302
Total stockholders' equity	Before a distribution	1,713,699	1,835,861	1,957,105	2,283,591	3,001,295	3,195,417
	After distribution	1,686,830	1,820,493	1,908,809	2,197,441	Note 2	-

Note 1：The financial statements of TXC Corporation were audited and certified by CPA.

Note 2：Up to 2006.03.31，The retain earnings of 2005 has not yet admitted by the stockholders' meeting.

(2)、Abbreviated P/L Statements

Unit：NT$ 1,000

Item \ Year	Financial information for the post 5 years (Note 1)					
	2001	2002	2003	2004	2005	Up to 2006.03.31
Net operating revenue	1,957,014	1,768,321	2,173,059	2,883,640	3,438,735	1,041,684
Gross profit	425,142	262,356	383,872	571,224	868,411	251,175
Operating income	220,658	72,844	135,015	268,522	512,868	153,926
Nonoperating income and gains	46,147	56,166	55,797	97,280	183,415	51,078
Nonoperating expenses and losses	70,236	66,554	61,668	111,557	166,316	30,903
Income before income tax	196,569	62,456	129,144	254,245	529,967	174,101
Net income before cumulative effect of change in accounting principles	166,049	83,091	142,506	258,155	480,468	168,590
Cumulative effect of change in accounting principles	-	-	-	-	-	-17,267
Net income	166,049	83,091	142,506	258,155	480,468	151,323
Earnings per share	1.45	0.60	1.01	1.63	2.73	0.81

Note 1： The financial statements of TXC Corporation were audited and certified by CPA.

B、Financial Analysis for the past 5 Years

Item			Year: Financial Analysis for the past 5 Years					
			2001	2002	2003	2004	2005	Up to 2006.03.31
Capital Structure Analysis	Debt ratio (%)		36.41	33.65	46.47	40.05	32.38	33.89
	Long-term fund to fixed asstes ratio (%)		169.90	164.16	216.25	224.12	267.62	279.74
Liquidity Analysis	Current Ratio (%)		177.65	182.49	187.56	199.52	216.40	232.68
	Quick Ration (%)		124.51	112.87	129.09	135.18	151.32	164.70
	Times interest earned (%)		550.65	367.32	924.62	1,730.51	1,220.56	4,561.85
Operating performace Analysis	Average collection turnover(times)		2.94	2.78	3.06	3.00	2.88	3.58
	Days sales outstanding		124	131	119	122	127	101.95
	Average inventory turnover(times)		3.51	3.57	3.71	4.25	4.45	5.48
	Average payment turnover(times)		3.85	4.11	3.87	4.66	4.17	5.27
	Average inventory turnover(days)		104	102	97	86	82	66.61
	Fixed assets turnover(times)		1.74	1.41	1.83	2.27	2.70	3.24
	Total assets turnover(times)		0.73	0.64	0.59	0.76	0.77	0.97
Profitability Analysis	Turn on total assets (%)		7.60	4.18	4.80	7.23	12.51	3.59
	Turn on total equity (%)		11.53	4.68	7.51	12.18	18.18	5.38
	Paid-in capital ratio (%)	Operating income	18.33	5.29	9.37	16.70	27.54	8.15
		Pre-tax income	16.33	4.54	8.96	15.81	28.46	9.22
	Net margin (%)		8.48	4.70	6.56	8.95	13.97	14.53
	Earnings per share(Basic) Note I		1.02	0.51	088	1.48	2.73	0.81
	Earnings per share(Diluted) Note I		1.01	0.50	0.86	1.37	2.64	0.80
Cash Flow	Cash flow ratio (%)		39.17	36.11	2.59	16.78	67.21	10.62
	Cash flow adequacy ratio (%)		41.12	53.51	44.94	49.30	99.76	-
	Cash flow reinvestment ration (%)		13.45	9.15	0.55	3.35	14.72	2.55
Leverage	Operating leverage		7.18	3.42	2.43	1.81	1.45	-
	Financial Leverage		1.25	1.47	1.13	1.06	1.10	1.02

Note I：The financial statements of TXC Corporation were audited and certified by CPA. EPS is before retroactively adjust.

NoteII：Glossary：

1. Capital StructureAnalysis
   (1) Debt ratio＝Total liabilities／Total assets
   (2) Long-term fund to fixed asstes ratio＝（Total stockholders' equity＋Long-term liabilities）／Net Fixed Assets
2. Liquidity Analysis
   (1) Current Ratio＝current assets／current liabilities
   (2) Quick Ration＝（current assets－Inventories－Prepaid expenses）／current liabilities

(3) Times interest earned＝Earnings before interest and taxs／Interest expenses

3. Operating performace Analysis

(1) Average collection turnover＝
Net sales／Average trade Receivables

(2) Days sales outstanding＝365／Average collection turnover

(3) Average inventory turnover＝Cost of good sold／Average inventory。

(4) Average payment turnover＝Cost of good sold／Average trade Payables

(5) Average inventory turnover(Days)＝365／Average inventory turnover

(6) Fixed assets turnover＝Net sales／Net Fixed Assets

(7) Total assets turnover＝Net sales／Total assets

4. Profitability Analysis

(1) Turn on total assets＝〔Net income＋Interest expenses×(1－Effective tax rate)〕／Average total assets。

(2) Turn on total equit＝Net income／Average stockholders' equit。

(3) Net margin＝Net income／net sales。

(4) Earnings per share＝（Net income－Perferred stock dividend）／ Weighted average number of shares outstanding

5. Cash Flow

(1) Cash flow ratio＝Net cash provided by operating activities／current liabilities

(2) Cash flow adequacy ratio＝Five-year sum of cash from operations／Five-year sum of capital expenditures, inventory additions, and cash dividend.

(3) Cash flow reinvestment ration＝(Cash provided from operating activities – Cash dividend) ／（Grosss fixed assets + investment + Other assets + Working capital）

6. Leverage

(1) Operating leverage＝（Net sales – Variable cost）／Income from operations

(2) Financial Leverage＝Income from operations ／（Income from operations－Interest expenses）

C. Financial Statements for the most Recent years, including an auditor's Report Prepared by a CPA

TXC CORPORATION

Financial Statements for the Years Ended December 31, 2005 and 2004 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying balance sheets of TXC Corporation (the "Corporation") as of December 31, 2005 and 2004 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, the Corporation adopted the Statement of Financial Accounting Standards No. 35, "Accounting for Impairment of Assets," on January 1, 2005.

We have also audited the consolidated financial statements of TXC Corporation and subsidiaries as of and for the years December 31, 2005 and 2004, and expressed an unqualified opinion with explanatory paragraph on such financial statements.

March 13, 2006

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

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to 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. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

TXC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

ASSETS	**2005 Amount**	**2005 %**	**2004 Amount**	**2004 %**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 212,986	5	$ 204,718	5
Short-term investments, net (Notes 2 and 5)	60,000	1	-	-
Notes receivable, net (Note 2 and 6)	85,329	2	34,349	1
Accounts receivable, net (Notes 2, 6 and 20)	1,188,974	27	1,061,863	28
Inventories, net (Notes 2 and 7)	587,633	13	544,854	14
Other current assets	77,884	2	74,357	2
Total current assets	2,212,806	50	1,920,141	50
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 8)				
Equity method	853,082	19	514,397	14
Cost method	3,000	-	3,000	-
Total long-term equity investments	856,082	19	517,397	14
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 21)				
Cost				
Land	157,040	4	157,040	4
Land improvements	442	-	377	-
Buildings	272,793	6	262,903	7
Machinery and equipment	1,453,138	33	1,400,981	37
Transportation equipment	2,557	-	2,128	-
Miscellaneous equipment	67,945	1	50,600	1
Land - revaluation increment	8,954	-	8,954	-
	1,962,869	44	1,882,983	49
Less accumulated depreciation	(700,041)	(16)	(621,308)	(16)
Prepayments for purchase of equipment	12,035	1	7,038	-
Property, plant and equipment, net	1,274,863	29	1,268,713	33
INTANGIBLE ASSETS				
Pension prepayments (Notes 2 and 14)	7,947	-	7,396	-
OTHER ASSETS (Notes 2 and 3)	86,849	2	95,632	3
TOTAL	$4,438,547	100	$3,809,279	100

LIABILITIES AND STOCKHOLDERS' EQUITY	**2005 Amount**	**2005 %**	**2004 Amount**	**2004 %**
CURRENT LIABILITIES				
Short-term loans (Notes 11 and 21)	$ 165,208	4	$ 377,996	10
Notes payable (Note 20)	52,422	1	27,748	1
Accounts payable to third parties (Note 20)	401,982	9	286,508	7
Accounts payable to related parties	154,286	3	97,746	3
Accrued expenses (Note 20)	128,544	3	81,074	2
Current portion of long-term loans (Notes 13 and 21)	80,000	2	55,127	1
Other current liabilities	40,110	1	36,159	1
Total current liabilities	1,022,552	23	962,358	25
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 12)	20,499	-	271,818	7
Long-term loans, net of current portion (Note 13)	390,000	9	288,000	8
Total long-term liabilities	410,499	9	559,818	15
OTHER LIABILITIES				
Land value-increment tax reserve	3,512	-	3,512	-
Deferred credits	689	-	-	-
Total other liabilities	4,201	-	3,512	-
Total liabilities	1,437,252	32	1,525,688	40
STOCKHOLDERS' EQUITY				
Capital stock (Note 15)				
Common stock, $10 par value authorized - 260,000 thousand shares in 2005 and 2004; issued - 186,199 thousand shares in 2005 and 160,785 thousand shares in 2004	1,861,987	42	1,607,847	42
Capital surplus				
Additional paid-in capital	491,400	11	363,804	10
Asset revaluation reserve	5,442	-	5,442	-
Retained earnings (Note 15)				
Legal reserve	105,774	3	79,959	2
Special reserve	34,087	1	409	-
Unappropriated earnings	493,909	11	260,217	7
Cumulative translation adjustments (Note 2)	8,696	-	(34,087)	(1)
Total stockholders' equity	3,001,295	68	2,283,591	60
TOTAL	$4,438,547	100	$3,809,279	100

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

(With Deloitte & Touche audit report dated March 13, 2006)

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUE	$3,474,648	101	$2,926,704	101
SALES DISCOUNTS AND RETURNS	35,913	1	43,064	1
NET OPERATING REVENUE	3,438,735	100	2,883,640	100
COST OF SALES	2,569,635	75	2,312,557	80
GROSS PROFIT	869,100	25	571,083	20
UNREALIZED GAIN ON TRANSACTION WITH INVESTEES	(689)	-	-	-
REALIZED GAIN ON TRANSACTIONS WITH INVESTEES	-	-	141	-
REALIZED GROSS PROFIT	868,411	25	571,224	20
OPERATING EXPENSES				
Sales and marketing	147,628	4	120,066	4
General and administration	93,541	3	80,435	3
Research and development	114,374	3	102,201	4
Total operating expenses	355,543	10	302,702	11
OPERATING INCOME	512,868	15	268,522	9
NONOPERATING INCOME AND GAINS				
Interest income	2,304	-	1,258	-
Investment income accounted for by the equity method	48,707	1	17,912	1
Gain on disposal of property, plant and equipment	81	-	23	-
Gain on disposal of investments	789	-	1,781	-
Gain on physical inventory	360	-	6	-
Foreign exchange gains	111,534	3	66,679	3
Gain on recovery of inventory value	-	-	1,856	-
Other	19,640	1	7,765	-
Total nonoperating income and gains	183,415	5	97,280	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense	47,295	2	15,593	1
Investment loss accounted for by the equity method	757	-	2,408	-
Loss on disposal of investments	-	-	1,049	-
Loss on disposal of property, plant and equipment	1,812	-	827	-
Loss on physical inventories	803	-	318	-
Foreign exchange losses	77,820	2	80,483	3

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	**%**	**Amount**	**%**
Loss on inventory valuationand obsolescence	$ 24,307	1	$ 10,289	-
Loss on idle assets' depreciation	2,034	-	503	-
Impairment loss	8,687	-	-	-
Other	2,801	-	87	-
			111,557	4
Total nonoperating expenses and losses	166,316	5		
INCOME BEFORE INCOME TAX	529,967	15	254,245	9
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 16)	(49,499)	(1)	3,910	-
NET INCOME	$ 480,468	14	$ 258,155	9

	2005		2004	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 18)				
Basic	$ 3.01	$ 2.73	$ 1.46	$ 1.48
Diluted	$ 2.92	$ 2.64	$ 1.36	$ 1.37

