Code：3042

TXC CORPORATION

Annual Report 2006
VS
Meeting Handbook 2007

Think of Frequency, Think of TXC.

M.O.P.S Web site：http://mops.tse.com.tw
T X C Web site：http://www.txccorp.com

Print Date ：2007/5/20

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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

After going through the impacts in 2006, TXC again advanced another major step in the quartz crystals and oscillators industry. Both our revenues and profits, two Key Performance Indexes (KPI), have made substantial growth. We hereby report on our achievements over the past year.

Our consolidated revenue in 2006 was NT$5,206 million, an increase of 39.6% over NT$3,730 million in the previous year, reaching the budget target by 108.3%; net profit after tax was NT$842 million, an increase of 75.3% over NT$480 million, reaching the budget target by 131.2%; basically each share's earning was NT$4.13, an increase of 63.9% over NT$2.52 in the previous year. Looking forward to 2007, we are expected to have growth and revenue above the average of the industry under a precise performance index set by the company. We hereby briefly report on our operational achievements in 2006 and operational plan for 2007 as follows:

A. Operational achievements in 2006:

1. Revenue and net profit after tax Unit: NT$1,000

	2006	2005	Increase(decrease)amount)	Percentage increase
Net consolidated revenue income	5,206,204	3,730,181	1,476,023	39.6%
Consolidated operational profit	1,502,141	978,721	523,420	53.5%
Net consolidated profit (loss) after tax	842,241	480,468	361,773	75.3%

2. Revenue income and expenditure and profitability:

	Year	2006	2005
Finance Structure (%)	Liability vs asset ratio	40.98	36.83
	Longterm fund vs fixed asset ratio	193	164
Debt-paying Capability (%)	Liquidity ratio	255	199
	Quick ratio	196	135
Profitability (%)	Return on assets ratio (%)	15.52	11.94
	Return on shareholders equities ratio (%)	24.75	18.18
	Earnings per basic share （NT$）	4.13	2.52

3. Status of Research and Development:
   The Company has scored remarkable success in sustained efforts toward miniaturization of products. Regardless of 2520 or 2016 in miniaturized product specifications, the Company has narrowed the distance with American and Japanese manufacturers in research and development. We have further strived to improve the manufacturing processes for product mass production and we are now gradually moving toward the upscale high quality and high precision product market.

4. Implementation results of other specialized projects:

(1) Factory expansion: To meet market expansion and anticipated growth in sales,we have built a 7-storey facility in the current site in Pingzhen for production and office use. The new factory was commissioned for use in January 2007. Our production lines could be increased to a total of 14 with sustained growth of the market.

(2) Green enterprise: The Company has scored results in promoting RoHS green products. We passed Sony's certification in February, 2006 and successively passed the relevant environmental requirements of various major customers including ASUS, MITAC and so on. We have already passed certification of green products. To further extend emphasis on this issue to the upstream and downstream and to ensure our products fully conform to the requirements, we concomitantly completed the Green Product Propaganda Handbook for promotion among our cooperative suppliers.

(3) Quality certification: Our efforts for quality enhancement have received commendation by Intel. In March 2007, Intel awarded us the Preferred Quality Supplier, thanks to our superb quality and reputation over the years. This shows that our quality is up to international level.

(4) Capability enhancement: To raise the Company's problem analysis capability,we launched the black belt 6-sigma training in 2006 and successively promoted various process and quality improvement and achieved allround elevation in quality improvement and problem solving.

B. Overview of Operational Plan for 2007:

1.Operational principles and important policies:

(1) Facility expansion:

In view of sustained market growth, and to effectively utilize the current available space the Company planned to substantially expand our facility in the current site in Ningbo plant in China starting in May 2007. Relevant facilities comprised of employee welfare facilities. The new facility will integrate production, office, recreation and other functions and is expected to complete by mid 2008.

(2) Yield enhancement:

The enhancement of production yield rate has long been an important factor in competition. Since the beginning of this year, the Company has strived to find out the genuine reasons for reject rate in a bid to effectively lower the reject rate. Pursuant to the production conditions in Taipei and Ningbo, we have set the objective of lowering the reject rate by over 3%.

(3) Performance evaluation:

Early this year the Company has set forth the Key Peformance Index (KPI) as the basis for performance evaluation and has publicized among the various units. To this end, we plan to quantify our objectives, and further the purpose of integrating management by objectives, performance evaluation and feedback for contributions.

(4) Green enterprise:

Since July 2006, Green Enterprise has become a serious mandatory demand of the European Union for promotion. Henceforth, the promotion of green products for full compliance has become an important challenge of the Company. This year, we will focus on the Green Products Propaganda Handbook for promotion among our suppliers to ensure compliance of applicable specifications of products of the green enterprise. Simultaneously, our Ningbo plant is expected to pass Sony's audit for green products in coming May and June.

(5) Quality enhancement:
To promote quality improvement and to strengthen colleagues' capability inproblem solving, we will continue to promote the quality improvement projects in Taipei after completion of the green belt and black training, and simultaneously initiate the green belt training plan in Ningbo and further using 6-sigma as the common language for problem solving.

(6) Key customers:
Along with the Company's capability enhancement, we have made progress in customer share-rate and in development of new customers. Under the impetus of consumer electronics and telecommunication products forecasted for this year and the robust market growth, our Company is expected to get more orders from our key customers and maintain dynamic upward growth.

(7) Engineering capability:
The Japanese and American enterprises still dominate the crystals and oscillators industry market. To strengthen our competitiveness, it is dependent upon further enhancement of our engineering capability. Through launching of key projects by intensive training of our colleagues in a move to effectively raise our engineering capability to a higher level.

(8) Research and development:
Targeting at product miniaturization, the Company has set up a dedicated group to plan for modification of specifications and corresponding adjustments. Through promotion of this group, we have met market expectations in the timing for delivering miniaturized products. Moreover, under the company plan for AOM products（Advanced Oscillator Module） in line with market demand and our internal capability, we have mapped out 7 major categories and 12 items of frequency products for launching this year to meet market demand for high frequency crystals and oscillators.

2.Sales forecast and basis:
Overall, since the crystals and oscillators market is still in the high growth stage, and the company's past efforts and preliminary investment have already produced definite benefits, it is estimated that following further enhancement in our engineering capability, quality assurance, debut of high end products, addition of new customers and new projects, and robust development in the telecommunication market, and mass launching of miniaturized products, as well as certification by major international customers, the Company is certain to maintain its current leading position in this industry in Taiwan and continue sustained growth and maintain its profitable conditions. Additionally, with assistance from the upstream and downstream suppliers and the concerted efforts of our colleagues, we conservatively estimate that total sales in 2007 will surpass 1.1 billion units and overall revenue and profit can be maintained above 25%.

We wish to express our thanks for your support for TXC and hope to feedback to you with our achievements scored. Changes in the industry have never stopped and competition is ever rising, our colleagues will continue to adhere to the honest attitude, foster the positive spirit and make preparations to face challenges ahead. We sincerely wish for your continued support for the years ahead.

II.Company Overview

A.Company Introduction

1. Date of the company´s incorporation

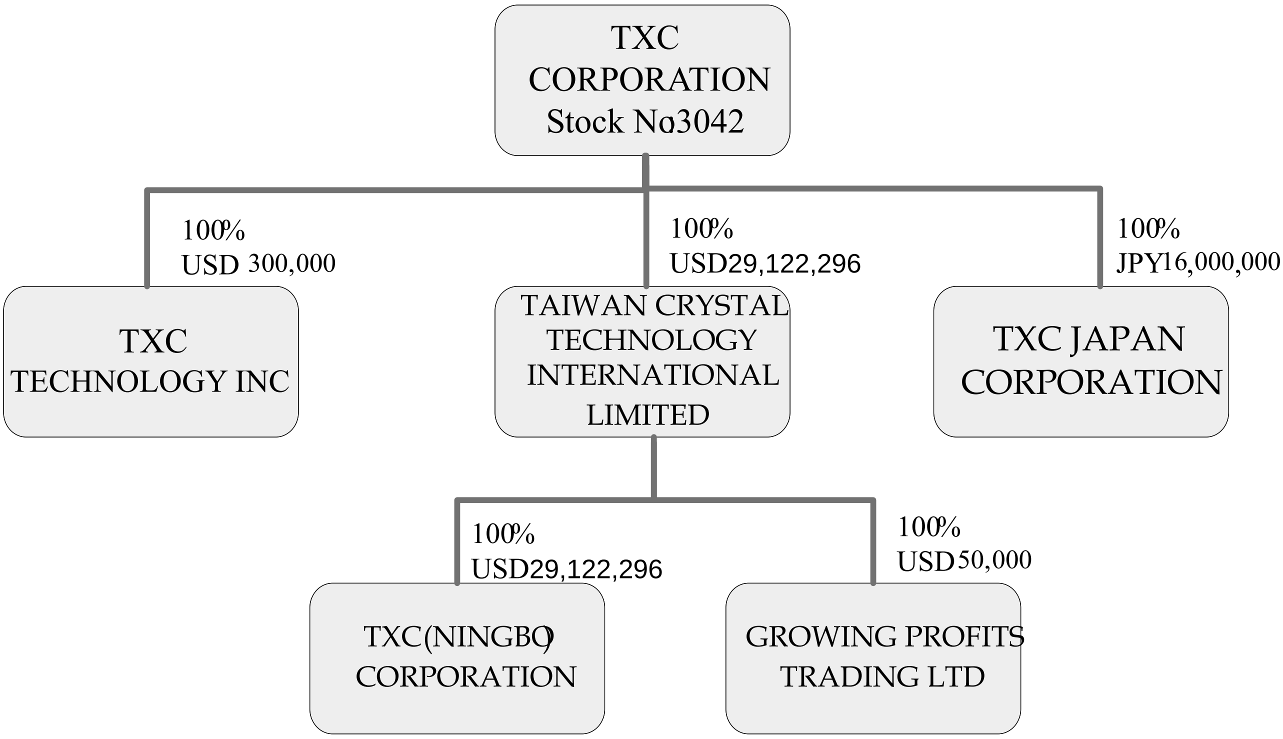
TXC Corporation is specialized in the manufacturing of frequency control components. Since our establishment in December 1983, we have strived on the research, design, manufacturing and sales of the DIP and Surface Mounted Device (SMD) crystals series products. We are specialized in manufacturing high 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. 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.
2007 A new plant is expected to be commissioned in Ping zhen in 2007, Preferred Quality Supplier awared by Intel, anticipated facility expansion in Ningbo in May, sustained promotion of the Six Sigma program, as well as the green belt training in Ningbo plant, purchasing of an office in Shenzhen, anticipated passing of Sony GP audit by Ningbo plant by mid 2007.