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

(With Deloitte & Touche audit report dated March 13, 2006) (Concluded)

TXC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2004	$1,441,405	$295,691	$ 65,708	$ -	$ 154,710	$ (409)	$1,957,105
Appropriation of 2003 net income							
Legal reserve	-	-	14,251	-	(14,251)	-	-
Special reserve	-	-	-	409	(409)	-	-
Stock dividend	75,893	-	-	-	(75,893)	-	-
Cash dividends	-	-	-	-	(45,536)	-	(45,536)
Transfer of bonuses to employees to capital stock	13,799	-	-	-	(13,799)	-	-
Director and supervisor remuneration	-	-	-	-	(2,760)	-	(2,760)
Convertible bonds converted to common stock	66,100	66,100	-	-	-	-	132,200
Employee stock option converted to common stock	10,650	7,455	-	-	-	-	18,105
Net income in 2004	-	-	-	-	258,155	-	258,155
Translation adjustments on long-term equity investments	-	-	-	-	-	(33,678)	(33,678)
BALANCE, DECEMBER 31, 2004	1,607,847	369,246	79,959	409	260,217	(34,087)	2,283,591
Appropriation of 2004 net income							
Legal reserve	-	-	25,815	-	(25,815)	-	-
Special reserve	-	-	-	33,678	(33,678)	-	-
Stock dividend	82,405	-	-	-	(82,405)	-	-
Cash dividends	-	-	-	-	(82,404)	-	(82,404)
Transfer of bonuses to employees to capital stock	18,728	-	-	-	(18,728)	-	-
Director and supervisor remuneration	-	-	-	-	(3,746)	-	(3,746)
Convertible bonds converted to common stock	133,887	114,113	-	-	-	-	248,000
Employee stock option converted to common stock	19,120	13,483	-	-	-	-	32,603
Net income in 2005	-	-	-	-	480,468	-	480,468
Translation adjustments on long-term equity investments	-	-	-	-	-	42,783	42,783
BALANCE, DECEMBER 31, 2005	$1,861,987	$496,842	$105,774	$ 34,087	$ 493,909	$ 8,696	$3,001,295

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

(With Deloitte & Touche audit report dated March 13, 2006)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 480,468	$ 258,155
Adjustments to reconcile net income to net cash provided by operating activities		
Bad debt	801	5,743
Depreciation and amortization	232,326	217,551
Nonoperating loss - idle assets	2,034	503
Loss on inventory valuation and obsolescence	24,307	10,289
Gain on recovery of inventory value	-	(1,856)
Loss on physical inventory	443	312
Gain on disposal of short-term investments	(789)	(732)
Investment income accounted for by the equity method	(47,950)	(15,504)
Loss on disposal of assets	1,731	804
Impairment loss	8,687	-
Unrealized gross profit	689	-
Interest compensation	(3,319)	4,018
Deferred income tax assets	(1,009)	(34,498)
Net changes in operating assets and liabilities		
Notes receivable	(51,236)	30,288
Accounts receivable	(127,656)	(326,489)
Inventories	(67,529)	(26,003)
Other current assets	(12,287)	29,596
Prepaid pension expense	(551)	546
Notes payable	24,674	(9,767)
Accounts payable	172,014	(14,004)
Accrued expenses	47,470	18,435
Other current liabilities	3,950	14,141
Net cash provided by operating activities	687,268	161,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of short-term investment	(350,000)	(330,000)
Proceeds from sale of short-term investments	290,789	334,132
Other financial assets	9,591	(9,591)
Acquisitions of long-term equity investments	(224,284)	(124,244)
Acquisitions of property, plant and equipment	(278,191)	(277,465)
Proceeds from disposal of property, plant and equipment	39,451	5,339
Increase in refundable deposits paid	(551)	(154)
Increase in deferred charges	(26,343)	(24,750)
Net cash used in investing activities	(539,538)	(426,733)

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	$(212,788)	$ (86,702)
Increase (decrease) in commercial paper	-	(69,919)
Increase in long-term loans	126,873	103,873
Remuneration to directors and supervisors	(3,746)	(2,760)
Cash dividends	(82,404)	(45,536)
Proceeds from the exercise of employee stock option	32,603	18,105
Net cash used in financing activities	(139,462)	(82,939)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,268	(348,144)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	204,718	552,862
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 212,986	$ 204,718
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	$ 19,098	$ 15,813
Income tax	$ 50,927	$ 14,827
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 80,000	$ 55,127
Convertible bonds	$ 248,000	$ 132,200

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

(With Deloitte & Touche audit report dated March 13, 2006) (Concluded)

TXC CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

TXC Corporation (the "Corporation") was incorporated on December 28, 1983 under the Company Law and other related regulations of the Republic of China (ROC).

On July 31, 2002, the Corporation was authorized by the Securities and Futures Commission of the Ministry of Finance of ROC to become a public listed company. On August 26, 2002, the Corporation's shares began to be traded on the Taiwan Stock Exchange.

The Corporation mainly produces and sells crystals, crystal oscillator and SAW (surface acoustic wave) filters.

As of December 31, 2005 and 2004, the Corporation had 690 and 588 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these Guidelines and Principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of the allowance for doubtful accounts; allowance for inventory devaluation; property, plant and equipment depreciation; pension; and provision for income tax. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

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

Current/Noncurrent Assets and Liabilities

An asset should be classified as current when:

(a) It is expected to be realized, or is held for sale or consumption, in the normal course of the enterprise's operating cycle; or
(b) It is held primarily for trading purposes or for the short-term and is expected to be realized within 12 months of the balance sheet date; or

(c) It consists of unrestricted cash or cash equivalent.

A liability should be classified as current when:

(a) It is expected to be settled in the normal course of the enterprise's operating cycle; or
(b) It is due to be settled within 12 months of the balance sheet date.

All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Government bonds acquired under resell agreements and having maturities of up to three months from the date of purchase are classified as cash equivalents.

Short-Term Investments

Marketable securities are initially stated at their acquisition cost. Stock dividends received from invested companies are not recognized as investment income but are merely noted as an increase in the number of shares held. The cost of stocks and mutual funds sold is determined using the weighted-average method. At year-end, all short-term investments are evaluated at the lower of aggregate cost or market value. Gain on value recovery or loss on value decline at year-end is recorded currently. The market values of investments in listed closed-end funds, listed stocks, and stocks traded over the counter are their respective average closing prices in the last month of the year. The market value of investments in open-end funds is the year-end net asset value of the funds.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of management's evaluation of the collectibility of receivables, past loss experience and pertinent factors.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method, and market value is based on net realizable values of finished goods, work in process and merchandise and on replacement costs of raw materials.

Long-Term Investments

Long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. Under this method, the investments are stated at cost and subsequently adjusted for the Corporation's share in the net earnings or other changes in stockholders' equity of the investees. Cash dividends received are recorded as reductions of the carrying values of the investments. The difference between investment cost and the underlying equity in net assets of the investee when a stock is acquired is amortized over 20 years and charged to current income or loss.

Other long-term investments in which the Corporation has no significant influence on the investees are accounted for by the cost method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of the property, plant, equipment, are capitalized. Repairs and maintenance are expensed currently.

Interest incurred for the construction of major facilities is capitalized.

An impairment loss is recognized when the recoverable amount of an asset is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated depreciation. An impairment loss on a revalued asset is recognized directly against capital surplus from asset revaluation to the extent that the impairment loss does not exceed the capital surplus from revaluation of the same asset. A reversal of an impairment loss on a revalued asset is credited directly to capital surplus from revaluation. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized as profit or loss.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to nonoperating income.

Asset Impairment

An impairment loss should be recognized whenever the aggregate carrying amount of specific assets exceeds their recoverable amount, and this impairment loss should be charged to current income.

An impairment loss recognized in prior years may be reversed if, there has been a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

Employee Stock Options

Employee stock option plans that are amended or have options granted on or after January 1, 2004 must be accounted for in accordance with the interpretations issued by the Accounting Research and Development Foundation. Thus, for these option plans, the Corporation adopted the intrinsic value method under which any compensation cost is charged to expense over the vesting period.

Convertible Bonds

When the Corporation converts bonds to shares of stock, it writes off the sum of the balances of the carrying value of the bonds, redemption premium and issuance costs. The common stock exchange certificate (capital stock) is then valued at its carrying amount net of the amounts written off, and the difference between the net amount and the par value of the certificate is recognized as capital surplus.

Pension Plan

The Corporation's accounting for pensions is in accordance with the generally accepted accounting standards for pension and related regulations. Net pension cost and related assets or liabilities are determined actuarially.

Revenue Recognition

Revenue is recognized when ownership of and liability for risk of loss or change to the products are transferred to customers, usually upon shipment. Sales returns and discounts, which take into consideration customers' complaints and past experiences, are accrued in the same year of sales.

Capital and Operating Expenditure

An expenditure is capitalized when it is probable that future economic benefits associated with the expenditure will flow to the Corporation and the expenditure exceeds a predetermined level. Otherwise, the expenditure is charged to expense when incurred.

Income Tax

The Corporation adopted inter-period tax allocation. Deferred income taxes are recognized for tax effects of temporary differences and unused tax credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent accounts according to the classifications of their related assets and liabilities. If deferred tax assets and liabilities cannot be related to the assets or liabilities in the financial statement, they are classified as current or noncurrent on the basis of the length of the reversal or realization period.

Deferred income tax liabilities derived from the temporary differences between the carrying amounts and tax base of long-term investments are not recognized. In addition, if it is expected that a foreign subsidiary will not distribute its earnings in the future and the difference will permanently exist.

The Corporation applies the flow-through method to income tax credits for certain purchases of equipment for automation of production or production technology, research and development expenditures, personnel training, etc.

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

Income tax (10%) on undistributed earnings generated since 1998 is recorded as expense in the year when the stockholders resolve to retain these earnings.

Foreign-currency Transactions

Transactions negotiated in foreign currencies (except derivative transactions) are recorded in New Taiwan dollars at the exchange rates in effect on the transaction dates. Gains or losses caused by applying prevailing exchange rates when foreign-currency receivables and payables are settled, are credited or charged to current income. Balance sheet date balances of assets and liabilities denominated in foreign currencies are restated at the balance sheet date exchange rates, and any resulting gains or losses are credited or charged to current income.

The financial statements of consolidated foreign subsidiaries and other equity-method foreign investees are translated from their respective local currencies into New Taiwan dollars as follows:

- Assets and liabilities - at the rate as of the balance sheet date;

- Stockholders' equity accounts - at the historical rate, except for the beginning balance of the retained earnings, which is carried at the translated amount of the previous period;

- Income statement accounts - at the weighted-average rate for the current period.

Exchange gains or losses resulting from the above financial statement translation are recorded as "translation adjustments," which are presented as a separate component of stockholders' equity.

Derivative Financial Instruments

For derivative financial instruments (forward exchange and currency option contracts), which are used to hedge risk exposures on foreign-currency assets or liabilities, any resulting gains or losses may be credited or charged to current income or reported as adjustments to the carrying amount of the hedged assets or liabilities. For forward exchange contracts used to hedge identifiable foreign-currency sales commitments and the contract settlement dates are ahead of the actual selling dates, any exchange gain or loss should be deferred to the actual sales transaction date and recorded as an increase in the transaction price if the commodity purchase price is lower than the actual selling price. But if the exchange loss will result in a loss on actual sales because the actual selling price will become lower than the purchase price, the exchange loss should not be deferred.

Nonderivative Financial Instruments

The Corporation applies the above accounting policies and generally accepted accounting principles to account for assets and liabilities on nonderivative financial instruments and to recognize related revenues and expenses.

Reclassifications

Certain accounts for the year ended December 31, 2004 have been reclassified to be consistent with the presentation of the financial statements for the year ended December 31, 2005.

3. CHANGE IN ACCOUNTING PRINCIPLE

The Corporation adopted the Statement of Financial Accounting Standards No. 35, "Accounting for Impairment of Assets," on January 1, 2005. As a result, the carrying value of idle assets decreased by $8,687 thousand. The impairment loss was $8,687 thousand for the year ended December 31, 2005.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Cash on hand	$ 701	$ 958
Checking accounts	40,920	56,950
Demand deposits	154,808	146,810
Time deposits (3.5% interest during 2005.12.26~2006.01.02)	16,557	-
	$212,986	$204,718

5. SHORT-TERM INVESTMENTS

	December 31 2005	December 31 2004
Mutual funds	$60,000	$ -
Less allowance for loss on decline in market value	-	-
	$60,000	$ -

6. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31 2005	December 31 2004
Notes receivable	$ 85,758	$ 33,318
Notes receivable from related parties	-	1,203
	85,758	34,521
Less allowance for doubtful accounts	(429)	(172)
	$ 85,329	$ 34,349
Accounts receivable	$1,170,313	$1,043,028
Accounts receivable from related parties	27,994	27,024
Overdue receivable	-	1,283
	1,198,307	1,071,335
Less allowance for doubtful accounts	(9,333)	(9,472)
	$1,188,974	$1,061,863

7. INVENTORIES

	December 31 2005	December 31 2004
Raw materials	$ 78,649	$107,579
Supplies and spare parts	8,907	8,332
Work in-process	113,366	115,031
Finished goods	136,118	151,228
Merchandise inventories	230,629	145,771
Materials in transit	35,954	24,337
	603,623	552,278
Less allowance for decline in market value and obsolescence	(15,990)	(7,424)
	$587,633	$544,854

Inventory insurance as of December 31, 2005 and 2004 amounted to $400,000 thousand and $450,000 thousand, respectively.

8. LONG-TERM INVESTMENTS

Investee	December 31 2005 Carrying Value	2005 Ownership Percentage	2004 Carrying Value	2004 Ownership Percentage
Equity method				
Taiwan Crystal Technology International Ltd. (“TCTI”)	$845,913	100	$512,777	100
TXC Technology Inc.	5,097	100	1,620	100
TXC Japan Corporation	2,072	100	-	-
Cost method				
Marson Technology Co., Ltd.	3,000	5	3,000	5
	$856,082		$517,397	

The financial statements used as basis for calculating the above equity method investments had all been audited, except TXC Technology Inc. and TXC Japan Corporation.

Equity in earnings (loss) of investees for the years ended December 31, 2005 and 2004 was as follows:

	Equity in Investees Gain (Loss) 2005	Equity in Investees Gain (Loss) 2004	Original Cost 2005
TCTI	$48,576	$17,912	US$ 23,000
TXC Technology Inc.	131	(2,408)	US$ 300
TXC Japan Corporation	(757)	-	JP¥ 10,000
	$47,950	$15,504	

On August 26, 2005, the Corporation’s Stockholders resolved to establish TXC Japan Corporation, a wholly owned subsidiary that will make investments. The Corporation invested $2,973 thousand in this subsidiary.

9. PROPERTY, PLANT AND EQUIPMENT

	December 31 2005 Cost	2005 Accumulated Depreciation	2005 Carrying Value	2004 Carrying Value
Land	$ 157,040	$ -	$ 157,040	$ 157,040
Land - revaluation increment	8,954	-	8,954	8,954
Land improvements	442	273	169	159
Buildings	272,793	114,034	158,759	166,230
Machinery equipment	1,453,138	548,278	904,860	902,175
Transportation equipment	2,557	1,175	1,382	1,610
Miscellaneous equipment	67,945	36,281	31,664	25,507
Prepayments on purchase of equipment	12,035	-	12,035	7,038
	$1,974,904	$ 700,041	$1,274,863	$1,268,713

See Note 21 for the details on property, plant and equipment pledged as collaterals.

Property, plant and equipment insurance as of December 31, 2005 and 2004 amounted to $717,600 thousand and $899,000 thousand, respectively. No interest was capitalized for the years ended December 31, 2005 and 2004.

10. IDLE ASSETS

	December 31, 2005			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ -	$ 2,253
Buildings	15,444	8,302	4,874	2,268
Machinery and equipment	13,749	9,936	3,813	-
	$31,446	$18,238	$ 8,687	$ 4,521

	December 31, 2004			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ -	$ 2,253
Buildings	15,444	7,825	-	7,619
	$17,697	$ 7,825	$ -	$ 9,872

Impairment loss was as follows:

	December 31, 2005	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Buildings	$ 4,874	$ -
Machinery and equipment	3,813	-
	$ 8,687	$ -

11. SHORT-TERM LOANS

	December 31			
	2005		2004	
	Amount	Interest Rate %	Amount	Interest Rate %
Material procurements loans	$145,208	0.72~1.17	$277,996	0.77~1.80
Unsecured bank loans	20,000	1.68	100,000	1.60
	$165,208		$377,996	

See Note 21 for details of pledged assets.

12. BONDS PAYABLE

	December 31	
	2005	2004
Domestic		
1st Domestic unsecured convertible corporate bonds	$ 19,800	$267,800
Add accrued interest compensation	699	4,018
	$ 20,499	$271,818

On December 31, 2003, the Corporation issued first domestic unsecured convertible bonds with an aggregate face value of $400,000 thousand and maturity on December 31, 2008. Nominal interest is 0%. Other details of the bond issuance are summarized as follows:

(a) On the third and fourth anniversaries of the issuance date, bonds are redeemable at a price at 103.02% and 105.34%, respectively, of face value plus accrued interest. On maturity, bonds will be redeemed at face value.

(b) During the period between after three months of issuance and the 40th day before maturity, except for the period between the ex-dividend date and the date of record, holders can request for conversion of the bonds to the Corporation's common stock.

(c) The original conversion price per share is NT$20.00. The conversion price is subject to adjustment based on a certain formula if there are changes in outstanding shares or execution of conversion below market price.

13. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31 2005	December 31 2004
Secured bank loans	Repayable in quarterly installments, maturing on September 9, 2008	$ -	$ 96,000
Unsecured bank loans	Repayable in quarterly installments, maturing on February 2, 2007	40,000	80,000
Unsecured bank loans	Repayable at maturity on October 26, 2008	200,000	-
Secured loan from the Industrial Development Bureau Ministry of Economic Affairs	Repayable in quarterly installments, maturing on October 1, 2005	-	7,127
Chinatrust loan		230,000	160,000
		470,000	343,127
Less current portion		(80,000)	(55,127)
		$390,000	$288,000
Interest rate (%)		0~2.8716	0~3.20

See Note 21 for collateral on long-term loans.

As of December 31, 2005, the Corporation has issued to various banks promissory notes amounting to $701,000 thousand to secure short-term and long-term loans.

On September 6, 2004, the Corporation signed a syndicated loan agreement for $500,000 thousand with Chinatrust Commercial Bank and five other financial institution. The syndicated loan can be separated into two parts and terms summarized as follows:

Credit Lines	Credit Amount	Credit Period	Interest Rate	Repayment Agreements
$300,000	$ 80,000	Three years after the first drawdown date including additional one year.	2.8711%	Six semiannual installments starting from one year after the first drawdown date.
200,000	150,000	Three years after the first drawdown date.	2.8716%	Lump sum on due date.
$500,000	$230,000			

14. PENSION PLAN

The Corporation has established a retirement plan covering its regular employees. Under the Plan, retirement benefit calculation is based on the employee's years of service and average salary. The Corporation contributes monthly to a retirement fund an amount based on 2% of employee salary. The fund is deposited in the Central Trust Bureau under the name of the Employee Retirement Fund Committee.

The Labor Pension Act (the "Act") took effect on July 1, 2005, and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law before 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 before 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 service years as of July 1, 2005 will be retained. Under the Act, the rate of an employer's monthly contribution to employees' pension accounts should be at least 6% of each employee's monthly salary or wage.

Net periodic pension costs in the years ended December 31, 2005 and 2004 were as follows:

Pension information is summarized as follows:

	2005	2004
Service cost	$ 3,859	$ 4,889
Interest cost	1,543	1,282
Expected return on plan assets	(1,516)	(1,306)
Amortization of unrecognized losses	557	508
Net periodic pension cost	$ 4,443	$ 5,373

Reconciliation of fund status of the plan and accrued pension cost is as follows:

	2005	2004
Benefit obligations		
Vested benefit obligation	$ (4,596)	$ (6,179)
Nonvested benefits	(33,522)	(35,480)
Accumulated benefit obligation	(38,118)	(41,659)
Effect of future salary increase	(11,002)	(8,583)
Projected benefit obligation	(49,120)	(50,242)
Plan assets at fair value	50,429	46,926
Plan assets in excess of projected benefit obligation (Projected benefit obligation in excess of plan assets)	1,309	(3,316)
Unrecognized net transition obligation	972	1,269
Unrecognized net losses	5,666	9,443
Accrued pension cost	$ 7,947	$ 7,396
Vested benefits	$ (5,111)	$ (7,300)

Actuarial Assumptions

	2005	2004
Discount rate used in determining present values	3.25%	3.25%
Future salary increase rate	2.00%	1.75%
Expected rate of return on plan assets	3.25%	3.25%

Summary of changes in the pension fund is as follows:

	2005	2004
Contribution	$ 4,994	$ 4,827
Payment of benefits	$ 2,197	$ 357

15. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital is $2,600,000 thousand ($10.00 par value per share). As of December 31, 2005, the Corporation's outstanding capital stock was $1,861,987 thousand divided into 186,199 thousand shares at $10.00 par value each. Capital stock consists of the following:

Initial cash subscription	$ 3,100
Additional cash subscription	540,080
Stock dividends from earnings	961,357
Stock dividends from capital surplus	127,693
Employee stock option	29,770
Convertible bonds	199,987
	$ 1,861,987

Employee Stock Options

The Corporation's employee stock option plans were issued in October 2001, April 2002 and October 2002; the maximum number of units authorized to be granted was 3,500, 1,500 and 4,000, respectively, with each unit eligible to subscribe to one thousand common shares when exercisable. The option may be granted to qualified employees of the Corporation or any of its domestic or foreign subsidiaries. The options of all the plans are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Corporation's common shares listed on the TSE on the grant date.

Information about outstanding stock options for the years ended December 31, 2005 and 2004 was as follows:

	2005		2004	
Employee Stock Options	**Units**	**Weighted Average Exercise Price**	**Units**	**Weighted Average Exercise Price**
Outstanding, beginning	7,935	$ 17.0	9,000	$ -
Current issuance	-	-	-	-
Current exercise	(1,912)	17.1	(1,065)	17.0
Current cancel	(1,894)	-	-	-
Outstanding, ending	4,129		7,935	
Exercisable options, ending	2,754		7,935	

As of December 31, 2005, information about outstanding and exercisable options was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (NT$)	**Number of Options (In Thousands)**	**Weighted Average Remaining Contractual Life (In Years)**	**Weighted Average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted Average Exercise Price (NT$)**
$17.00~$15.20	900	0.8	$16.60	900	$16.60
$34.10~$32.20	1,214	1.2	-	839	-
$17.60~$16.60	2,015	1.8	17.60	1,015	17.60
	4,129			2,754	

No compensation cost was recognized under intrinsic value method for the years ended December 31, 2005 and 2004. The assumptions and pro forma results of the Corporation for the year ended December 31, 2005 would have been as follows:

Assumptions	
Expected dividend yield	0%
Expected volatility	46.75%
Risk free interest rate	1.92%
Expected life	3.875 years
Net income	
Net income as reported	$480,468
Pro forma net income	449,496
Earnings per share (EPS) - after income tax (NT$)	
Basic EPS as reported	$2.73
Pro forma basic EPS	2.55
Diluted EPS as reported	2.64
Pro forma diluted EPS	2.47

Earnings Distribution and Dividend Policy

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issue price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is restricted to a certain percentage of the paid in common stock of the Corporation.

Based on the Company Law and the Corporation's Articles of Incorporation, from annual net income less any prior years' deficit, 10% should be appropriated as legal reserve. The remaining amount may be appropriate at the following percentages under the stockholders' approval.

(a) Employee bonus - 3% to 15%
(b) Directors and supervisors' remuneration - 2%

Stock bonuses to employees include subsidiary employees who meet certain criteria set by the board of directors.

Dividends are recommended by the board of directors in accordance with the Corporation's dividend policy. Under this policy, industry trend and growth should be evaluated, investment opportunities should be fully understood, and proper capital adequacy ratios should be considered in determining the dividend to be distributed. In addition, cash dividends should not be less than 20% of the total dividends to be appropriated.

A special capital reserve equivalent to the net debit balance of the components of stockholders' equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, but excluding treasury stock) should be allocated from unappropriated earnings under the regulations promulgated by the ROC Securities and Futures Bureau (SFB), formerly known as the Securities and Futures Commission before July 1, 2004. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

Legal reserve should be appropriated until its amount equals the Corporation's paid-in capital. It can be used to offset deficit. When legal reserve reaches 50% of paid-in capital, up to one half of this reserve may be transferred to capital stock.

Under the Integrated Income Tax System that became effective on January 1, 1998, the ROC resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Corporation on earnings generated since January 1, 1998.