B、Company Structure and the Subsidiaries

1.The chart of TXC corporation and the subsidiaries



2.The basic data of the subsidiaries

2007.03.31

Name	Incorporated	Address	Capital	Business Nature
Taiwan Crystal Technology International Limited	87.12.23	WESTERN SAMOA	USD 29,122,296	Investment holding
Growing Profits Trading Ltd	88.03.09	BRITISH VIRGIN ISLANDS	USD 50,000	National trading
TXC (NGB) Electronic Co., Ltd. corporation	88.03.12	No.189, Huangshan Xi Rd., Economic & Technical Development Zone,Ningbo Zhejiang, China	USD 29,122,296	Manufacture and sales of electronics products
TXC Technology Inc	89.12.01	431 Lambert Road,Suite 306 Brea,California 92812, U.S.A.	USD 300,000	Marketing activities
TXC Japan Corporation	94.09.13	Davinici-shin-yokohama Bldg.,1-3-1, Shin-yokohama, Kohoku-ku,Yokohama,222-0033 Japan	YEN 16,000,000	Marketing activities

III. Corporate governance

A. Directors and Supervisors

2007.04.14

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	-

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

2007.04.14

Title	Name	Date of employment	Major academic (professional)	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	-
Vice General Manager Manufacturing Center	Shi, Shen-Hsiung	2004.10.01	Industrial Engineering Management, Taiwan IndustrialTechnology Institute	-
Assistant Vice General Manager of Research and Development	Lin, Shi-Bo	2002.04.01	MS (Physics), Univ of California,USA	-
Assistant Vice General Manager of Research and Development	Chang, Qi-Zhong	2006.04.01	Lunghwa Junior College of Technology and Commerce	-
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	-

C. Corporate governance and variations with management principles of publicly-listed companies and reasons

Items	Operation Circumstances	Difference with governance principles of publicly-listed companies and reasons
1. Corporate equity structure and shareholder equity （1） Company's way of handling shareholder recommendations and disputes. （2） The Company is in actual control of the namelist of the Company's major shareholders and the end controllers of the major shareholders. （3） The Company has set up a risk management mechanism and firewall with its affiliate enterprises.	(1) The Company has dedicated spokesman and surrogate spokesman and email box for handling shareholders' recommendations and disputes. (2) The Company regularly reports on the holdings of the major shareholders and timely in control and has maintained good relations with the major shareholders. (3) The Company has formulated operation regulations to govern the operation, sales and finance relations with the affiliated enterprises and has also set up a written internal control system for its subsidiaries.	Nil
2. Formation of the Board of Directors andits responsibility and authority （1）The Company has set up independent directors （2）Regularly evaluate the independence of the certified accountants	(1) 2 directors already fulfill the qualifications of independent directors and the Company has included the independent directors to be governed by the regulations to accommodate with the revised regulations of the Equities Trading Law. (2) Regularly evaluate the independency of the certified accountants.	Nil
3. Formation of Auditors and its responsibility and authority （1）Setup of independent auditors （2）Auditors' communication with company employees and shareholders.	(1) One auditor already fulfills the qualifications of an independent auditor. (2) Auditors may randomly review the Company's finance and sales execution and is authorized to invite report by the operation team.	Nil
4. Establish communication channels with the stakeholders.	The Company has set up the spokesman system, website and various channels for providing the company's latest news and communication channels, as well as setting up shareholders' mailbox.	Nil

Items	Operation Circumstances	Difference with governance principles of publicly-listed companies and reasons
5. Open information （1） The Company has set up website to disclose finance, sales and corporate management. （2） The Company has adopted other methods for disclosing company information（such as setting up an English website, appointed dedicated person responsible for collecting company information and disclosure, implement the spokesman system, and place progress of investors conference presentation on the company website, etc.）	(1) The Company has set up a website in simplified and traditional Chinese, English and Japanese. Website: http://www.txccorp.com to provide information on finance, sales and others and has dedicated person to maintain and update information. (2) The Company will hold investors conference presentation according to practical needs and place relevant information on the company website. (3) A dedicated person is responsible for collecting relevant information and disclosing major events; a spokesman is responsible for speaking to the public.	Nil
6. Operation of function committees set up by the company such as Nomination Committee and Remuneration Committee.	The Company has 3 auditors and one of them has qualifications of an independent auditor but no function committee is being set up.	In accordance with the law, Auditors Committee or Auditing Committee or various other function committees should be set up.
7. If the company has formulated corporate governance principles in accordance with the Corporate Governance Principles of the publicly-listed companies, please state its operation and difference with the corporate governance principles: The Company is now formulating its corporate governance principles and relevant regulations wherein the moral and behavioral standard will be reported at this shareholders' meeting.		

Items	Operation Circumstances	Difference with governance principles of publicly-listed companies and reasons
8. Please state the system and measures and implementation of social responsibility（for instance, human rights, employee benefits, employee care, environment, community participation, social contribution, social service, investor relations, supplier relations and rights of stakeholders）: In line with the Company's humanitarian conviction of caring for the disadvantaged, we have paid special attention to caring for the old, the young and the disabled and have annually lay out budget to feedback to society in various ways and fulfill its social responsibility. Aside from continual donations to Longtan Education Institute for the Mentally Retarded and the Syin-Lu Culture and Education Foundation, we have also made donations to education as follows: (1) Taipei City Beitou District Yatsen Elementary School---sports installation and equipment (2) Taipei City Beitou District Wenhua Elementary School---books and arts donation (3) Sponsored sports competition for the disabled in collaboration with the Industrial and Commerical Construction Study Committee. (4) Taoyuan County Pingzhen City Xiangan Elementary School---sponsored international sports competition. (5) Taipei City Wanhua District Dali Elementary School---books donation (6) Taipei City Wanhua District Dali Elementary School—musical instruments donation and repair		
9. Other important information that helps understand operation of corporate governance（for instance, further studies by directors and auditors, risk management policy and implementation of risk measurement standard, implementation of policy for protection of consumers or customers, buying of insurance policies for company directors and auditors, etc）: 1) Company directors and auditors participate in finance and sales training courses to augment their professional knowledge from time to time. 2) Implementation of company's risk management policy and risk measurement standard: nonapplicable. 3) Implementation of policy for protection of consumers and customers: nonapplicable. 4) Purchase of insurance policies for directors and auditors by the Company.		

Items	Operation Circumstances	Difference with governance principles of publicly-listed companies and reasons
10. If the Company has self-evaluation report or evaluation report by professional institutions on corporate governance, it is necessary to state the results of self-evaluation (or outsourced evaluation), major shortcomings（or recommendations）and improvement: the Company has carried out self-evaluation in accordance with the corporate governance self-evaluation report, and the self-evaluation result is as follows: The Company has fulfilled its key index in corporate governance in four major aspects, namely, shareholders equity, internal control auditing system, operation strategy, stakeholders and social responsibility. In the aspect of the function of the Board of Directors, the various indexes of corporate governance have been reached except for setting up the Auditing Committee and other function committees (already elected 3 auditors). In the aspect of information transparency, the various indexes of corporate governance have been reached except for punishment because of delayed announcement (due to differing interpretation) about adoption by the Board of Directors in August 2006 of raising investment from surplus on an investment company in China. Note 1: For further studies by directors and auditors, refer to the stipulations in the Reference Examples for Promotion of Studies by Directors and Auditors of Publicly-listed Companies published by the Taiwan Stock Exchange Corporation. Note 2: For Stock Traders, Equity Investment Entrust Businesses, Equity Investment Consultancy and Futures Traders, it is necessary to state the implementation of risk management policy, risk measurement standard and policy for protection of consumers and customers. Note 3: So-called corporate governance self-evaluation report refers to the report on self-evaluation and explanation by the company on company operation and implementation in accordance with the various self-evaluation items of corporate governance.		

(4) If the company has corporate governance rules and regulations, it is necessary to disclose its inquiry method: please go to the company website: http://www.txc.com.tw/tw/f_investor/03_5.html

(5) Other important information for furthering understanding of the Company should also be disclosed: go to the company website: http://www.txc.com.tw/tw/f_investor/03.asp

IV.Capitals and Stocks

A. Source of Capitals

2007/04/14 unit: share

Shares Class	Approved Shares			Remark
	Circulated in Market (note)	Uncirculate shares	Total	
Common shares	206,032,282	93,967,718	300,000,000	

note:these shares are listed。

B. Shareholders structures

2007.04.14

Shareholders / Numbers	Government	Financial institutions	Other institutions	Individuals	Foreign institutions and foreigners	Total(note)
Numbers	3	3	137	13,669	81	13,893
Number of Shares	14,741,368	3,370,000	53,543,274	93,351,038	41,026,602	206,032,282
Percentage of shares	7.15%	1.64%	25.98%	45.32%	19.91%	100.00%

note：The above based on the transactions end at 14/4/2007。

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

item / year			2005	2006	2007.03.31 end
Marketprice / share (note 1)	Highest		30.55	56.3	61.7
	Lowest		13.75	28.6	51.8
	Average		21.51	43.9	56.7
Net value per share (note 2)	Before distribution		16.12	18.50	19.83
	After distribution		15.07	note	-
Earnings Per Share	Weight average number of shares (1000's share)		175,996	203,945	205,698
	earnings per share (note3)	Before retroactive adjustment	2.73	4.13	1.19
		After retroactive adjustment	2.52	note	-
Dividend/share	Cash dividend		1.00	note	-
	Stock dividend without compensation	Stock dividend from earnings	0.06	note	-
		Stock dividend from PICAP	-	note	-
	Accrued undistributed dividend (note 4)		-	-	-
Analysis of rate of return	P/E (note 5)		7.88	10.63	-
	P/C (note 6)		21.51	note	-
	C/P (note 7)		4.65%	note	-

＊ 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。

note8：The financial statements of TXC Corporation were audited or view or certified by CPA.

note9：Up to 2007.03.31，The retain earnings of 2006 has not yet admitted by the stockholders' meeting.

D. 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 2006

unit：NT$

Item	amount	
	Sum	total
Beginning period undistributed profits		136,479,052
plus：Available distributed profit for current year		
Net profit after tax for this year	842,240,452	
minus：		
Appropriate legal reserve (10%)	(84,224,045)	
Profits available for distribution		894,495,459
Items of distribution：		
Shareholder bonus—transfer raising capital share appropriate ($1 per share)	206,032,280	
Shareholder bonus—cash ($2 per share)	412,064,564	
Employee bonus—transfer raising capital share appropriate	35,119,140	
Employee bonus—cash	35,119,140	
Directors and supervisor remuneration (2%)—cash	14,047,655	
total		(702,382,779)
End period of undistributed profits		192,112,680

E. Employee bonus and rewards for directors and auditors

1. The principle of surplus distribution in accordance with company regulations:

Surplus in this year's final account should first be used to pay tax and to make up for past deficits, then followed by allocation of 10% as legal reserve or appropriate or divert the special surplus reserve in accordance with applicable laws and regulations, and after retaining an appropriate amount in view of the operation status, the balance unallocated surplus should be allocated by percentages as follows:

(1) 3%~15% for employee bonus.

(2) 2% as reward for directors and auditors.

(3) The total amount of surplus after deducting employee bonus and reward for directors and auditors for the year shall be for shareholders bonus.

Other objects for employee bonus in stock should comprise of employees of affiliated subsidiaries with certain qualifications and the Board of Directors should be authorized to formulate relevant regulations.

2 Proposal by the Board of Directors for surplus distribution in 2006:

As proposed by the Board of Directors on 26 April, 2007 surplus distribution for employee bonus and reward for directors and auditors are as follows:

(1) Propose to allocate employee cash bonus amounting to NT$35,119,140, bonus in stock NT$35,119,140 and cash reward for directors and auditors amonting to NT$14,047,655.

(2) Propose to allocate employee stock dividend in shares and the surplus recapitlization ratio of : 3,511,914 shares, 14.6%.

(3) Propose to allocate employee bonus and reward for directors and auditors in accordance with par value setting earnings per share at: NT$3.72.

(4) Propose to set earnings per share at NT$2.99 according to closing stock price of NT$52.10 on 95.12.30 after allocation of employee bonus and reward for directors and auditors.