The appropriation of the 2004 and 2003 earnings was approved in the stockholders' meeting on June 13, 2005 and June 24, 2004, respectively. The appropriations and dividends per share are as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2004	**For Fiscal Year 2003**	**For Fiscal Year 2004**	**For Fiscal Year 2003**
Cash dividends	$82,404	$45,536	$0.50	$0.30
Stock dividends	82,405	75,893	0.50	0.50
Employees' bonus - stock	18,728	13,798	-	-
Remuneration to directors and supervisors - cash	3,746	2,760	-	-

The amounts of the above appropriations of earnings for 2004 and 2003 are consistent with the resolutions of the meetings of the Board of Directors. However, the Company Law prescribes that TXC Coporations, as a holder of treasury stock, shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolutions. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged against earnings for 2004 and 2003, the after income tax basic earnings per share for the years ended December 31, 2004 and 2003 would have decreased from NT$1.63 to NT$1.49 and NT$0.93 to NT$0.82, respectively. The shares distributed as bonus to employees represented 1.16% and 0.96% of the Corporation's total outstanding common shares as of December 31, 2004 and 2003, respectively.

As of March 13, 2006, the board of directors of TXC Corporation has not resolved the appropriation of 2005 earnings. The above information on the earnings appropriation can be accessed online through the Market Observation Post system (MOPS) on the Web site of the Taiwan Stock Exchange (http://emops. tse.com.tw).

16. INCOME TAX

Provision for income tax was calculated as follows:

	Years Ended December 31	
	2005	**2004**
Tax on pretax income at 25% statutory rate	$132,482	$ 63,551
Add (deduct) tax effects of		
Permanent differences	(285)	756
Temporary differences	(15,158)	2,167
Tax-exempt income for five years	(15,695)	(4,762)
	101,344	61,712
Less investment tax credit	(50,672)	(30,856)
Current income tax	50,672	30,856
Deferred tax expense (benefit)	(1,009)	(34,498)
Adjustment of prior years' tax expense	(164)	(268)
Income tax expense (benefit)	$ 49,499	$ (3,910)

	2005	2004
Deferred income tax assets, current		
Investment tax credit	$30,690	$26,596
Loss on decline in value of inventories	4,180	2,040
Unrealized foreign exchange loss	1,737	-
Allowance for doubtful accounts over tax limit	-	893
Impairment loss	2,172	-
Others	402	8,493
	39,181	38,022
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(3,417)	(3,088)
Net deferred income tax assets, current	$35,764	$34,934
Deferred income tax assets, noncurrent		
Investment losses tax credit	$92,070	$79,788
Others	331	331
	92,401	80,119
Deferred income tax liabilities, noncurrent		
Investment income	(17,140)	(5,037)
Net deferred income tax (liabilities) assets, noncurrent	$75,261	$75,082

The Corporation's investment tax credits as of December 31, 2005 for income tax purposes were as follows:

Regulatory Basis of Tax Credits	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 87,239	$ 51,447	2009
	Research and development expenditures	$ 84,824	$ 70,539	2009
	Personnel training	$ 1,368	$ 774	2009

The sales generated from the following expansion and construction of the Corporation's factories is exempt from income tax:

	Tax-Exemption Period
Acquisition of equipment in 2003	2004 to 2008
Acquisition of equipment in 2004	2005 to 2009

The Corporation's income tax returns up to 1999 have been examined and approved by the tax authority.

According to the amended Income Tax Law, unappropriated earnings are subject to 10% tax. The 10% tax will be used as a reduction of the shareholders income tax expense in the year when dividends are distributed. The information of imputation credit accounts ("ICA") were as follows:

	December 31	
	2005	2004
Balance of ICA	$ 26,069	$ 1,532

	2005 (Estimate)	2004 (Actual)
Estimated imputation tax credit rate	9.25%	12.38%

	December 31	
	2005	2004
Undistributed earnings		
Until 1997	$ -	$ -
From 1998	493,909	260,217
	$493,909	$260,217

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Corporation's personnel, depreciation, and amortization expenses for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005			2004		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salaries	$ 218,783	$ 115,661	$ 334,444	$ 177,586	$ 108,504	$ 286,090
Pension	6,894	3,302	10,196	3,125	2,209	5,334
Meal	9,634	3,411	13,045	8,888	3,071	11,959
Welfare benefit	3,555	1,561	5,116	3,126	1,145	4,271
Labor and health insurance	13,746	7,650	21,396	12,048	6,722	18,770
Depreciation	164,745	37,076	201,821	160,792	30,839	191,631
Amortization	2,065	28,440	30,505	8,851	17,069	25,920

18. EARNINGS PER SHARE

	Years Ended December 31									
	2005					2004				
	Amount		Weighted Average Outstanding	EPS		Amount		Weighted Average Outstanding	EPS	
	Before Tax	After Tax	Common Stock	Before Tax	After Tax	Before Tax	After Tax	Common Stock	Before Tax	After Tax
Net income	$ 529,967	$ 480,468				$ 254,245	$ 258,155			
Basic income per share	$ 529,967	$ 480,468	175,971	$ 3.01	$ 2.73	$ 254,245	$ 258,155	174,298	$ 1.46	$ 1.48
Convertible bonds	3,740	2,805	6,418			5,461	4,096	15,610		
Employee stock option	-	-	689			-	-	968		
Net diluted income per share	$ 533,707	$ 483,273	183,078	$ 2.92	$ 2.64	$ 259,706	$ 262,251	190,876	$ 1.36	$ 1.37

19. FINANCIAL INSTRUMENTS

Forward Forex Transaction - Hedge

The Corporation used forward contracts primarily to hedge the risk on exchange rate fluctuations of foreign-currency assets and liabilities.

	Years Ended December 31			
	2005		2004	
Derivative Financial Instruments	**Nominal Amount**	**Credit Risk**	**Nominal Amount**	**Credit Risk**
Forward contracts	$ -	-	US$ 500	-
			JP¥ 50,000	-

Risks on Forward Transactions

Credit risk: Credit risk refers to the uncertainties that may arise if a counter-party defaults on the contract. Since the counter-parties are all reputable banks, the Corporation does not expect any significant loss.

Market risk: Market risk refers to the uncertainties due to exchange rate fluctuations. Gains or losses on forward exchange contracts are likely to offset the gains or losses on foreign-currency assets or liabilities.

Interest Rate Swap Agreements

As of December 31, 2005, interest expense from interest rate swap agreements was $28,533 thousand. The contracts as of December 31, 2005 are summarized as follows:

Contract Date	Contract Term	Amount
August 10, 2005	August 10, 2005~August 12, 2010	$300,000

Transaction Risks

Credit risk: The credit risk refers to the risk arising from counter-parties' default on contracts.

Market price risk: Market price risk refers to the risk arising from interest rate fluctuations in the market.

Liquidity Risk, Cash Flow Risk, Future Cash Demand and Period Uncertainty

The interest rate swap contract involves the exchange of fixed rate payments for obligations without the exchange of contract (notional) amounts. No gain (loss) from the contract was recognized for the year ended December 31, 2005. Since the cash required for contract settlement is insignificant, there is no cash flow risk.

Currency Options

As of December 31, 2004, the Corporation had the following currency options. These instruments were used to hedge the risk on exchange rate fluctuations of net foreign-currency assets and liabilities.

European Option

2004				
Buy/Sell	**Call/Put**	**Contract Value**	**Strike Rate**	**Final Maturity Date**
Sell	NTD/USD	US$ 1,000	NT$ 33.25	February 18, 2005
Sell	USD/NTD	US$ 500	NT$ 34.15	February 23, 2005
Sell	USD/NTD	US$ 500	NT$ 34.15	March 29, 2005
Sell	USD/JPY or JPY/USD	US$ 1,500	JP¥ 105.00	January 31, 2005
Sell	NTD/USD	US$ 750	NT$ 33.00	March 31, 2005
Sell	NTD/USD	US$ 750	NT$ 33.00	May 2, 2005
Sell	NTD/USD	US$ 750	NT$ 32.50	March 8, 2005
Sell	NTD/USD	US$ 750	NT$ 32.50	April 7, 2005
Sell	JPY/USD	US$ 750	JP¥ 105.00	March 24, 2005
Sell	JPY /USD	US$ 750	JP¥ 106.50	February 18, 2005
Sell	USD/NTD	US$ 750	NT$ 32.35	May 5, 2005
Sell	USD/NTD	US$ 750	NT$ 32.35	June 7, 2005
Sell	NTD/USD	US$ 750	NT$ 32.45	May 19, 2005
Sell	NTD/USD	US$ 750	NT$ 32.45	June 17, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	February 9, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	March 10, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	April 11, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	January 27, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	February 24, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	March 29, 2005

Credit, Market and Liquidity Risks

The Corporation will incur a loss if a counter-party defaults on a contract. But because the Corporation's currency option contracts are only with reputable banks, credit risk is not considered significant.

Market price risk: The Corporation's currency contract are for hedging purposes, i.e., the exchange rate fluctuations on the contracts offset the exchange rate fluctuations of the hedged items thus, market price risk is not significant.

Liquidity risk: There is no funding or cash flow risk on the currency option contracts.

Type of derivative financial instrument, purpose, and strategy to achieve objective: The Corporation's transactions, including foreign-currency borrowings are mainly in U.S. dollars and Japanese yen. To avoid risks on exchange rate fluctuations, the Corporation uses forward exchange contracts and currency option contracts with average periods of one year.

Fair Value of Financial Instruments

The fair values of nonderivative financial instruments (except short-term and long-term investments) were equal to their carrying values as of December 31, 2005 and 2004.

	December 31			
	2005		2004	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$212,986	$212,986	$ 204,718	$ 204,718
Short-term investment, net	60,000	60,004	-	-
Notes receivable, net	85,329	85,329	34,349	34,349
Accounts receivable, net	1,188,974	1,188,974	1,061,863	1,061,863
Long-term equity investments	856,082	858,864	517,397	517,397
Liabilities				
Short-term loans	165,208	165,208	377,996	377,996
Notes payable	52,422	52,422	27,748	27,748
Accounts payable to third parties	401,982	401,982	286,508	286,508
Accounts payable to related parties	154,286	154,286	97,746	97,746
Current portion of long-term loans	80,000	80,000	55,127	55,127
Accrued expenses	128,544	128,544	81,074	81,074
Bonds payable	20,499	20,499	271,818	271,818
Long-term loans, net of current portion	390,000	390,000	288,000	288,000

The Corporation's market assumptions and estimation methodologies for the fair values of the above financial instruments are as follows:

(a) The fair values of short-term financial instruments such as cash and cash equivalents, receivables, payables and short-term debts are based on their carrying amounts because of their short maturities.
(b) The market values of short-term investments are based on their quoted market prices as of the balance sheet date.
(c) The fair values of long-term equity investments are based on their carrying value.

20. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Corporation
Tai-Shing Electronic Components Corporation (“Tai-Shing”)	Chairman is the Corporation’s general manager
TXC Technology Inc.	Wholly owned subsidiary
TXC Japan Corporation	Wholly owned subsidiary
Taiwan Crystal Technology International Ltd. (TCTI)	Wholly owned subsidiary
Growing Profits Trading Ltd. (GPT)	Subsidiary’s equity-method investee
TXC (NGB) Electronic Co., Ltd. (NGB)	Subsidiary’s equity-method investee

Major transactions with related parties are summarized below:

Purchases of inventory and processing costs

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$403,015	20	$413,773	22

Payment terms for purchases from related parties were similar to those for third parties.

Sales

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$ 39,353	1	$116,226	4
Tai-Shing	21,226	1	22,384	1
TXC Technology Inc.	43	-	810	-
	$ 60,622	2	$139,420	5

Selling prices to related parties were similar to those for third parties.

Consulting Fee

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
TXC Technology Inc.	$ 24,008	60	$ 17,402	71
GPT	11,597	29	7,204	29
TXC Japan Corporation	4,379	11	-	-
	$ 39,984	100	$ 24,606	100

Other Expenses

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 4,229	4	$ 5,998	20

Receivable from and Payable to Related Parties

		December 31			
		2005		2004	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Notes receivable	Tai-Shing	$ -	-	$ 1,203	-
Accounts receivable	Tai-Shing	9,070	-	2,874	-
	GPT	18,919	2	24,047	3
	TXC Technology Inc.	5	-	103	-
Notes payable	Tai-Shing	264	-	626	2
Accounts payable	Tai-Shing	183	-	155	-
	GPT	154,103	28	97,591	25
Accrued expense	Tai-Shing	273	-	118	-
	GPT	83	-	774	1

In the years ended December 31, 2005 and 2004, the Corporation sold its equipment to NGB through GPT, at their net book values of $38,955 thousand and $3,836 thousand, respectively, and prices of $38,951 thousand and $3,845 thousand, respectively, for gains (losses) of ($4) thousand and $9 thousand, respectively.

In the years ended December 31, 2005 and 2004, the Corporation made an investment in NGB through TCTI in the form of machinery and equipment at their net book value of $23,668 thousand and $86,700 thousand, respectively, and have no disposal gain or loss.

As of December 31, 2005, the Corporation’s guarantee for NGB’s loans amounted to $99,380 thousand.

21. PLEDGED ASSETS

As of December 31, 2005 and 2004, the following assets had been pledged at their book values to secure short-term loans, long-term debts and commercial paper issued:

	2005	2004
Property, plant and equipment		
Land	$165,994	$165,994
Buildings, net	79,224	80,785
Machinery and equipment, net	312,343	432,663
	$557,561	$679,442

22. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of December 31, 2005, which were not shown in the financial statements, were as follows:

Unit: In Thousands

Commitment	Contract Price	Paid Up	Not Yet Paid
Computer software system	$3,600	$1,080	$2,520

Guarantee for short-term loan and long-term loan, please refer to Note 13. Guarantee for customs tax amount to about $15,000 thousand.

Unused letters of credit of about JP¥479,485 thousand and US$66 thousand.

As of December 31, 2005, the Corporation had derivative financial instruments. Please refer to Note 19.

As of December 31, 2005, the Corporation's guarantee for NGB's loans amounted to $99,380.

23. SEGMENT, GEOGRAPHIC AREA, EXPORT SALES AND MAJOR CUSTOMER INFORMATION

Segment Information

No segment information.

Geographic Area Information

No geographic area information.

Export Sales

Area	2005	2004
Americas	$ 155,400	$ 160,883
Europe	60,950	16,506
Asia	2,078,080	1,814,354
	$2,294,430	$1,991,743

Major Customer Information

Customer	2005	2004
A	$401,886	$199,314

D. Consolidated Financial Statement for the Parent Company and its Subsidiaries for the most recent year, Certified by a CPA

TXC CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended December 31, 2005 and 2004 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying consolidated balance sheets of TXC Corporation and subsidiaries (the "Corporation") as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the consolidated financial statements, TXC Corporation and subsidiaries adopted the Statement of Financial Accounting Standards No. 35, "Accounting for Impairment of Assets," on January 1, 2005.

March 13, 2006

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

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005		2004	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 259,332	6	$ 233,245	6
Short-term investments, net (Notes 2 and 5)	60,000	1	-	-
Notes receivable, net (Note 2 and 6)	85,329	2	37,294	1
Accounts receivable, net (Notes 2, 6 and 20)	1,304,098	27	1,115,493	27
Inventories, net (Notes 2 and 7)	705,573	15	645,173	16
Other current assets	98,864	2	83,400	2
Total current assets	2,513,196	53	2,114,605	52
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 8)				
Cost method	3,000	-	3,000	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 21)				
Cost				
Land	157,040	3	157,040	4
Land improvements	442	-	377	-
Buildings	448,482	10	411,171	10
Machinery and equipment	2,192,147	46	1,807,764	45
Transportation equipment	6,292	-	5,643	-
Miscellaneous equipment	92,664	2	68,537	2
Land - revaluation increment	8,954	-	8,954	-
	2,906,021	61	2,459,486	61
Less accumulated depreciation	(837,745)	(17)	(696,386)	(17)
Prepayments for purchase of equipment	49,147	1	19,551	-
Property, plant and equipment, net	2,117,423	45	1,782,651	44
INTANGIBLE ASSETS				
Pension prepayments (Notes 2 and 14)	7,947	-	7,396	1
Land right	15,734	-	15,176	-
Other	33	-	-	-
Total intangible assets	23,714	-	22,572	1
OTHER ASSETS (Notes 2 and 3)				
Idle assets	4,521	-	9,872	-
Refundable deposits	2,381	-	1,778	-
Deferred charges, net	11,509	-	13,933	1
Deferred income tax assets	75,261	2	75,082	2
Other	-	-	1,845	-
Total other assets	93,672	2	102,510	3
TOTAL	$4,751,005	100	$4,025,338	100

	2005		2004	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Notes 11 and 21)	$353,738	8	$495,717	12
Notes payable (Note 20)	52,422	1	27,902	1
Accounts payable (Note 20)	581,561	12	399,860	10
Accrued expenses (Note 20)	147,524	3	91,691	2
Current portion of long-term loans (Notes 13 and 21)	80,000	2	55,127	2
Other current liabilities	49,884	1	41,932	1
Total current liabilities	1,265,129	27	1,112,229	28
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 12)	20,499	-	271,818	6
Long-term loans, net of current portion (Note 13)	460,320	10	354,188	9
Total long-term liabilities	480,819	10	626,006	15
OTHER LIABILITIES				
Land value-increment tax reserve	3,512	-	3,512	-
Guarantee deposits	250	-	-	-
Total other liabilities	3,762	-	3,512	-
Total liabilities	1,749,710	37	1,741,747	43
STOCKHOLDERS' EQUITY				
Capital stock (Note 15)				
Common stock, $10 par value				
Authorized - 260,000 thousand shares in 2005 and 2004;				
Issued - 186,199 thousand shares in 2005 and 160,785 thousand shares in 2004	1,861,987	39	1,607,847	40
Capital surplus				
Additional paid-in capital	491,400	11	363,804	9
Asset revaluation reserve	5,442	-	5,442	-
Retained earnings (Note 15)				
Legal reserve	105,774	2	79,959	2
Special reserve	34,087	1	409	-
Unappropriated earnings	493,909	10	260,217	7
Cumulative translation adjustments (Note 2)	8,696	-	(34,087)	(1)
Total stockholders' equity	3,001,295	63	2,283,591	57
TOTAL	$4,751,005	100	$4,025,338	100

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

(With Deloitte & Touche audit report dated March 13, 2006)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)

	2005		2004	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$3,766,094	101	$3,097,794	101
SALES DISCOUNTS AND RETURNS	35,913	1	43,065	1
NET OPERATING REVENUE	3,730,181	100	3,054,729	100
COST OF SALES	2,751,460	74	2,423,787	80
GROSS PROFIT	978,721	26	630,942	20
OPERATING EXPENSES				
Sales and marketing	198,069	5	150,409	5
General and administration	97,176	3	85,035	3
Research and development	114,374	3	102,201	3
Total operating expenses	409,619	11	337,645	11
OPERATING INCOME	569,102	15	293,297	9
NONOPERATING INCOME AND GAINS				
Interest income	2,529	-	1,508	-
Gain on disposal of property, plant and equipment	81	-	27	-
Gain on disposal of investments	789	-	1,781	-
Gain on physical inventory	360	-	6	-
Foreign exchange gains	114,908	3	67,484	2
Gain on recovery of inventory value	-	-	349	-
Other	22,214	1	10,514	1
Total nonoperating income and gains	140,881	4	81,669	3
NONOPERATING EXPENSES AND LOSSES				
Interest expense	58,196	2	25,176	1
Loss on disposal of investments	-	-	1,049	-
Loss on disposal of property, plant and equipment	1,985	-	856	-
Loss on physical inventories	803	-	318	-
Foreign exchange losses	77,821	2	81,906	3
Loss on inventory valuation and obsolescence	24,307	1	10,289	-
Impairment loss	11,309	-	-	-
Other	5,472	-	587	-
Total nonoperating expenses and losses	179,893	5	120,181	4
INCOME BEFORE INCOME TAX	530,090	14	254,785	8
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 16)	(49,622)	(1)	3,370	-
NET INCOME	$ 480,468	13	$ 258,155	8

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 18)				
Basic	$ 3.01	$ 2.73	$ 1.46	$ 1.48
Diluted	$ 2.92	$ 2.64	$ 1.36	$ 1.37

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

(With Deloitte & Touche audit report dated March 13, 2006) (Concluded)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus	Retained Earnings Legal Reserve	Retained Earnings Special Reserve	Retained Earnings Unappropriated Earnings	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2004	$1,441,405	$295,691	$ 65,708	$ -	$ 154,710	$ (409)	$1,957,105
Appropriation of 2003 net income							
Legal reserve	-	-	14,251	-	(14,251)	-	-
Special reserve	-	-	-	409	(409)	-	-
Stock dividend	75,893	-	-	-	(75,893)	-	-
Cash dividends	-	-	-	-	(45,536)	-	(45,536)
Transfer of bonuses to employees to capital stock	13,799	-	-	-	(13,799)	-	-
Director and supervisor remuneration	-	-	-	-	(2,760)	-	(2,760)
Convertible bonds converted to common stock	66,100	66,100	-	-	-	-	132,200
Employee stock option converted to common stock	10,650	7,455	-	-	-	-	18,105
Net income in 2004	-	-	-	-	258,155	-	258,155
Translation adjustments on long-term equity investments	-	-	-	-	-	(33,678)	(33,678)
BALANCE, DECEMBER 31, 2004	1,607,847	369,246	79,959	409	260,217	(34,087)	2,283,591
Appropriation of 2004 net income							
Legal reserve	-	-	25,815	-	(25,815)	-	-
Special reserve	-	-	-	33,678	(33,678)	-	-
Stock dividend	82,405	-	-	-	(82,405)	-	-
Cash dividends	-	-	-	-	(82,404)	-	(82,404)
Transfer of bonuses to employees to capital stock	18,728	-	-	-	(18,728)	-	-
Director and supervisor remuneration	-	-	-	-	(3,746)	-	(3,746)
Convertible bonds converted to common stock	133,887	114,113	-	-	-	-	248,000
Employee stock option converted to common stock	19,120	13,483	-	-	-	-	32,603
Net income in 2005	-	-	-	-	480,468	-	480,468
Translation adjustments on long-term equity investments	-	-	-	-	-	42,783	42,783
BALANCE, DECEMBER 31, 2005	$1,861,987	$496,842	$105,774	$ 34,087	$ 493,909	$ 8,696	$3,001,295

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

(With Deloitte & Touche audit report dated March 13, 2006)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 480,468	$ 258,155
Adjustments to reconcile net income to net cash provided by operating activities		
Bad debt	2,129	5,743
Depreciation and amortization	292,096	259,306
Nonoperating loss - idle assets	2,034	503
Loss on inventory valuation and obsolescence	24,307	10,289
Gain on recovery of inventory value	-	(349)
Loss on physical inventory	443	312
Gain on disposal of short-term investments	(789)	(732)
Loss on disposal of assets	1,904	829
Impairment loss	11,309	-
Interest compensation	(3,319)	4,018
Deferred income tax assets	(1,009)	(34,498)
Net changes in operating assets and liabilities		
Notes receivable	(48,190)	30,288
Accounts receivable	(189,643)	(358,893)
Inventories	(80,252)	(46,679)
Other current assets	(25,695)	67,495
Prepaid pension expense	(551)	546
Increase in other assets	-	(1,845)
Notes payable	24,520	(10,628)
Accounts payable	181,701	(14,262)
Accrued expenses	55,833	21,384
Other current liabilities	7,951	19,583
Net cash provided by operating activities	735,247	210,565
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of short-term investments	(350,000)	(330,000)
Proceeds from sale of short-term investments	290,789	334,132
Other financial assets	9,591	(9,591)
Acquisitions of property, plant and equipment	(562,456)	(385,074)
Proceeds from disposal of property, plant and equipment	601	5,456
Increase in refundable deposits paid	(603)	(154)
Increase in deferred charges	(29,381)	(28,422)
Net cash used in investing activities	(641,459)	(413,653)

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	**2004**
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	$(141,979)	$ (87,591)
Increase in guarantee deposits	250	-
Decrease in commercial paper	-	(69,919)
Increase in long-term loans	131,005	81,949
Remuneration to directors and supervisors	(3,746)	(2,760)
Cash dividends	(82,404)	(45,536)
Proceeds from the exercise of employee stock option	32,603	18,105
Net cash used in financing activities	(64,271)	(105,752)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,430)	(23,821)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,087	(332,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	233,245	565,906
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 259,332	$ 233,245
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	$ 29,715	$ 25,396
Income tax	$ 51,050	$ 15,367
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 80,000	$ 55,127
Convertible bonds	$ 248,000	$ 132,200

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

(With Deloitte & Touche audit report dated March 13, 2006) (Concluded)

TXC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

TXC Corporation was incorporated on December 28, 1983 under the Company Law and other related regulations of the Republic of China (ROC).