3. The Company Board of Directors on surplus allocation in 2005:

The actual surplus allocation of employee bonus and reward for directors and auditors according to resolution adopted by the shareholders meeting on 15 June, 2006.

(1) Actual employee bonus dividend and reward for directors and auditors in cash respectively: NT$34,347,060 and NT$6,869,410.

(2) No difference between the proposed allocation adopted by the Board of Directors and the resolution by shareholders meeting.

V、Business Information

A、Business Contents

1、Business Scope

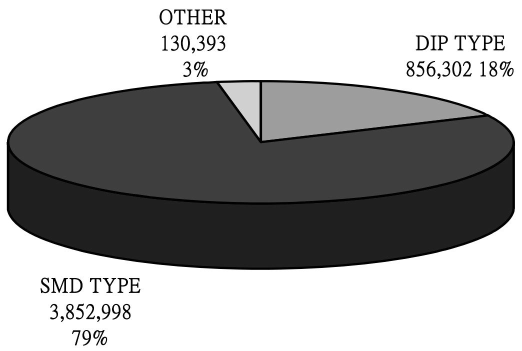
(1). The Major Business Contents

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.

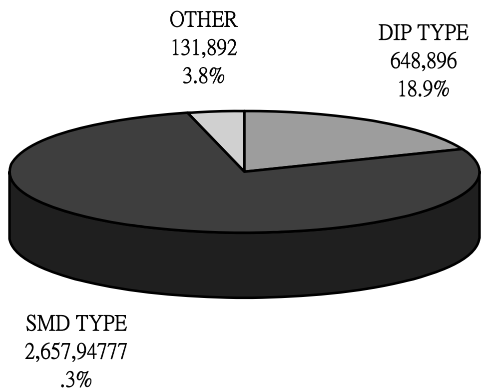
(2). Business Proportions

(unit NT$ 1000's)

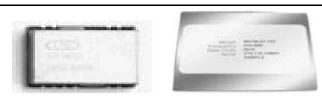
2006 (NTD4,839,693 thousand dollars)



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 /3*2.5mm	
	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. 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 2.0 x 1.6 x 0.7mm SMD Crystal Unit and Crystal Oscillator into mass production in Q2 2007; and trial production of 1.6 x 1.0 x 0.7mm crystal components in Q1, 2008. And, to meet the market needs, mass production will begin in Q2, 2008. 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 2006, 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 vehicles use

The TS-16949 preliminary product development quality operating system introduced in 2006 has been formally certified and company product design time has been shortened and design cost drastically reduced, thereby providing speedier and more complete service to meet customer demand. The Company has scored substantial results in the frequency control components for the front vehicle market of application manufacturers in 2005 and 2006. A number of manufacturers has requested for samples and audited the Company's quality system with substantial results. Particularly in the TPMS system, a number of special testing technology has been successfully completed and already submitted products for the pre-vehicle and post-vehicle manufacturers for piloting production and mass production testing and is expected to contribute to raising revenue. We will foster more direct contact with the world's top 5 automobile manufacturers in 2007 and 2008 so as to enhance our competitiveness in the post vehicle market.

(c).Development of high-end oscillators and module products

The Company has made veritable contribution to the niche market of high frequency and high value-added high precision frequency control components in 2006. Moreover, we are leading the industry in Taiwan by ushering in mass production in the second quarter of 2007 for the miniaturized TCXO for use in GPS. From 2006 to 2009, we will carry out deeper and more extensive product development, for instance, TCXO for use in some special telecommunication equipment, the VCSO for use in the optical fiber telecommunication module, the HFF VCXO for use in high frequency telecommunication and the various high precision frequency control modules (Frequency Translator, CS, CDR) for use in infrastructure. Such high-end module niche products are technology-oriented targeting at the high output value and high profit product market with comparatively lower investment in production equipment.

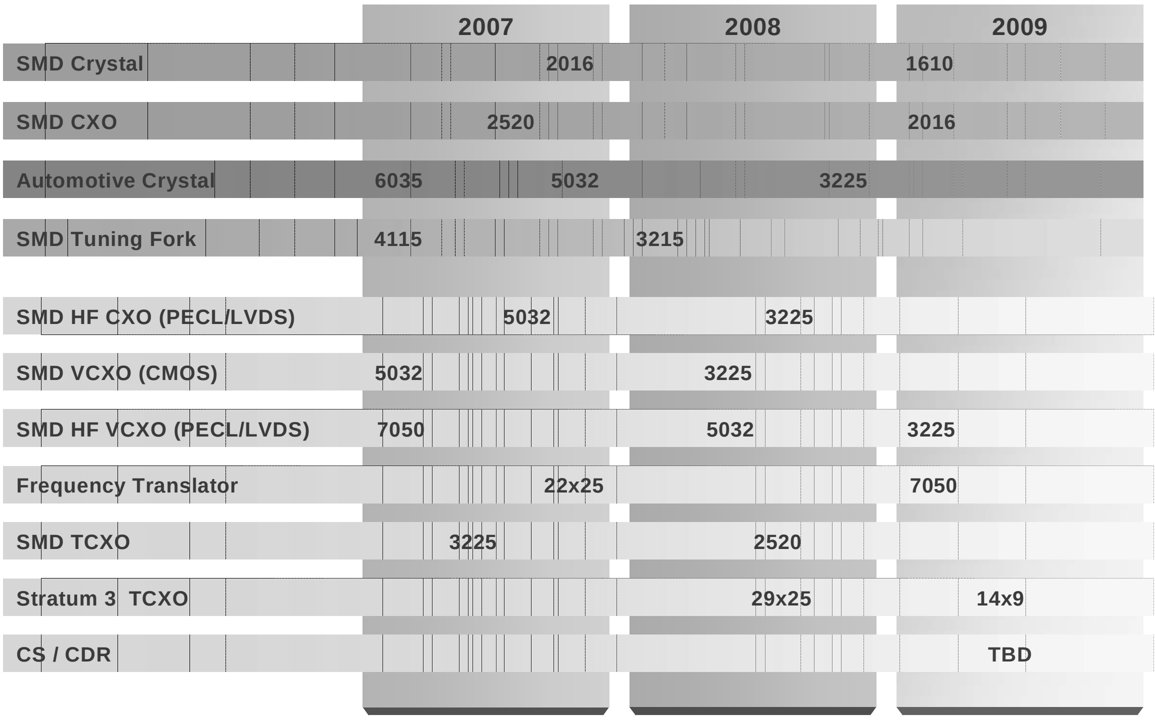
(d).In the future, development of application end products using the testing system with quartz frequency components for basic development is our strategy of winning our competitors by developing other products. The testing technology of crystals and oscillators is not only for producing frequency components, but also for further integrating chemical thin film technology, MEMS technooogy and signal capture technology, and quartz frequency control components into a complete system.

The quartz component tester has great potential and market for applications in gas detection, pressure detection and acceleration detection. Presently, only two fof the top 5 frequency control components in the world have the capability in developing this tester and has generated substantial revenue. The Company will build up our manpower and technology in this aspect and plan to enter this tester market in 2009.

(e).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.

The schedule is as below:



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. 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. 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 the market overall, the market demand of crystal components in the next few years will be rather stable.

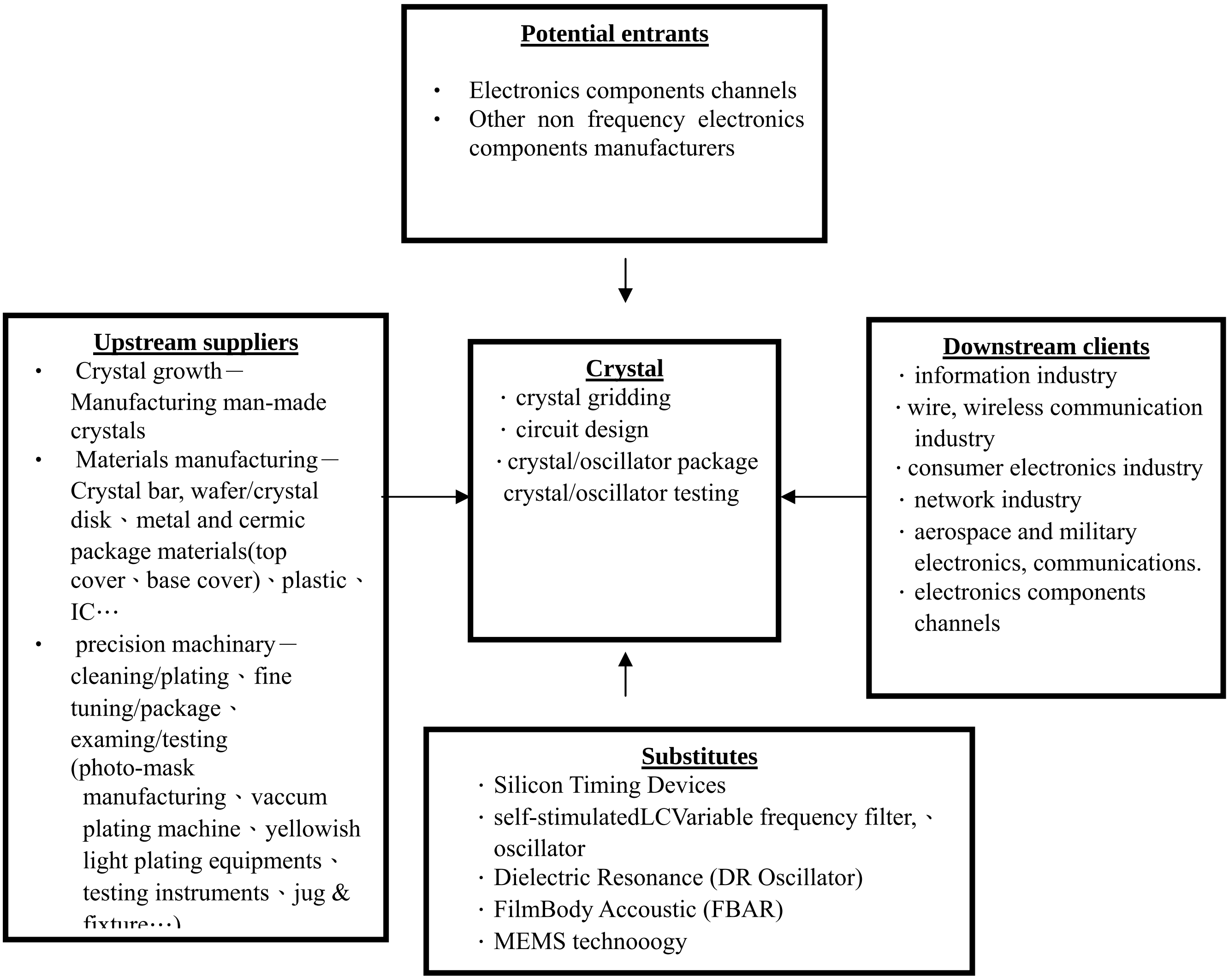
When you comparing the three crystal technologies: frequency, precision, and size dimension you can see that the European and US manufacturers are strong in the frequencies development. It was because of their development of the wireless technology during World War II that it gives them an advantage 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). Production trend：

(a). 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.