On July 31, 2002, TXC Corporation was authorized by the Securities and Futures Commission of the Ministry of Finance of ROC to become a public listed company. On August 26, 2002, TXC Corporation's shares began to be traded on the Taiwan Stock Exchange.

TXC Corporation mainly produces and sells crystals, crystal oscillator and SAW (surface acoustic wave) filters and Timing module (TM).

As of December 31, 2005 and 2004, TXC Corporation and subsidiaries had 1,367 and 1,108 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these guidelines and principles, the TXC Corporation and subsidiaries are required to make certain estimates and assumptions that could affect the amounts of the allowance for doubtful accounts; allowance for inventory devaluation; property, plant and equipment depreciation; pension; and provision for income tax. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

The significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TXC Corporation and its subsidiaries. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

Name of Investor	Name of Investee	Business Nature	Percentage of Ownership at December 31, 2005	Percentage of Ownership at December 31, 2004	Remark
TXC Corporation	Taiwan Crystal Technology International Limited ("TCTI")	Investment holding	100%	100%	-
	TXC Technology, Inc.	Marketing activities	100%	100%	-
	TXC Japan Corporation	Marketing activities	100%	-	-
TCTI	Growing Profits Trading Ltd. ("GPT")	National trading	100%	100%	-
	TXC (NGB) Electronic Co., Ltd. ("NGB")	Manufacture and sales of electronics products	100%	100%	-

a. TCTI was incorporated on December 23, 1998 in Samoa.

b. TXC Technology, Inc. was incorporated on December 1, 2000 in California, U.S.A.

c. TXC Japan Corporation was incorporated on September 13, 2005 in Yokhoma, Japan.

d. GPT was incorporated on March 9, 1999 in the British Virgin Islands.

e. NGB was incorporated on March 12, 1999 in Ningbo Economic Technical Development Zone in China.

TXC Corporation together with its consolidated entities are hereinafter referred to collectively as the "Corporation."

Current/Noncurrent Assets and Liabilities

An asset should be classified as current when:

(a) It is expected to be realized, or is held for sale or consumption, in the normal course of the enterprise's operating cycle; or
(b) It is held primarily for trading purposes or for the short-term and is expected to be realized within 12 months of the balance sheet date; or
(c) It consists of unrestricted cash or cash equivalent.

A liability should be classified as current when:

(a) It is expected to be settled in the normal course of the enterprise's operating cycle; or
(b) It is due to be settled within 12 months of the balance sheet date.

All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Government bonds acquired under resell agreements and having maturities of up to three months from the date of purchase are classified as cash equivalents.

Short-Term Investments

Marketable securities are initially stated at their acquisition cost. Stock dividends received from invested companies are not recognized as investment income but are merely noted as an increase in the number of shares held. The cost of stocks and mutual funds sold is determined using the weighted-average method. At year-end, all short-term investments are evaluated at the lower of aggregate cost or market value. Gain on value recovery or loss on value decline at year-end is recorded currently. The market values of investments in listed closed-end funds, listed stocks, and stocks traded over the counter are their respective average closing prices in the last month of the year. The market value of investments in open-end funds is the year-end net asset value of the funds.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of management's evaluation of the collectibility of receivables, past loss experience and pertinent factors.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method, and market value is based on net realizable values of finished goods, work in process and merchandise and on replacement costs of raw materials.

Long-Term Investments

Long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. Under this method, the investments are stated at cost and subsequently adjusted for the Corporation's share in the net earnings or other changes in stockholders' equity of the investees. Cash dividends received are recorded as reductions of the carrying values of the investments.

Other long-term investments in which the Corporation has no significant influence on the investees are accounted for by the cost method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of the property, plant, equipment, are capitalized. Repairs and maintenance are expensed currently. Interest incurred for the construction of major facilities is capitalized.

An impairment loss is recognized when the recoverable amount of an asset is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated depreciation. An impairment loss on a revalued asset is recognized directly against capital surplus from asset revaluation to the extent that the impairment loss does not exceed the capital surplus from revaluation of the same asset. A reversal of an impairment loss on a revalued asset is credited directly to capital surplus from revaluation. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized as profit or loss.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to nonoperating income.

Asset Impairment

An impairment loss should be recognized whenever the aggregate carrying amount of specific assets exceeds their recoverable amount and this impairment loss should be charged to current income.

An impairment loss recognized in prior years may be reversed if there has been a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years.

Employee Stock Options

Employee stock option plans that are amended or have options granted on or after January 1, 2004 must be accounted for in accordance with the interpretations issued by the Accounting Research and Development Foundation. Thus, for option plans, the Corporation adopted the intrinsic value method under which any compensation cost is charged to expense over the vesting period.

Convertible Bonds

When the Corporation converts bonds to shares of stock, it writes off the sum of the balances of the carrying value of the bonds, redemption premium and issuance costs. The common stock exchange certificate (capital stock) is then valued at its carrying amount net of the amounts written off, and the difference between the net amount and the par value of the certificate is recognized as capital surplus.

Pension Plan

The Corporation's accounting for pensions is in accordance with the generally accepted accounting standards for pension and related regulations. Net pension cost and related assets or liabilities are determined actuarially.

Revenue Recognition

Revenue is recognized when ownership of and liability for risk of loss or change to the products are transferred to customers, usually upon shipment. Sales returns and discounts, which take into consideration customers' complaints and past experiences, are accrued in the same year of sales.

Capital and Operating Expenditure

An expenditure is capitalized when it is probable that future economic benefits associated with the expenditure will flow to the Corporation and the expenditure exceeds a predetermined level. Otherwise, the expenditure is charged to expense when incurred.

Income Tax

The Corporation adopted inter-period tax allocation. Deferred income taxes are recognized for tax effects of temporary differences and unused tax credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent accounts according to the classifications of their related assets and liabilities. If deferred tax assets and liabilities cannot be related to the assets or liabilities in the financial statement, they are classified as current or noncurrent on the basis of the length of the reversal or realization period.

Deferred income tax liabilities derived from the temporary differences between the carrying amounts and tax base of long-term investments are not recognized. In addition, if it is expected that a foreign subsidiary will not distribute its earnings in the future and the difference will permanently exist.

The Corporation applies the flow-through method to income tax credits for certain purchases of equipment for automation of production or production technology, research and development expenditures, personnel training, etc.

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

Income tax (10%) on undistributed earnings (excluding earnings from foreign consolidating subsidiaries) generated since 1998 is recorded as expense in the year when the stockholders resolve to retain these earnings.

TCTI and GPT are tax-exempt companies incorporated in Samoa and the British Virgin Islands.

The Corporation's other subsidiaries, including of TXC Technology, Inc., TXC Japan Corporation and NGB, are subject to their respective country's income tax law.

Foreign-currency Transactions

Transactions negotiated in foreign currencies (except derivative transactions) are recorded in local currency at the exchange rates in effect on the transaction dates. Gains or losses caused by applying prevailing exchange rates when foreign-currency receivables and payables are settled, are credited or charged to current income. Balance sheet date balances of assets and liabilities denominated in foreign currencies are restated at the balance sheet date exchange rates, and any resulting gains or losses are credited or charged to current income.

Translation of Foreign Subsidiary Financial Statements

The financial statements of consolidated foreign subsidiaries and other equity-method foreign investees are translated from their respective local currencies into New Taiwan dollars as follows:

- Assets and liabilities - at the rate as of the balance sheet date;

- Stockholders' equity accounts - at the historical rate, except for the beginning balance of the retained earnings, which is carried at the translated amount of the previous period;
- Income statement accounts - at the weighted-average rate for the current period.

Exchange gains or losses resulting from the above financial statement translation are recorded as "translation adjustments," which are presented as a separate component of stockholders' equity.

Derivative Financial Instruments

For derivative financial instruments (forward exchange and currency option contracts), which are used to hedge risk exposures on foreign-currency assets or liabilities, any resulting gains or losses may be credited or charged to current income or reported as adjustments to the carrying amount of the hedged assets or liabilities. For forward exchange contracts used to hedge identifiable foreign-currency sales commitments and the contract settlement dates are ahead of the actual selling dates, any exchange gain or loss should be deferred to the actual sales transaction date and recorded as an increase in the transaction price if the commodity purchase price is lower than the actual selling price. But if the exchange loss will result in a loss on actual sales because the actual selling price will become lower than the purchase price, the exchange loss should not be deferred.

Reclassifications

Certain accounts for the year ended December 31, 2004 have been reclassified to be consistent with the presentation of the financial statements for the year ended December 31, 2005.

3. CHANGE IN ACCOUNTING PRINCIPLE

The Corporation adopted the Statement of Financial Accounting Standards No. 35, "Accounting for Impairment of Assets," on January 1, 2005. As a result, the carrying value of idle assets decreased by $11,309 thousand. The impairment loss was $11,309 thousand for the year ended December 31, 2005.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2005	**2004**
Cash on hand	$ 1,046	$ 996
Checking accounts	40,920	56,950
Demand deposits	200,809	175,299
Time deposits (3.5% interest during 2005.12.26~2006.01.02)	16,557	-
	$259,332	$233,245

5. SHORT-TERM INVESTMENTS

	December 31	
	2005	**2004**
Mutual funds	$60,000	$ -
Less allowance for loss on decline in market value	-	-
	$60,000	$ -

6. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31 2005	December 31 2004
Notes receivable	$ 85,839	$ 36,263
Notes receivable from related parties	-	1,203
	85,839	37,466
Less allowance for doubtful accounts	(510)	(172)
	$ 85,329	$ 37,294
Accounts receivable	$1,306,259	$1,121,360
Accounts receivable from related parties	9,070	2,874
Overdue receivable	-	1,283
	1,315,329	1,125,517
Less allowance for doubtful accounts	(11,231)	(10,024)
	$1,304,098	$1,115,493

7. INVENTORIES

	December 31 2005	December 31 2004
Raw materials	$115,393	$137,183
Supplies and spare parts	8,907	8,332
Work in-process	151,915	151,954
Finished goods	164,736	175,158
Merchandise inventories	239,743	158,988
Materials in transit	44,433	24,337
	725,127	655,952
Less allowance for decline in market value and obsolescence	(19,554)	(10,779)
	$705,573	$645,173

Inventory insurance as of December 31, 2005 and 2004 amounted to $501,763 thousand and $524,411 thousand, respectively.

8. LONG-TERM INVESTMENTS

	December 31			
	2005		2004	
Investee	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Cost method				
Marson Technology Co., Ltd.	$ 3,000	5	$ 3,000	5

9. PROPERTY, PLANT AND EQUIPMENT

	December 31			
	2005			2004
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	$ 157,040	$ -	$ 157,040	$ 157,040
Land - revaluation increment	8,954	-	8,954	8,954
Land improvements	442	273	169	159
Buildings	448,482	129,003	319,479	307,337
Machinery equipment	2,192,147	656,877	1,535,270	1,252,024
Transportation equipment	6,292	3,076	3,216	3,961
Miscellaneous equipment	92,664	48,516	44,148	33,625
Prepayments on purchase of equipment	49,147	-	49,147	19,551
	$2,955,168	$ 837,745	$2,117,423	$1,782,651

See Note 21 for the details on property, plant and equipment pledged as collaterals.

Property, plant and equipment insurance as of December 31, 2005 and 2004 amounted to $1,540,346 thousand and $1,315,975 thousand, respectively. No interest was capitalized for the years ended December 31, 2005 and 2004.

10. IDLE ASSETS

	December 31, 2005			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ -	$ 2,253
Buildings	15,444	8,302	4,874	2,268
Machinery and equipment	18,945	12,556	6,389	-
Miscellaneous equipment	458	412	46	-
	$37,100	$21,270	$11,309	$ 4,521

	December 31, 2004			
	Cost	Accumulated Depreciation	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ -	$ 2,253
Buildings	15,444	7,825	-	7,619
	$17,697	$ 7,825	$ -	$ 9,872

Impairment loss was as follows:

	December 31, 2005	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Buildings	$ 4,874	$ -
Machinery and equipment	6,389	-
Miscellaneous equipment	46	-
	$11,309	$ -

11. SHORT-TERM LOANS

	December 31			
	2005		2004	
	Amount	Interest Rate %	Amount	Interest Rate %
Material procurements loans	$145,208	0.718~1.170	$277,996	0.773~1.800
Unsecured bank loans	151,030	1.68	171,076	1.60
Secured loans	57,500	4.90~5.70	46,645	1.38~5.22
	$353,738		$495,717	

See Note 21 for details of pledged assets.

12. BONDS PAYABLE

	December 31	
	2005	2004
Domestic		
1st Domestic unsecured convertible corporate bonds	$ 19,800	$267,800
Add accrued interest compensation	699	4,018
	$ 20,499	$271,818

On December 31, 2003, the Corporation issued first domestic unsecured convertible bonds with an aggregate face value of $400,000 thousand and maturity on December 31, 2008. Nominal interest is 0%. Other details of the bond issuance are summarized as follows:

(a) On the third and fourth anniversaries of the issuance date, bonds are redeemable at 103.02% and 105.34%, respectively, of face value plus accrued interest. On maturity, bonds will be redeemed at face value.

(b) During the period between after three months of issuance and the 40th day before maturity, except for the period between the ex-dividend date and the date of record, holders can request for conversion of the bonds to the Corporation's common stock.

(c) The original conversion price per share is NT$20.00 dollars. The conversion price is subject to adjustment based on a certain formula if there are changes in outstanding shares or execution of conversion below market price.

13. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31 2005	December 31 2004
Secured bank loans	Repayable in quarterly installments, maturing on August 31, 2008	$ 70,320	$ 66,188
Secured bank loans	Repayable in quarterly installments, maturing on September 9, 2008 (paid early)	-	96,000
Unsecured bank loans	Repayable in quarterly installments, maturing on February 2, 2007	40,000	80,000
Unsecured bank loans	Repayable at maturity on October 26, 2008	200,000	-
Secured loan from the Industrial Development Bureau Ministry of Economic Affairs	Repayable in quarterly installments, maturing on October 1, 2005	-	7,127
Chinatrust loan		230,000	160,000
		540,320	409,315
Less current portion		(80,000)	(55,127)
		$460,320	$354,188
Interest rate (%)		0~5.85	0~2.85

See Note 21 for collateral on long-term loans.

As of December 31, 2005, the Corporation has issued to various banks promissory notes amounting to $701,000 thousand to secure short-term and long-term loans.

On September 6, 2004, the Corporation signed a syndicated loan agreement for $500,000 thousand with Chinatrust Commercial Bank and five other financial institutions. The syndicated loan can be separated into two parts and terms summarized as follows:

	Credit Lines	Credit Amount	Credit Period	Interest Rate	Repayment Agreements
First	$300,000	$ 80,000	Three years after the first drawdown date including additional one year.	2.8711%	Six semiannual installments starting from one year after the first drawdown date.
Second	200,000	150,000	Three years after the first drawdown date.	2.8716%	Lump sum on due date.
	$500,000	$230,000			

14. PENSION PLAN

TXC Corporation has established a retirement plan covering its regular employees. Under the Plan, retirement benefit calculation is based on the employee's years of service and average salary. The Corporation contributes monthly to a retirement fund an amount based on 2% of employee salary. The fund is deposited in the Central Trust Bureau under the name of the Employee Retirement Fund Committee.

The Labor Pension Act (the "Act") took effect on July 1, 2005, and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law before 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 before 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 service years as of July 1, 2005 will be retained. Under the Act, the rate of an employer's monthly contribution to employees' pension accounts should be equal to at least 6% of each employee's monthly salary or wage.

Pension information is summarized as follows:

Net periodic pension costs in the years ended December 31, 2005 and 2004 were as follows:

	2005	**2004**
Service cost	$ 3,859	$ 4,889
Interest cost	1,543	1,282
Expected return on plan assets	(1,516)	(1,306)
Amortization of unrecognized losses	557	508
Net periodic pension cost	$ 4,443	$ 5,373

Reconciliation of fund status of the plan and accrued pension cost is as follows:

	2005	**2004**
Benefit obligations		
Vested benefit obligation	$ (4,596)	$ (6,179)
Nonvested benefits	(33,522)	(35,480)
Accumulated benefit obligation	(38,118)	(41,659)
Effect of future salary increase	(11,002)	(8,583)
Projected benefit obligation	(49,120)	(50,242)
Plan assets at fair value	50,429	46,926
Plan assets in excess of projected benefit obligation (Projected benefit obligation in excess of plan assets)	1,309	(3,316)
Unrecognized net transition obligation	972	1,269
Unrecognized net losses	5,666	9,443
Accrued pension cost	$ 7,947	$ 7,396
Vested benefits	$ (5,111)	$ (7,300)

Actuarial Assumptions

	2005	2004
Discount rate used in determining present values	3.25%	3.25%
Future salary increase rate	2.00%	1.75%
Expected rate of return on plan assets	3.25%	3.25%

Summary of changes in the pension fund is as follows:

	2005	2004
Contribution	$ 4,994	$ 4,827
Payment of benefits	$ 2,197	$ 357

15. STOCKHOLDERS' EQUITY

Capital Stock

TXC Corporation's authorized capital is $2,600,000 thousand ($10.00 par value per share). As of December 31, 2005, the Corporation's outstanding capital stock was $1,861,987 thousand divided into 186,199 thousand shares at $10.00 par value each. Capital stock consists of the following:

Initial cash subscription	$ 3,100
Additional cash subscription	540,080
Stock dividends from earnings	961,357
Stock dividends from capital surplus	127,693
Employee stock option	29,770
Convertible bonds	199,987
	$1,861,987

Employee Stock Options

TXC Corporation's employee stock option plans were issued in October 2001, April 2002 and October 2002; the maximum number of units authorized to be granted was 3,500, 1,500 and 4,000, respectively, with each unit eligible to subscribe to one thousand common shares when exercisable. The option may be granted to qualified employees of the Corporation or any of its domestic or foreign subsidiaries. The options of all the plans are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Corporation's common shares listed on the TSE on the grant date.

Information about outstanding stock options for the years ended December 31, 2005 and 2004 was as follows:

Employee Stock Options	2005 Units	2005 Weighted Average Exercise Price	2004 Units	2004 Weighted Average Exercise Price
Outstanding, beginning	7,935	$ 17.0	9,000	$ -
Current issuance	-	-	-	-
Current exercise	(1,912)	17.1	(1,065)	17.0
Current cancel	(1,894)	-	-	-
Outstanding, ending	4,129		7,935	
Exercisable options, ending	2,754		7,935	

As of December 31, 2005, information about outstanding and exercisable options was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (NT$)	Number of Options (In Thousands)	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT$)
$17.00~$15.20	900	0.8	$16.60	900	$16.60
$34.10~$32.20	1,214	1.2	-	839	-
$17.60~$16.60	2,015	1.8	17.60	1,015	17.60
	4,129			2,754	

No compensation cost was recognized under intrinsic value method for the years ended December 31, 2005 and 2004. The assumptions and pro forma results of the Corporation for the year ended December 31, 2005 would have been as follows:

Assumptions	
Expected dividend yield	0%
Expected volatility	46.75%
Risk free interest rate	1.92%
Expected life	3.875 years
Net income	
Net income as reported	$480,468
Pro forma net income	449,496
Earnings per share (EPS) - after income tax (NT$)	
Basic EPS as reported	$2.73
Pro forma basic EPS	2.55
Diluted EPS as reported	2.64
Pro forma diluted EPS	2.47

Earnings Distribution and Dividend Policy

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issue price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is restricted to a certain percentage of the paid in common stock of the Corporation.

Based on the Company Law and the Corporation's Articles of Incorporation, from annual net income less any prior years' deficit, 10% should be appropriated as legal reserve. The remaining amount may be appropriated at the following percentages under the stockholders' approval.

(a) Employee bonus - 3% to 15%
(b) Directors and supervisors' remuneration - 2%

Stock bonuses to employees include subsidiary employees who meet certain criteria set by the board of directors.

Dividends are recommended by the board of directors in accordance with the Corporation's dividend policy. Under this policy, industry trend and growth should be evaluated, investment opportunities should be fully understood, and proper capital adequacy ratios should be considered in determining the dividend to be distributed. In addition, cash dividends should not be less than 20% of the total dividends to be appropriated.

A special capital reserve equivalent to the net debit balance of the components of stockholders' equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, but excluding treasury stock) should be allocated from unappropriated earnings under the regulations promulgated by the ROC Securities and Futures Bureau (SFB), formerly known as the Securities and Futures Commission before July 1, 2004. Any special reserve appropriated may be reversed to the extent of reversed debit balance.

Legal reserve should be appropriated until its amount equals the Corporation's paid-in capital. It can be used to offset deficit. When legal reserve reaches 50% of paid-in capital, up to one half of this reserve may be transferred to capital stock.

Under the Integrated Income Tax System that became effective on January 1, 1998, the ROC resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Corporation on earnings generated since January 1, 1998.

The appropriation of the 2004 and 2003 earnings was approved in the stockholders' meeting on June 13, 2005 and June 24, 2004, respectively. The appropriations and dividends per share are as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2004	**For Fiscal Year 2003**	**For Fiscal Year 2004**	**For Fiscal Year 2003**
Cash dividends	$82,404	$45,536	$0.50	$0.30
Stock dividends	82,405	75,893	0.50	0.50
Employees' bonus - stock	18,728	13,798	-	-
Remuneration to directors and supervisors - cash	3,746	2,760	-	-

The amounts of the above appropriations of earnings for 2004 and 2003 are consistent with the resolutions of the meetings of the Board of Directors. However, the Company Law prescribes that TXC Corporation, as a holder of treasury stock, shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolutions. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged against earnings for 2004 and 2003, the after income tax basic earnings per share for the years ended December 31, 2004 and 2003 would have decreased from NT$1.63 to NT$1.49 and NT$0.93 to NT$0.82, respectively. The shares distributed as bonus to employees represented 1.16% and 0.96% of the Corporation's total outstanding common shares as of December 31, 2004 and 2003, respectively.

As of March 13, 2006, the board of directors of TXC Corporation has not resolved the appropriation of 2005 earnings. The information on the earnings appropriation can be accessed online through the Market Observation Post system (MOPS) on the Web site of the Taiwan Stock Exchange (http://emops. tse.com.tw).

16. INCOME TAX

Provision for income tax was calculated as follows:

	Years Ended December 31	
	2005	**2004**
Tax on pretax income at 25% statutory rate	$140,618	$ 63,551
Add (deduct) tax effects of		
Permanent differences	444	756
Temporary differences	(15,158)	2,167
Tax-exempt income for five years	(15,695)	(4,762)
	110,209	61,712
Less investment tax credit	(59,537)	(30,856)
Current income tax	50,672	30,856
Deferred tax benefit	(1,009)	(34,498)
Adjustment of prior years' tax expense	(41)	272
Income tax expense (benefit)	$ 49,622	$ (3,370)

	2005	**2004**
Deferred income tax assets, current		
Investment tax credit	$ 32,912	$ 26,596
Loss on decline in value of inventories	4,180	2,040
Unrealized foreign exchange loss	1,737	-
Allowance for doubtful accounts over tax limit	-	893
Impairment loss	2,172	-
Others	402	8,493
	41,403	38,022
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(5,639)	(3,088)
Net deferred income tax assets, current	$ 35,764	$ 34,934

	2005	2004
Deferred income tax assets, noncurrent		
Investment losses tax credit	$ 92,070	$ 79,788
Others	331	331
	92,401	80,119
Deferred income tax liabilities, noncurrent		
Investment income	(17,140)	(5,037)
Net deferred income tax (liabilities) assets, noncurrent	$ 75,261	$ 75,082

The Corporation's investment tax credits as of December 31, 2005 for income tax purposes were as follows:

Regulatory Basis of Tax Credits	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 89,461	$ 53,669	2009
	Research and development expenditures	$ 84,824	$ 70,539	2009
	Personnel training	$ 1,368	$ 774	2009

The sales attributable to the following capital expenditures of TXC Corporation are exempt from income tax:

	Tax-Exemption Period
Acquisition of equipment in 2003	2004 to 2008
Acquisition of equipment in 2004	2005 to 2009

TXC Corporation's income tax returns up to 1999 have been examined and approved by the tax authority.