(b). 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 、Fiber Channel、Gigabit Ethernet、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.。

The products are as the below list:

No	Projects	PKG (mm)	Type	Features
1	High Frequency CXO (above 100MHz)	7x5	LVPECL LVDS	High Freq. Low Noise
2	High Frequency VCXO (above 50MHz)	7x5	CMOS LVPECL LVDS	High Freq. Low Noise High Pull
3	High Frequency VCXO (below 50MHz)	5x3.2 3.2x2.5	CMOS	Low Noise High Pull
4	3225 TCXO	3.2x2.5	Clipped Sine	High Stability
5	32.768KHz CXO (TF)	5x3.2	CMOS	High Stability
6	Precise CXO	7x5 5x3.2	CMOS	High Stability
7	Frequency Translator (FX)	25x20	LVPECL	Low Noise
8	Stratum 3 TCXO	7x5	Clipped Sine	Ultra High Stability
9	622MHz VCSO	7x5	LVPECL	High Freq. Low Noise High Pull

(4). 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 65% 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。

3. Technology and Recent Research and Development

(1) Ratio of R&D expense in net sales during recent years up to 2007.03.31

units：NT$ 1,000’s，%

Year	2005	2006	2007.03.31
Net Sales	3,438,735	4,839,693	1,270,301
Cost for Research and Development	114,374	120,920	42,175
R&D cost/net operating Cost(%)	3.33	2.50	3.32

(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. "piezoelectric effect crystal oscillator component electrode" is patented in Taiwan, Japan and U.S.A. 2. " 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.

4. 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 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 Fiber Channel、Gigabit Ethernet、 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: Thousand NT$

Region / year	2005		2006	
	$ dollars	%	$ dollars	%
America	155,400	4.52	154,117	3.18
Europe	60,950	1.77	80,445	1.66
Asia	2,078,080	60.43	3,162,803	65.35
Domestic	1,144,305	33.28	1,442,328	29.80
Total	3,438,735	100.00	4,839,693	100.00

(2). Market share

unit：million USD$

2005 Rank	2006 Rank	Company Name	2004 Revenue	2005 Revenue	2006 Revenue	% Change (04-05)	% Change (05-06)	2006 Market Share
1	1	Epson Toyocom	570	589	645	3.3%	9.5%	19.6%
2	2	NDK	478	515	626	7.7%	21.6%	19.1%
3	3	Kyocera Kinseki	312	338	372	8.3%	10.1%	11.3%
4	4	KDS	253	253	290	0.0%	14.6%	8.8%
5	5	Vectron	183	188	211	2.7%	12.2%	6.4%
6	6	TXC	92	117	161	27.2%	37.6%	4.9%
7	7	TEW	85	83	88	-2.4%	6.0%	2.7%
9	8	Micro Crystal	51	56	60	9.8%	7.1%	1.8%
10	9	Rakon	50	53	59	6.0%	11.3%	1.8%
8	10	River	60	63	59	5.0%	-6.3%	1.8%
12	11	Pericom	21	45	49	114.3%	8.9%	1.5%
14	12	Fox	38	39	48	2.6%	23.1%	1.5%
13	13	Conner-Winfield	42	44	47	4.8%	6.8%	1.4%
15	14	C-MAC	37	36	40	-2.7%	11.1%	1.2%
		Other Companies	611	650	531	6.4%	-18.3%	16.2%
		Total Revenue	2,883	3,069	3,286	6.5%	7.1%	100.0%

Modified from CS&A

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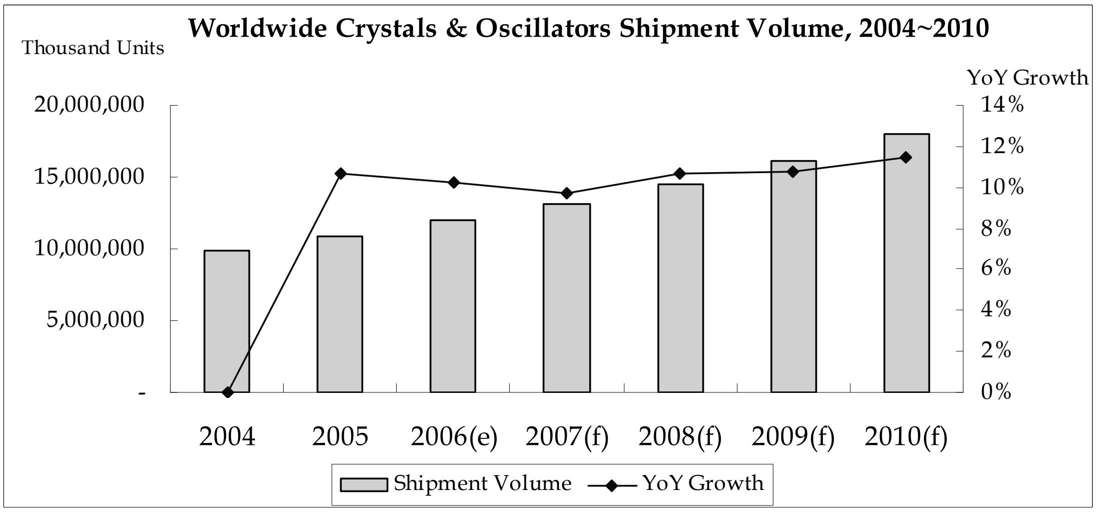
(3). Market future demand and supply condition, and its growth potential

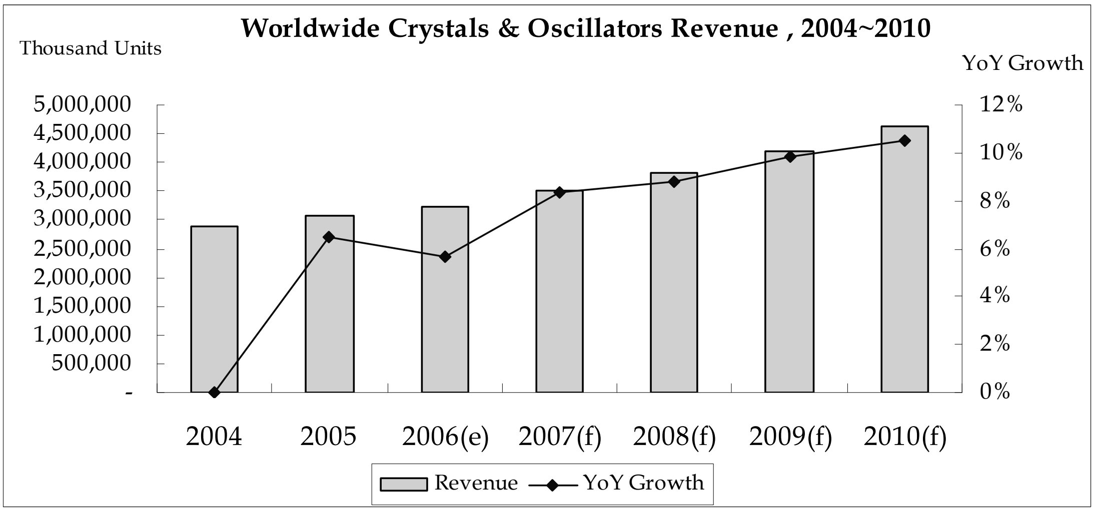
(A). On industry side

TIC Consulting has used past sales of crystals and oscillators to forecast the future market. It noticed stable growth both in demand and sales amount since 2004. The total global demand for crystals and oscillators in 2006 topped 12000,000,000 units and the average demand growth is 11%. According to the TIC Consulting forecast, total global sales revenue for crystals and oscillators in 2009 will top US$4.2 billion, or an 8% composite growth rate.



2004-2010 Worldwide Crystals & Oscillators Shipment Volume

(Source: TIC Consulting)



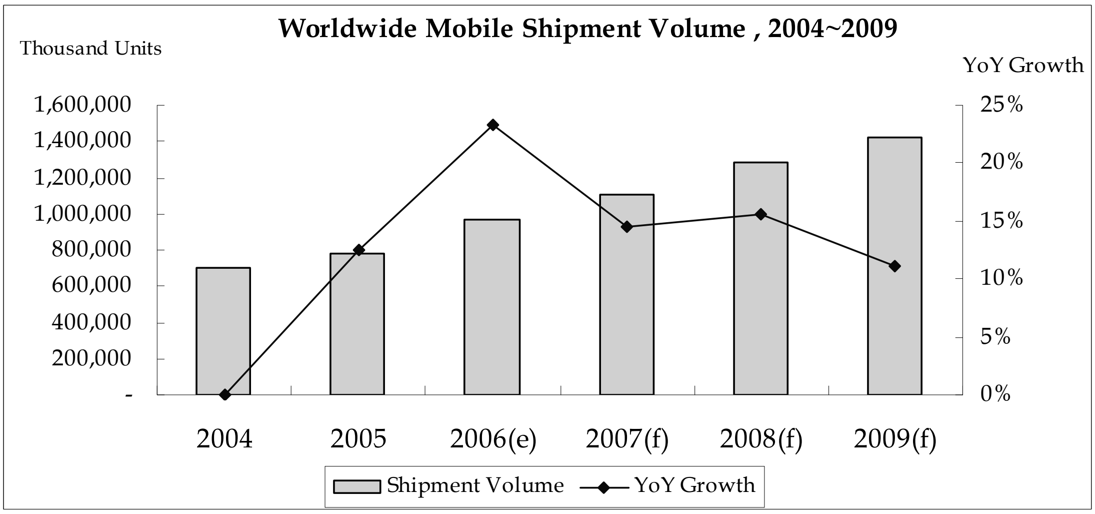
2004-2010 Worldwide Crystals & Oscillators Shipment Revenue
(Source: TIC Consulting)

(B) Market Side

In terms of application, crystals oscillators can be divided into telecommuniction, information, and consumer and others. Hereby we analyze the application market below:

(a). Mobile phone market:

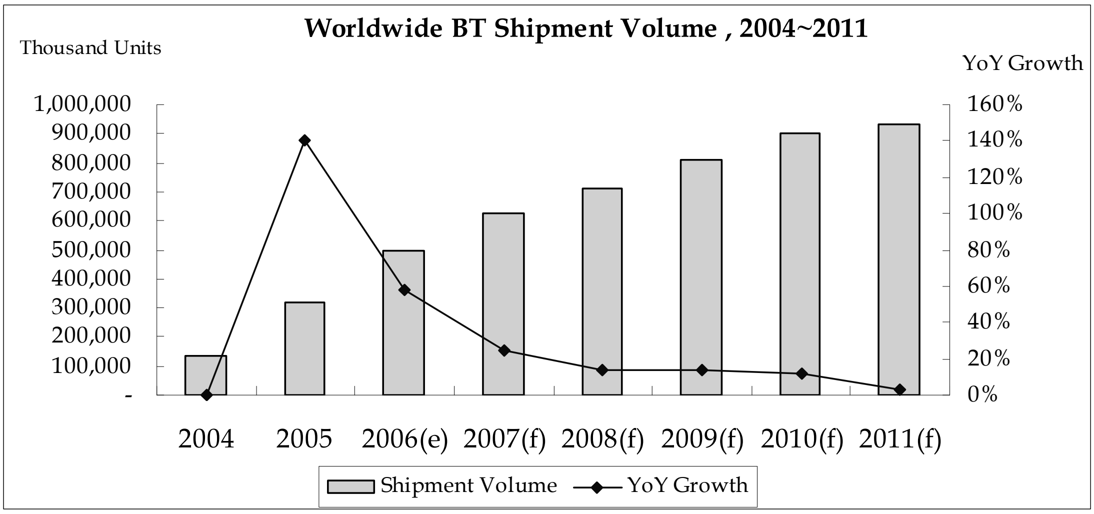
Aside from traditional transmission of sound and text, the mobile phone now also transmits music, pictures, animation, photos and with various multimedia and recreational functions. Presently, the mobile phone has almost become a platform integrating all the media. Future mobile communication will use the mobile phone as the hardware to provide music, TV, internet, GPS, audio, office, and game and other contents and services, and toward customized solutions. According to the observation and forecast by Topology Research Institute, the mobile phone market will continue to grow steadily at a growth rate of approximately 14% in the next 3 years.



2004-2009 Worldwide Mobile Shipment Volume
(Source: Topology Research Institute)

(b). Bluetooth Market

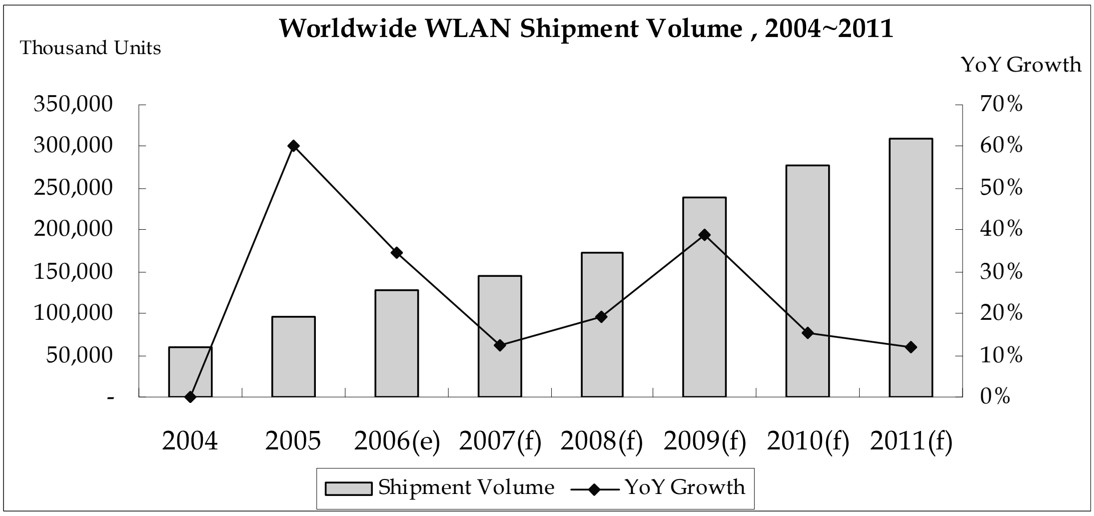
Bluetooth is a unified specification of close distance wireless technology formulated by five companies in 1998, namely, Nokia, Ericsson, Intel, IBM, and Toshiba. It has now become the design specification for mobile phone, PDA and other telecommunication equipment. Over 70% of the applications are in mobile phone with the remaining 30% shared by Head Set,PC,PDA and game, etc. Fuji Chimera Research Institute points out, the bluetooth market saw explosive growth in the past 2 years but is expected to slow down in demand in 2008 but the average growth rate is estimated at approximately 13%.



2004-2011 Worldwide BT Shipment Volume
(Source: Fuji Chimera Research Institute)

(c). Wireless LAN Market

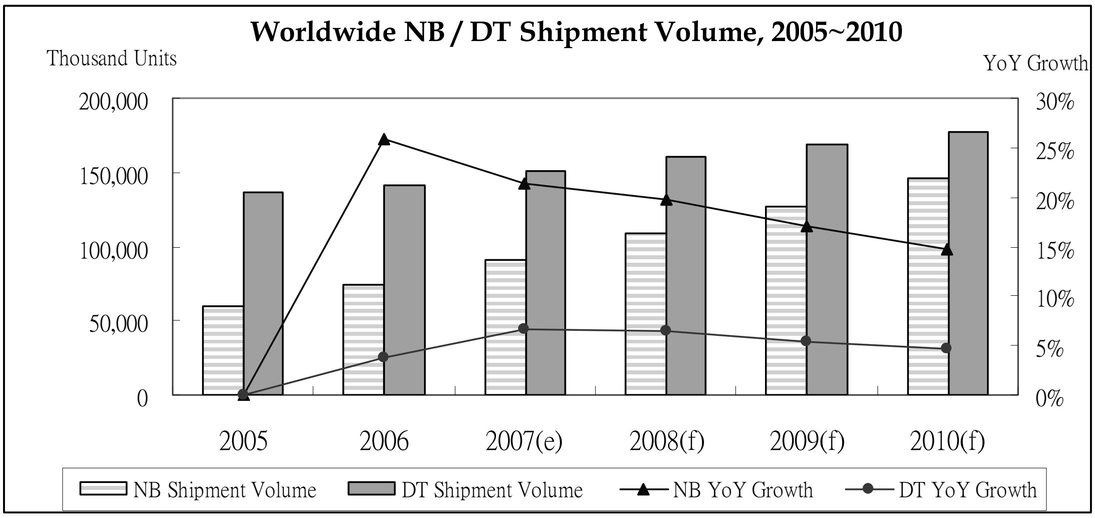
Wireless LAN refers to the LAN system utilizing wireless telecommunication for data transmission, and particularly refers to the IEEE802.11 specifications being mainly used in computer, mobile phone and PDA. Presently, notebook computer bundled with wireless LAN has become a standard. It is expected that this will extend to home LAN and gain a chunk of the home appliance market. Marketing of the game machine with wireless telecommunication function such as the Nintendo DS further expanded the potential of wireless LAN. Currently, over 55% of wireless LAN is being applied to PC while game machine and Access Point captured respectively 20% of the market. Fuji Chimera Research Institute optimistically forecasts an annual growth rate of 20% in the WLAN market in the coming 5 years.



2004-2011 Worlwide WLAN Shipment Volume
(Source: Fuji Chimera Research Institute)

(d). PC Market

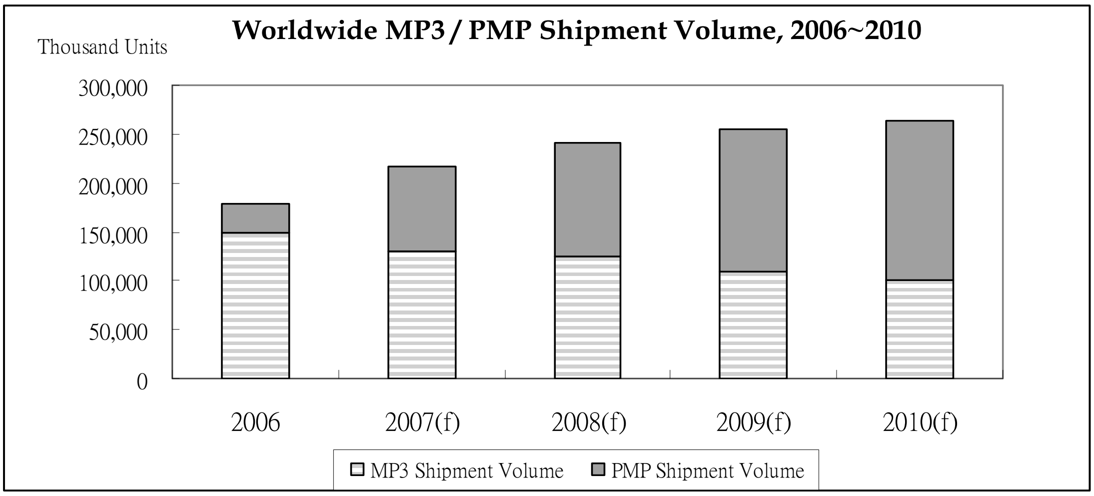
PC has become increasingly popular and has become a daily necessity. But the growth rate is declining in recent years; but the debut of Windows Vista in 2007 is expected to drive the market and trigger a wave of replacement. In hardware, the Intel Santa Rosa platform is another driving force for the growth of PC. It is estimated that worldwide NB and DT shipment volumes in 2007 are respectively 90 million and 150 million units, with an annual growth rate of 22% and 7% respectively.



2005-2010 Worldwide NB/DT Shipment Volume
(Source: IDC , Dec. 2006)

(e). MP3/PMP Market

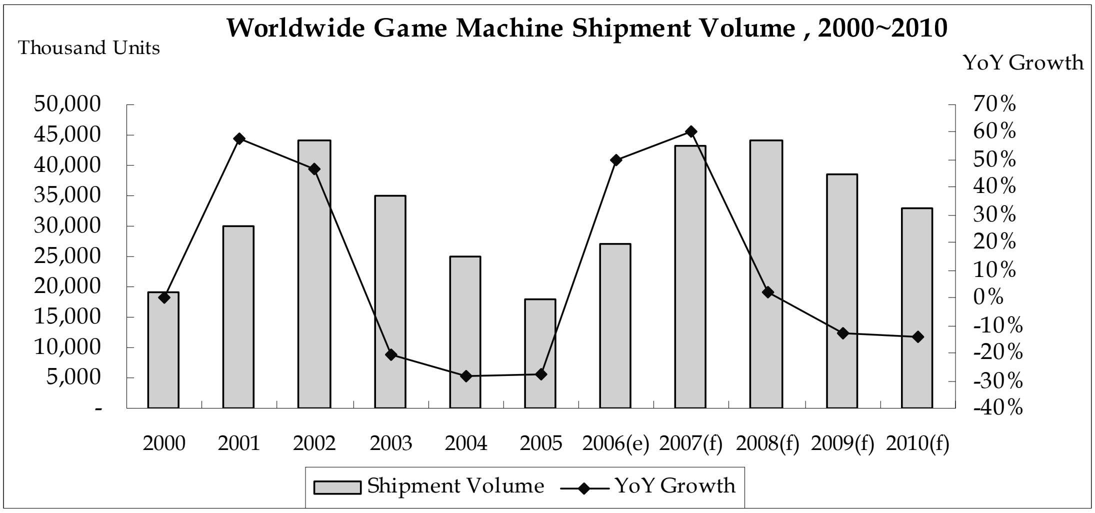
The MP3 (MPEG-1 Audio Layer 3) and PMP(Portable Media Player) market is growing rapidly and has become the index industry of consumer electronics. A study by CES(Consumer Electronics Association) in 2006 shows that they have become the most hoped for gift among the American consumers. There are a variety of brands and functions on the market formerly mainly for MP3 music playing. Drived by mobile video, image playing is gradually becoming the norm. Thus, developing toward PMP is an expected trend for the product. ISuppli estimates that the entire MP3/PMP worldwide shipment volume is approximately 216 million units in 2007 with an output value of approximately US$20.6 billion; and will top 264 million units by 2010 in worldwide shipment, with PMP products surpassing Music-only device, and will represent over 60% of the market.



2006-2010 Worlwide MP3 / PMP Shipment Volume
(Source:iSuppli; Topology Research Institute, Apr. 2007)

(f). Game Machine

By the end of 2006, the three major game machine suppliers Nintendo, Sony and Microsoft officially launched battles in next generation game machines with emphasis on high specifiction hardware performance, high picture quality, and with telecommunication and network capability, as well as the creativity of game software. An analysis of historical sales data shows that the peak sales of game machine is usually in the first 2~3 years after debut of the new product, and will undergo a next generation replacement every 5 years. It is estimated that the new generation game machine shipment will reach 42 million units in 2007, a growth rate of 60% over the previous year.



2000-2010 Worldwide Game Machine Shipment Volume
(Source: MIC; Taiwan Securities Advisory compiled)

(C).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.