According to the amended Income Tax Law, unappropriated earnings are subject to 10% tax. The 10% tax will be used as a reduction of the shareholders income tax expense in the year when dividends are distributed. The information of imputation credit accounts ("ICA") were as follows:

	December 31	
	2005	2004
Balance of ICA	$ 26,069	$ 1,532

	2005 (Estimate)	2004 (Actual)
Estimated imputation tax credit rate	9.25%	12.38%

	December 31	
	2005	2004
Undistributed earnings		
Until 1997	$ -	$ -
From 1998	493,909	260,217
	$493,909	$260,217

TXC (NGB) Electronic Co., Ltd. is entitled to a full exemption from Foreign Enterprise Income Tax of PRC for five years starting from the first year of positive accumulated earnings and a 50% reduction for the following five years.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Corporation's personnel, depreciation, and amortization expenses for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005			2004		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salaries	$ 253,834	$ 128,303	$ 382,137	$ 207,969	$ 116,966	$ 324,935
Pension	7,107	3,375	10,482	3,308	2,270	5,578
Meal	9,634	5,206	14,840	8,888	4,269	13,157
Welfare benefit	4,021	2,085	6,106	3,515	1,580	5,095
Labor and health insurance	16,012	8,639	24,651	13,765	7,316	21,081
Depreciation	214,294	45,395	259,689	194,203	37,436	231,639
Amortization	2,116	30,291	32,407	8,851	18,816	27,667

18. EARNINGS PER SHARE

	Years Ended December 31									
	2005					2004				
	Amount		Weighted Average Outstanding	EPS		Amount		Weighted Average Outstanding	EPS	
	Before Tax	After Tax	Common Stock	Before Tax	After Tax	Before Tax	After Tax	Common Stock	Before Tax	After Tax
Net income	$ 529,967	$ 480,468				$ 254,245	$ 258,155			
Basic income per share	$ 529,967	$ 480,468	175,971	$ 3.01	$ 2.73	$ 254,245	$ 258,155	174,298	$ 1.46	$ 1.48
Convertible bonds	3,740	2,805	6,418			5,461	4,096	15,610		
Employee stock option	-	-	689			-	-	968		
Net diluted income per share	$ 533,707	$ 483,273	183,078	$ 2.92	$ 2.64	$ 259,706	$ 262,251	190,876	$ 1.36	$ 1.37

19. FINANCIAL INSTRUMENTS

Forward Forex Transaction - Hedge

The Corporation used forward contracts primarily to hedge the risk on exchange rate fluctuations of foreign-currency assets and liabilities.

	Years Ended December 31			
	2005		2004	
Derivative Financial Instruments	**Nominal Amount**	**Credit Risk**	**Nominal Amount**	**Credit Risk**
Forward contracts - TXC Corporation	$ -	-	US$ 500	-
	-	-	JP¥ 50,000	-
Forward contracts - GPT	-	-	US$ 4,000	-
Forward contracts - NGB	-	-	US$ 4,000	-

Risks on Forward Transactions

Credit risk: Credit risk refers to the uncertainties that may arise if a counter-party defaults on the contract. Since the counter-parties are all reputable banks, the Corporation does not expect any significant loss.

Market risk: Market risk refers to the uncertainties due to exchange rate fluctuations. Gains or losses on forward exchange contracts are likely to offset the gains or losses on foreign-currency assets or liabilities.

Interest Rate Swap Agreements

For the year ended December 31, 2005, interest expense from interest rate swap agreements was $28,533 thousand. The contracts as of December 31, 2005 are summarized as follows:

Contract Date	Contract Term	Amount
August 10, 2005	August 10, 2005~August 12, 2010	$300,000

Transaction Risks

Credit risk: The credit risk refers to the risk arising from counter-parties' default on contracts.

Market price risk: Market price risk refers to the risk arising from interest rate fluctuations in the market.

Liquidity Risk, Cash Flow Risk, Future Cash Demand and Period Uncertainty

The interest rate swap contract involves the exchange of fixed rate payments for obligations without the exchange of contract (notional) amounts. No gain (loss) from the contract was recognized for the year ended December 31, 2005. Since the cash required for contract settlement is insignificant, there is no cash flow risk.

Currency Options

As of December 31, 2004, the Corporation had the following currency options. These instruments were used to hedge the risk on exchange rate fluctuations of net foreign-currency assets and liabilities.

European Option

		2004		
Buy/Sell	**Call/Put**	**Contract Value**	**Strike Rate**	**Final Maturity Date**
Sell	NTD/USD	US$ 1,000	NT$ 33.25	February 18, 2005
Sell	USD/NTD	US$ 500	NT$ 34.15	February 23, 2005
Sell	USD/NTD	US$ 500	NT$ 34.15	March 29, 2005
Sell	USD/JPY or JPY/USD	US$ 1,500	JP¥ 105.00	January 31, 2005
Sell	NTD/USD	US$ 750	NT$ 33.00	March 31, 2005
Sell	NTD/USD	US$ 750	NT$ 33.00	May 2, 2005
Sell	NTD/USD	US$ 750	NT$ 32.50	March 8, 2005
Sell	NTD/USD	US$ 750	NT$ 32.50	April 7, 2005
Sell	JPY/USD	US$ 750	JP¥ 105.00	March 24, 2005
Sell	JPY /USD	US$ 750	JP¥ 106.50	February 18, 2005
Sell	USD/NTD	US$ 750	NT$ 32.35	May 5, 2005
Sell	USD/NTD	US$ 750	NT$ 32.35	June 7, 2005
Sell	NTD/USD	US$ 750	NT$ 32.45	May 19, 2005
Sell	NTD/USD	US$ 750	NT$ 32.45	June 17, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	February 9, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	March 10, 2005
Sell	USD/JPY	US$ 450 or US$ 300	JP¥ 108.50 or JP¥ 104.00	April 11, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	January 27, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	February 24, 2005
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	JP¥ 104.75	March 29, 2005

Credit, Market and Liquidity Risks

The Corporation will incur a loss if a counter-party defaults on a contract. But because the Corporation's currency option contracts are only with reputable banks, credit risk is not considered significant.

Market price risk: The Corporation’s currency contract are for hedging purposes, i.e., the exchange rate fluctuations on the contracts offset the exchange rate fluctuations of the hedged items thus, market price risk is not significant.

Liquidity risk: There is no funding or cash flow risk on the currency option contracts.

Type of derivative financial instrument, purpose, and strategy to achieve objective: The Corporation’s transactions, including foreign-currency borrowings are mainly in U.S. dollars and Japanese yen. To avoid risks on exchange rate fluctuations, the Corporation uses forward exchange contracts and currency option contracts with average periods of one year.

Fair Value of Financial Instruments

The fair values of nonderivative financial instruments (except short-term and long-term investments) were equal to their carrying values as of December 31, 2005 and 2004.

	December 31			
	2005		2004	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 259,332	$ 259,332	$ 233,245	$ 233,245
Short-term investment, net	60,000	60,000	-	-
Notes receivable, net	85,329	85,329	37,294	37,294
Accounts receivable, net	1,304,098	1,304,098	1,115,493	1,115,493
Long-term equity investments	3,000	5,782	3,000	3,000
Liabilities				
Short-term loans	353,738	353,738	495,717	495,717
Notes payable	52,422	52,422	27,902	27,902
Accounts payable	581,561	581,561	399,860	399,860
Accrued expenses	147,524	147,524	91,961	91,961
Current portion of long-term loans	80,000	80,000	55,127	55,127
Bonds payable	20,499	20,499	271,818	271,818
Long-term loans, net of current portion	460,320	460,320	354,188	354,188

The Corporation’s market assumptions and estimation methodologies for the fair values of the above financial instruments are as follows:

(a) The fair values of short-term financial instruments such as cash and cash equivalents, receivables, payables and short-term debts are based on their carrying amounts because of their short maturities.
(b) The market values of short-term investments are based on their quoted market prices as of the balance sheet date.
(c) The fair values of long-term equity investments are based on their carrying value.

20. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Corporation
Tai-Shing Electronic Components Corporation (“Tai-Shing”)	Chairman is TXC Corporation’s general manager

Major transactions with related parties are summarized below:

Sales

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 21,226	1	$ 22,384	1

Selling prices to related parties were similar to those for third parties.

Other Expenses

	Years Ended December 31			
	2005		2004	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 4,229	3	$ 5,998	3

Receivable from and Payable to Related Parties

		December 31			
		2005		2004	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Notes receivable	Tai-Shing	$ -	-	$ 1,203	-
Accounts receivable	Tai-Shing	9,070	-	2,874	-
Notes payable	Tai-Shing	264	-	626	2
Accounts payable	Tai-Shing	183	-	155	-
Accrued expense	Tai-Shing	273	-	118	-

In the year ended December 31, 2004, TXC Corporation sold its equipment to Tai-Shing, at their net book values of $32 thousand, with no gain or loss.

21. PLEDGED ASSETS

As of December 31, 2005 and 2004, the following assets had been pledged at their book values to secure short-term loans, long-term debts and commercial paper issued:

	2005	2004
Property, plant and equipment		
Land	$165,994	$165,994
Buildings, net	239,946	80,785
Machinery and equipment, net	507,492	451,675
Intangible assets - land right	15,734	15,176
	$929,166	$713,630

22. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of December 31, 2005, which were not shown in the financial statements, were as follows:

Unit: In Thousands

Commitment	Contract Price	Paid Up	Not Yet Paid
Computer software system	NT$ 3,600	NT$ $1,080	NT$ 2,520
Machinery and equipment	RMB 4,771	RMB 2,601	RMB 2,170
Machinery and equipment	JP¥ 122,615	JP¥ 86,192	JP¥ 36,423

Assets pledged for short-term loan and long-term loan are listed in Note 21. Guarantee for customs tax amount to about $15,000 thousand.

Unused letters of credit were JP¥479,485 thousand and US$66 thousand.

As of December 31, 2005, the Corporation had derivative financial instruments. Please refer to Note 19.

23. SEGMENT, GEOGRAPHIC AREA, EXPORT SALES AND MAJOR CUSTOMER INFORMATION

Segment Information

No segment information.

Geographic Area Information

	China and Others	Taiwan	Adjustments and Elimination	Consolidated
2005				
Sales to other than consolidated entities	$ 330,842	$ 3,399,339	$ -	$ 3,730,181
Sales among consolidated entities	866,638	39,396	(906,034)	-
Total sales	$ 1,197,480	$ 3,438,735	$ (906,034)	$ 3,730,181
Operating income	$ 56,231	$ 513,557	$ (689)	$ 569,102
Non-operating income and gains				140,881
Non-operating expenses and losses				(179,893)
Income before income tax				$ 530,090
Identifiable assets	$ 1,515,392	$ 3,582,465	$ (349,852)	4,748,005
Long-term investments				3,000
Total assets				$ 4,751,005
2004				
Sales to other than consolidated entities	$ 288,125	$ 2,766,604	$ -	$ 3,054,729
Sales among consolidated entities	883,497	117,036	(1,000,533)	-
Total sales	$ 1,171,622	$ 2,883,640	$ (1,000,533)	$ 3,054,729
Operating income	$ 24,775	$ 268,381	$ 141	$ 293,297
Non-operating income and gains				81,669
Non-operating expenses and losses				(120,181)
Income before income tax				$ 254,785
Identifiable assets	$ 950,038	$ 3,291,882	$ (219,082)	$ 4,022,338
Long-term investments				3,000
Total assets				$ 4,025,338

Export Sales

Area	2005	2004
Americas	$ 155,400	$ 160,883
Europe	60,950	16,506
Asia	2,078,080	1,814,354
	$ 2,294,430	$ 1,991,743

Major Customer Information

Customer	2005	2004
A	$ 401,886	$ 199,314

24. OTHER

Intercompany relationships and significant intercompany transactions:

	2005						
	TXC Corporation	GPT	TXC Technology Inc.	TXC Japan Corporation	NGB	TCTI	Total
Sales	$ 39,396	$ 442,158	$ 24,008	$ 4,379	$ 396,093	$ -	$ 906,034
Cost of sales	403,015	435,446	43	-	39,143	-	877,647
Accounts receivable	18,924	172,323	-	-	152,759	-	344,006
Other receivables	-	1,759	-	-	83	-	1,842
Other current assets	4,004	-	-	-	-	-	4,004
Accounts payable	154,103	171,678	4,009	-	18,220	1,676	349,686
Accrued expenses	83	83	-	-	-	-	166
Other gains	-	11,597	-	-	11,582	-	23,179
Other expenses	39,984	11,582	-	-	-	-	51,566

	2004						
	TXC Corporation	GPT	TXC Technology Inc.	TXC Japan Corporation	NGB	TCTI	Total
Sales	$ 117,036	$ 492,916	$ 17,402		$ 373,179	$ -	$ 1,000,533
Cost of sales	379,469	478,194	-		124,658	-	982,321
Accounts receivable	24,150	122,393	-		70,964	-	217,507
Other receivables	-	806	-		769	-	1,575
Accounts payable	97,591	95,011	-		23,210	1,586	217,398
Accrued expenses	774	-	-		6	-	780
Other current liabilities	-	769	103		-	32	904
Other gains	-	7,204	-		7,093	-	14,297
Other expenses	24,606	7,093	810		-	-	32,509