(D). Market growth

TIC forecasts that the worldwide crystals and oscillators sales will reach US$4.2 billion in 2009, with an annual composite growth rate of 8%. Following integration of the 3C industry and continual launching of new products, as well as strong demand for 4C (CAR) electronics, it is expected that demand for crystals and oscillators will maintain at a certain level. Drived by demand of sustained growth, enhancement of technology and expansion of capacity, manufacturers in Taiwan are expected for veritable future growth.

(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。
Opportunities	**Threatens**
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。	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。

Respond Strategies
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。

2、Major products' important applications and their manufacturing process

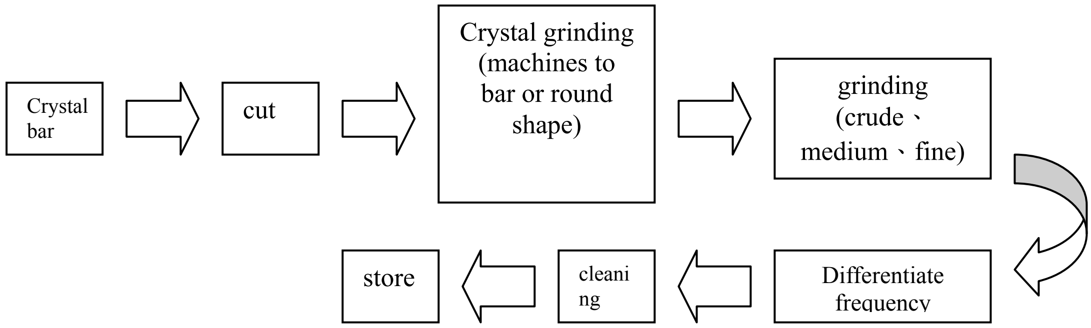
(1). Major products' important applications

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

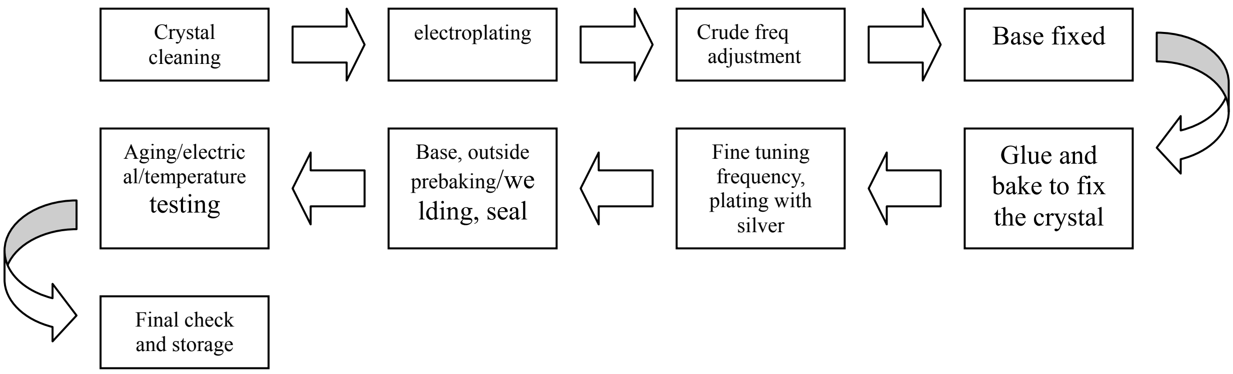
(2). Manufacturing Process

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。

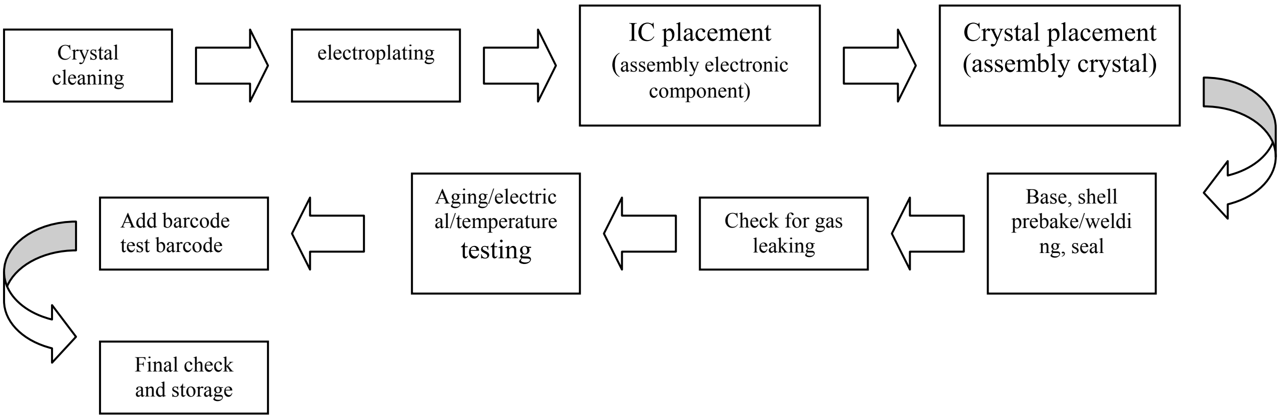
(a). Pre-manufacturing process－quartz crystal (During the entire manufacturing process, there is a loss of 20% of the quartz materials.)



(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

2005			2006		
Company	amount	The Percentage of annual procurement (%)	Company	amount	The Percentage of annual procurement(%)
GROWING PROFITS	403,015	19.0%	GROWING PROFITS TRAD	488,299	16.60%
EAST CRYSTAL	244,367	11.5%	FAITH VICTORY ENTERP	335,503	11.41%
SEIKO ISTRUMENTS	199,450	9.4%	TXC(NINGBO) CORP.	295,772	10.06%
FAITH VICTORY	188,816	8.9%	KYOCERA ASIA PACIFIC	283,499	9.64%
KYOCERA ASIA	158,219	7.5%	EAST CRYSTAL ELECTRO	262,638	8.93%
SUMITOMO METAL	150,161	7.1%	SEIKO INSTRUMENTS IN	178,470	6.07%
TROQ ELECTRONIC	117,936	5.6%	TROQ ELECTRONIC CO.,	132,568	4.51%
PRINCETON TECHNOLOGY	80,854	3.8%	DONG RONG ELECTRONIC	109,868	3.74%
HUILONG ELECTRONIC	69,729	3.3%	ZENITRON CORP.	82,645	2.81%
TAIWAN CRYSTAL SUPERIOR TECHNOLOGY	47,893	2.3%	SUMITOMO METAL	81,994	2.79%

(b). Ten largest clients

unit：NT$ 1,000's

2005			2006		
Name of client	amount	Percentage of annual sale (%)	Name of Client	amount	percentage of annual sale (%)
QUANTA COMPUTER INC.	401,886	11.69%	HONHAI PRECISION Group	800,170	16.53%
HON HAI PRECISION IND. CO.,	281,940	8.20%	QUANTA COMPUTER Group.	420,877	8.70%
ASUSTEK COMPUTER INC.	258,444	8.20%	ASUSTEC COMPUTER Group	390,290	8.06%
INVENTEC CORPORATION	216,774	6.30%	Compal Communications, Inc.	317,881	6.57%
Compal Communications Inc.	176,036	5.12%	INVENTEC Group	315,431	6.52%
MOTOROLA BCS	155,737	4.53%	Motorola BCS	223,405	4.62%
PREMIER IMAGE TECHNOLOGY	114,366	3.32%	SEAGATE TECH	178,422	3.69%
SEAGATE TECH	113,404	3.30%	Compal Electronics Group	118,178	2.44%
MITAC INTERNATIONAL CORP.	110,190	3.20%	ITF CO.	113,745	2.35%
Compal Electronics, Inc.	94,311	2.74%	UNIVERSAL MICROELECTRONICS CO .,LTD	111,163	2.30%

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

unit: 1000's，$1000's

Year / Major products	2005			2006		
	capacity	Production	value	capacity	production	value
DIP Crystal product	320,000	304,498	514,129	420,000	415,277	694,616
SM Crystal products	400,000	365,066	2,107,429	620,000	88,747	2,805,932
Others	-	-	217,341	-	-	199,478
Total	720,000	669,564	2,838,899	1,040,000	1,004,025	3,700,026

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

unit1000's， $1000's

year / Major products	2005				2006			
	Domestic sales		export		Domestic sales		Export	
	quantity	value	quantity	value	quantity	value	quantity	value
DIP Crystal product	65,125	160,032	220,442	493,455	46,409	103,972	359,018	751,096
SM Crystal products	72,401	626,199	295,084	2,024,749	84,105	537,678	467,530	3,212,257
Others	-	-	-	134,300	-	-	-	234,690
total	137,526	786,231	515,526	2,652,504	130,514	641,650	826,548	4,198,043

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

Year		2005	2006	2007/03/31
Total number employees	engineer	137	152	160
	administrative	163	175	174
	Sales	55	58	60
	Technicians/operators	335	421	421
	total	690	806	815
Average age		33.51	32.58	32.63
Average years in service		3.82	3.98	4.06
Distribution of educational background	Ph.D.	0.72%	0.62%	0.98%
	M.S.	6.96%	6.82%	6.87%
	B.S.	52.03%	49.75%	50.92%
	High School	36.81%	35.61%	34.97%
	Below High School	3.48%	7.2%	6.26%

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 %

E、Employer/Employee Relation

(1) The Company has maintained harmonious employer/employee relation since its establishment. In recent years and since the closing date for publication of the annual report, there are no losses due to employer/employee disputes and there have never been any major employer/employee disputes since its establishment. Aside from holding employor/employee meetings and discussion meetings for new employees and for foreign nationals, and conducting employee satisfaction investigation, we have also set up an employee opinions mailbox and other channels for reflecting their opinions. We have spared no efforts toward employee benefits. We have often stressed the importance of employees and have provided employee bonus in stock allotment, stock options, and cash for wedding／funeral／other festive occasions, emergency relief fund, group insurance／medical checkup, subsidies for tour at home or abroad, as well as discounts for books, magazines and special convenience stores; and sponsor birthday celebrations, sports competition, year-end party and luck draw, various recreational activities and commendation of senior and outstanding employees; also provide canteen, hostel and parking lots, table tennis table, pool table and other facilities. It is hoped that through coordination of the employee welfare committee with the Company to promote employer/employee harmony and guarantee employee benefits and health in a bid for win-win for both the employer and the employees.

(2) Employee education and training:

The Company provides employees a multiple learning environment. Colleagues can continually challenge their growth limit through internal／external training, OJT, KM（knowledge management system）, reading clubs, online／physical library, and supervisor／peer instruction. At the same time, through the new employees／professional technology／supervisor coaching／general knowledge course／self-development education and training system to bring maximun satisfaction for employees! On the other hand, through planning of job category／job level, work rotation, project allocation and overseas assignments to integrate their lives with their careers and enable them enjoy the happiness of growth in knowledge and skills and develop a bright future.

The Company has formulated management regulations for employee education and training and mapped out relevant training courses in view of job function and professional requirements in order to enhance the knowledge and raise the quality of employees for better operation performance. The relevant education and training results are as follows:

Item	No. of Class	Total No. of Trainees	Total No. of Hours	Total Expense
1. New employees training	7	150	1,050	-
2. Job Function Training	113	2,231	12,283	1,164,900
3. Management Level Training	2	40	225	53,000
4. General Knowledge Training	6	650	818	27,000
5. Self Heuristic Growth Training Course	12	439	5,268	24,000
Total	140	3,510	19,644	1,268,900

(3) Finance personnel acquired relevant certificates specified by the competent government organ:

1.The Company's finance supervisor qualified for Professional Certification of Finance and Accounting Supervisor of Publicly-listed Companies sponsored by the R.O.C. Accounting Research Development Fund.

2.One finance personnel of the Company acquired the Internal Auditor Certificate issued by the Internal Auditing Association.

(4) The Company formulated the employee retirement regulation in accordance with the Labor Law, and periodically appropriated retirement funds into the Central Trust Bureau in accordance with the law. The employee retirement fund monitoring committee is responsible for the management and use of the retirement preparatory fund. The Legislative Yuan adopted after a third reading on 11 June 2004, and started to enforce from 1 July, 2005 monthly appropriation of retirement fund to the employee personal retirement fund account set up in the Labor Insurance Bureau in accordance with the Labor Retirement Fund Regulation.

(5) To protect employees with work safety the Company has formulated the following control methods regarding the work environment and employee body safety protection and call on employees for thorough implementation: The Company formulated the TXC Contingency Plan in December 2005 to ensure safety of life and countermeasures for emergency and accidents. For details, go to the company website: www.txccorp.com。

(6) Loss from employer/employee disputes in recent years and disclosure of present and future losses in anticipation of employer/employee disputes and countermeasures: Nil

(7) Formulation of guidelines for employee conduct or morality: The Company already formulated the TXC Conduct Guideline in August 2005 to govern the conduct and morality of employees. For details, go to the company website: www.txccorp.com。

(8) Fulfillment of Social Responsibility:

In line with the Company's humanitarian conviction of caring for the disadvantaged, we have paid special attention to caring for the old, the young and the disabled in 2005 and have annually lay out budget to feedback to society in various ways and fulfill its social responsibility. Aside from continual donations in 2007 to Longtan Education Institute for the Mentally Retarded and the Syin-Lu Culture and Education Foundation, we have also made donations to education as follows:

(1) Taipei City Beitou District Yatsen Elementary School---sports installation and equipment

(2) Taipei City Beitou District Wenhua Elementary School---books and arts donation

(3) Sponsored sports competition for the disabled in collaboration with the Industrial and Commerical Construction Study Committee.

(4) Taoyuan County Pingzhen City Xiangan Elementary School---sponsored international sports competition.

(5) Taipei City Wanhua District Dali Elementary School---books donation

(6) Taipei City Wanhua District Dali Elementary School—musical instruments donation and repair

VI. 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					
		2002	2003	2004	2005	2006	Up to 2007.03.31
current assets		1,304,082	2,025,924	1,920,141	2,212,806	3,351,817	3,388,265
long-term equity investments		183,459	411,191	517,397	856,082	1,146,443	1,210,150
Property, plant and equipment		1,250,064	1,189,022	1,268,713	1,274,863	1,669,862	1,747,952
Intangible assets		-	-	7,396	7,947	7,947	7,947
Other assets		29,102	22,069	95,632	86,849	70,989	77,240
Total assets		2,766,707	3,656,148	3,809,279	4,438,547	6,247,058	6,431,554
current liabilities	Before distribution	714,593	1,080,174	962,358	1,022,552	1,296,358	1,175,963
	After distribution	714,593	1,080,174	962,358	1,022,552	note2	-
Long-term liabilities		210,803	614,127	559,818	410,499	1,142,255	1,166,426
Other liabilities		5,450	4,742	3,512	4,201	3,752	4,299
Total liabilities	Before distribution	930,846	1,699,043	1,525,688	1,437,252	2,442,365	2,346,688
	After distribution	930,846	1,699,043	1,525,688	1,437,252	note2	-
Common stock		1,376,731	1,441,405	1,607,847	1,861,987	2,056,983	2,060,323
Capital surplus		299,209	295,691	369,246	496,842	573,156	576,771
Retained earnings	Before distribution	154,436	220,418	340,585	633,770	1,132,541	1,376,593
	After distribution	77,912	82,430	153,302	290,300	note2	-
Unrealized gains on financial instruments		-	-	-	-	183	294
Cumulative translation adjustments		5,485	-409	-34,087	8,696	36,388	65,443
Asset revaluation increment(note 3)		-	-	-	-	5,442	5,442
Total stockholders' equity	Before a distribution	1,835,861	1,957,105	2,283,591	3,001,295	3,804,693	4,084,866
	After distribution	1,820,493	1,908,809	2,197,441	2,805,517	note2	-

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

Note 2：Up to 2007.03.31，The retain earnings of 2006 has not yet admitted by the stockholders' meeting.

Note 3：Capital surplus includes asset revaluation increment NT$5,442(仟) from 2002 to 2005.

(2)、Abbreviated P/L Statements

Unit：NT$ 1,000

Year / Item	Financial information for the post 5 years (Note 1)					
	2002	2003	2004	2005	2006	Up to 2007.03.31
Net operating revenue	1,768,321	2,173,059	2,883,640	3,438,735	4,839,693	1,270,301
Gross profit	262,356	383,872	571,224	868,411	1,289,101	350,340
Operating income	72,844	135,015	268,522	512,868	845,784	216,150
Nonoperating income and gains	56,166	55,797	97,280	183,415	267,559	70,892
Nonoperating expenses and losses	66,554	61,668	111,557	166,316	154,894	29,442
Income before income tax	62,456	129,144	254,245	529,967	958,449	257,600
Net income before cumulative effect of change in accounting principles	83,091	142,506	258,155	480,468	859,508	244,052
Cumulative effect of change in accounting principles	-	-	-	-	17,267	0
Net income	83,091	142,506	258,155	480,468	842,241	244,052
Earnings per share	0.60	1.01	1.63	2.73	4.13	1.19

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

B、Financial Analysis for the past 5 Years

Item		Year	Financial Analysis for the past 5 Years					
			2002	2003	2004	2005	2006	Up to 2007.03.31
Capital StructureAnalysis	Debt ratio (%)		33.65	46.47	40.05	32.38	39.10	36.49
	Long-term fund to fixed asstes ratio (%)		164.16	216.25	224.12	267.62	296.25	300.43
Liquidity Analysis	Current Ratio (%)		182.49	187.56	199.52	216.40	258.56	288.13
	Quick Ration (%)		112.87	129.09	135.18	151.32	206.14	227.54
	Times interest earned (%)		367.32	924.62	1,730.51	1,220.56	3,891.00	2,829.00
Operating performace Analysis	Average collection turnover(times)		2.78	3.06	3.00	2.88	3.23	3.10
	Days sales outstanding		131	119	122	127	113	117.92
	Average inventory turnover(times)		3.57	3.71	4.25	4.45	5.98	6.07
	Average payment turnover(times)		4.11	3.87	4.66	4.17	4.19	3.75
	Average inventory turnover(days)		102	97	86	82	61	60.15
	Fixed assets turnover(times)		1.41	1.83	2.27	2.70	2.9	2.91
	Total assets turnover(times)		0.64	0.59	0.76	0.77	0.77	0.79
Profitability Analysis	Turn on total assets (%)		4.18	4.80	7.23	12.51	16.08	3.96
	Turn on total equity (%)		4.68	7.51	12.18	18.18	24.75	6.19
	Paid-in capital ratio (%)	Operating income	5.29	9.37	16.70	27.54	41.12	10.49
		Pre-tax income	4.54	8.96	15.81	28.46	46.59	12.50
	Net margin (%)		4.70	6.56	8.95	13.97	17.40	19.21
	Earnings per share(Basic) Note I		0.51	088	1.48	2.73	4.13	1.19
	Earnings per share(Diluted) Note I		0.50	0.86	1.37	2.64	3.83	1.12
Cash Flow	Cash flow ratio (%)		36.11	2.59	16.78	67.21	67.48	42.23
	Cash flow adequacy ratio (%)		53.51	44.94	49.30	99.76	89.90	-
	Cash flow reinvestment ration (%)		9.15	0.55	3.35	14.72	11.65	-
Leverage	Operating leverage		3.42	2.43	1.81	1.45	1.36	1.43
	Financial Leverage		1.47	1.13	1.06	1.10	1.03	1.05

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, 2006 and 2005 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, 2006 and 2005, 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, 2006 and 2005, 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, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the accompanying schedules of significant accounts, provided for supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to above.

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.

As stated in Note 3 to the financial statements, on January 1, 2006, the Corporation adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments" and related revisions of previously released SFASs.

We have also audited the consolidated financial statements of TXC Corporation and subsidiaries as of and for the years ended December 31, 2006 and 2005, and expressed modified unqualified opinion with explanatory paragraphs on such financial statements.

March 5, 2007

Notice to Readers

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

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

TXC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amount)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 797,134	13	$ 212,986	5
Available-for-sale financial assets (Notes 2, 3 and 6)	150,183	2	60,000	1
Notes receivable, net (Notes 2 and 7)	44,589	1	85,329	2
Accounts receivable, net (Notes 2, 7 and 22)	1,680,447	27	1,188,974	27
Inventories, net (Notes 2 and 8)	600,905	10	587,633	13
Other current assets (Notes 2, 18 and 22)	78,559	1	77,884	2
Total current assets	3,351,817	54	2,212,806	50
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 10)	1,143,443	18	853,082	19
Financial assets carried at cost (Notes 2 and 9)	3,000	-	3,000	-
Total long-term investments	1,146,443	18	856,082	19
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 23)				
Cost				
Land	157,040	3	157,040	4
Land improvements	442	-	442	-
Buildings	277,570	5	272,793	6
Machinery and equipment	1,810,816	29	1,453,138	33
Transportation equipment	2,557	-	2,557	-
Miscellaneous equipment	80,949	1	67,945	1
Land - revaluation increment	8,954	-	8,954	-
	2,338,328	38	1,962,869	44
Less accumulated depreciation	(944,554)	(15)	(700,041)	(16)
Unfinished construction and prepayments for purchase of equipment	276,088	4	12,035	1
Property, plant and equipment, net	1,669,862	27	1,274,863	29
INTANGIBLE ASSETS				
Pension prepayment (Notes 2 and 16)	7,947	-	7,947	-
OTHER ASSETS				
Idle assets (Notes 2, 3 and 12)	4,126	-	4,521	-
Refundable deposits	2,971	-	2,329	-
Deferred charges, net	11,498	-	4,738	-
Deferred income tax assets (Notes 2 and 18)	52,394	1	75,261	2
Total other assets	70,989	1	86,849	2
TOTAL	$ 6,247,058	100	$ 4,438,547	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Note 13)	$ 205,275	3	$ 165,208	4
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	1,744	-	-	-
Notes payable (Note 22)	55,286	1	52,422	1
Accounts payable to third parties	467,299	8	401,982	9
Accounts payable to related parties (Note 22)	279,238	4	154,286	3
Income tax payable (Note 18)	74,456	1	30,437	1
Accrued expenses (Note 22)	155,386	3	128,544	3
Current portion of long-term loans (Notes 15 and 23)	50,000	1	80,000	2
Other current liabilities	7,674	-	9,673	-
Total current liabilities	1,296,358	21	1,022,552	23
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	18,944	-	-	-
Bonds payable (Notes 2 and 14)	763,311	12	20,499	-
Long-term loans, net of current portion (Notes 15 and 23)	360,000	6	390,000	9
Total long-term liabilities	1,142,255	18	410,499	9
OTHER LIABILITIES				
Land value increment tax reserve (Notes 2 and 11)	3,512	-	3,512	-
Deferred credits	240	-	689	-
Total other liabilities	3,752	-	4,201	-
Total liabilities	2,442,365	39	1,437,252	32
STOCKHOLDERS' EQUITY (Note 17)				
Capital stock				
Common stock, $10 par value; Authorized - 300,000 thousand and 260,000 thousand shares at December 31, 2006 and 2005 Issued - 205,698 thousand and 186,199 thousand shares at December 31, 2006 and 2005	2,056,983	33	1,861,987	42
Capital surplus	573,156	9	491,400	11
Retained earnings				
Legal reserve	153,821	2	105,774	3
Special reserve	-	-	34,087	1
Unappropriated earnings	978,720	16	493,909	11
Cumulative translation adjustments (Note 2)	36,388	1	8,696	-
Unrealized gains on financial instruments (Note 2)	183	-	-	-
Asset revaluation increment	5,442	-	5,442	-
Total stockholders' equity	3,804,693	61	3,001,295	68
TOTAL	$ 6,247,058	100	$ 4,438,547	100

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Note 2)	$ 4,901,260	101	$ 3,474,648	101
LESS SALES DISCOUNTS AND RETURNS	(61,567)	(1)	(35,913)	(1)
NET OPERATING REVENUE	4,839,693	100	3,438,735	100
COST OF SALES	3,551,041	74	2,569,635	75
GROSS PROFIT	1,288,652	26	869,100	25
UNREALIZED GAIN ON TRANSACTIONS WITH INVESTEES	(240)	-	(689)	-
REALIZED GAIN ON TRANSACTIONS WITH INVESTEES	689	-	-	-
REALIZED GROSS PROFIT	1,289,101	26	868,411	25
OPERATING EXPENSES				
Sales and marketing	211,969	4	147,628	4
General and administration	110,428	2	93,541	3
Research and development	120,920	3	114,374	3
Total operating expenses	443,317	9	355,543	10
OPERATING INCOME	845,784	17	512,868	15
NONOPERATING INCOME AND GAINS				
Interest income	5,204	-	2,304	-
Investment income accounted for by the equity method	124,900	3	48,707	1
Gain on disposal of assets	-	-	81	-
Gain on disposal of investments	1,184	-	789	-
Gain on physical inventory	-	-	360	-
Foreign exchange gains	94,629	2	111,534	3
Valuation gain on financial instruments	4,079	-	-	-
Others	37,563	1	19,640	1
Total nonoperating income and gains	267,559	6	183,415	5

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
NONOPERATING EXPENSES AND LOSSES				
Interest expense	$ 22,849	-	$ 47,295	2
Investment loss accounted for by the equity method	3,260	-	757	-
Loss on disposal of assets	904	-	1,812	-
Loss on physical inventories	958	-	803	-
Foreign exchange losses	88,336	2	77,820	2
Loss on decline in value of inventories	33,721	1	24,307	1
Loss on idle assets' depreciation	1,940	-	2,034	-
Impairment loss	1,182	-	8,687	-
Valuation loss on financial instruments	1,744	-	-	-
Others	-	-	2,801	-
Total nonoperating expenses and losses	154,894	3	166,316	5
INCOME BEFORE INCOME TAX	958,449	20	529,967	15
INCOME TAX EXPENSE (Notes 2 and 16)	(98,941)	(2)	(49,499)	(1)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	859,508	18	480,468	14
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, Net of tax benefit of NT$5,756 thousand	(17,267)	(1)	-	-
NET INCOME	$ 842,241	17	$ 480,468	14

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 20)				
Basic	$ 4.59	$ 4.13	$ 2.78	$ 2.52
Diluted	$ 4.25	$ 3.83	$ 2.70	$ 2.44

(Concluded)

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others			
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Asset Revaluation Reserve	Unrealized Gains on Financial Instruments	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2005	$ 1,607,847	$ 363,804	$ 79,959	$ 409	$ 260,217	$ 5,442	$ -	$ (34,087)	$ 2,283,591
Appropriation of 2004 earnings									
Legal reserve	-	-	25,815	-	(25,815)	-	-	-	-
Special reserve	-	-	-	33,678	(33,678)	-	-	-	-
Stock dividend	82,405	-	-	-	(82,405)	-	-	-	-
Cash dividends	-	-	-	-	(82,404)	-	-	-	(82,404)
Bonus to employees - capital stock	18,728	-	-	-	(18,728)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(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	491,400	105,774	34,087	493,909	5,442	-	8,696	3,001,295
Effect of adopting the newly released Statement of Financial Accounting Standards No. 34	-	-	-	-	(17,267)	-	-	-	(17,267)
Appropriation of 2005 earnings									
Legal reserve	-	-	48,047	-	(48,047)	-	-	-	-
Special reserve	-	-	-	(34,087)	34,087	-	-	-	-
Stock dividend	113,345	-	-	-	(113,345)	-	-	-	-
Cash dividends	-	-	-	-	(188,909)	-	-	-	(188,909)
Bonus to employees - capital stock	34,347	-	-	-	(34,347)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(6,869)	-	-	-	(6,869)
Convertible bonds converted to common stock	11,234	8,566	-	-	-	-	-	-	19,800
Employee stock option converted to common stock	36,070	33,510	-	-	-	-	-	-	69,580
Equity component of compound financial instrument	-	39,680	-	-	-	-	-	-	39,680
Net income in 2006	-	-	-	-	859,508	-	-	-	859,508
Changes in valuation gain or loss on available-for-sale financial assets	-	-	-	-	-	-	183	-	183
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	27,692	27,692
BALANCE, DECEMBER 31, 2006	$ 2,056,983	$ 573,156	$ 153,821	$ -	$ 978,720	$ 5,442	$ 183	$ 36,388	$ 3,804,693

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 842,241	$ 480,468
Cumulative effect of changes in accounting principles	17,267	-
Net income before cumulative effect of changes in accounting principles	859,508	480,468
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	258,042	201,821
Nonoperating loss - idle assets	1,940	2,034
Amortization	50,564	30,505
Bad debt expense	6,388	801
Loss on decline in value of inventories	33,721	24,307
Loss on physical inventory	958	443
Gain on disposal of investments	(1,184)	(789)
Investment income accounted for by the equity method, net	(121,640)	(47,950)
Loss on disposal of assets	904	1,731
Unrealized gain on financial instruments, net	(2,335)	-
Impairment loss	1,182	8,687
Unrealized gross profit	240	689
Realized gross profit	(689)	-
Accrued interest compensation	2,292	(3,319)
Deferred income tax	23,157	(1,009)
Net changes in operating assets and liabilities		
Notes receivable	40,945	(51,236)
Accounts receivable	(498,066)	(127,656)
Inventories	(47,951)	(67,529)
Other current assets	4,791	(12,287)
Prepaid pension expense	-	(551)
Notes payable	2,864	24,674
Accounts payable	190,269	172,014
Accrued expenses	26,842	47,470
Income tax payable	44,019	-
Other current liabilities	(1,999)	3,950
Net cash provided by operating activities	874,762	687,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of available-for-sale financial assets	(460,000)	(350,000)
Proceeds from disposal of available-for-sale financial assets	371,184	290,789
Other financial assets sold	-	9,591
Acquisitions of long-term equity investments	(131,306)	(224,284)
Acquisitions of property, plant and equipment	(666,995)	(278,191)
Proceeds from disposal of property, plant and equipment	600	39,451
Increase in refundable deposits paid	(642)	(551)
Increase in deferred charges	(57,324)	(26,343)
Net cash used in investing activities	(944,483)	(539,538)

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$ 40,067	$(212,788)
Issue of convertible bonds	800,000	-
(Decrease) increase in long-term loans	(60,000)	126,873
Remuneration to directors and supervisors	(6,869)	(3,746)
Cash dividends	(188,909)	(82,404)
Proceeds from the exercise of employee stock option	69,580	32,603
Net cash provided by (used in) financing activities	653,869	(139,462)
NET INCREASE IN CASH AND CASH EQUIVALENTS	584,148	8,268
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	212,986	204,718
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 797,134	$ 212,986
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (including interest capitalized $2,371 thousand)	$ 23,524	$ 19,098
Income tax	$ 31,765	$ 50,927
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 50,000	$ 80,000
Convertible bonds	$ 19,800	$ 248,000
Acquisition of long-term equity investments through payment in the form of machinery	$ 9,723	$ 23,668

(Concluded)

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

(With Deloitte & Touche audit report dated March 5, 2007)

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 and Timing Module (TM).

As of December 31, 2006 and 2005, the Corporation had 806 and 690 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, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. 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, depreciation, pension, etc. 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 ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

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

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents and those expected to be converted to cash, sold or consumed within 12 months from the balance sheet date. Property, plant and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations incurred for operating purposes and expected to be paid or settled within 12 months from the balance sheet date. All other liabilities not classified as current liabilities are noncurrent liabilities.

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.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. The financial instruments are recognized and carried at fair value plus transaction costs with fair value changes recognized in profit or loss. A regular way purchase or sale of financial instruments is recognized and derecognized using transaction date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. Derivatives that do not meet the criteria for hedge accounting are recognized at fair value. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Available-for-sale financial assets are recognized and carried at fair value plus transaction costs that are directly attributable to the acquisition. The changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial asset is recognized and derecognized using transaction date accounting.

The fair value of investments in open-end funds is the year-end net asset value of the funds.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Revenue Recognition and Allowance for Doubtful Accounts

Revenue is recognized when ownership and risk of loss or liability for changes to 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.

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 value of finished goods, work in process and merchandise and on replacement cost of raw materials.

Financial Assets Carried at Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks.

Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of investees attributable to periods prior to the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as an increase in the number of shares held. The cost per share is recalculated based on the new number of shares.

If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

Investments Accounted for Using Equity Method

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on the investee are accounted for by the equity method.

Gains or losses on sales to investees over which the Corporation has a controlling interest are deferred until such gains or losses are realized through the subsequent sale of the related products to third parties.

Gains or losses on sales of investees to the Corporation are deferred in proportion to the Corporation's ownership percentage in the investees until they are realized through transactions with third parties.

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, and equipment are capitalized. Repairs and maintenance are expensed currently. Interest incurred for the construction of major facilities is capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of: buildings - 5 to 60 years; machinery and equipment - 3 to 9 years; transportation equipment - 3 to 6 years; miscellaneous equipment - 5 to 15 years.

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 its option plans, the Corporation adopted the intrinsic value method under which any compensation cost is charged to expense over the vesting period.

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 asset or liabilities are determined actuarially.

Convertible Bonds

Convertible bonds that were issued before December 31, 2005 are classified as current or noncurrent according to the redemption dates. 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.

For convertible bonds issued on or after January 1, 2006, the carrying value of host contract is recorded in total proceeds from the issuance less the (1) fair value of embedded derivatives and (2) issuance costs allocated to bond payable under the initially recognized amount. When the fair value of the bonds is subsequently measured at amortized cost using the effective interest rate method, the related interest expense or redemption gain is recognized as loss or earnings. When the bondholder exercises the conversion option before bond maturity, the adjusted carrying value of the debt components (bonds and embedded derivatives are included) is credited to a capital stock accounts.

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 for financial reporting. 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, if it is expected that a foreign subsidiary will not distribute its earnings in the future and the difference will permanently exist.

The Corporation adopts the flow-through method for income tax credits resulting from the purchase of certain 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 of 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.

The above prevailing exchange rates are based on the Interbank Spot Market closing rates of Central Bank of China.

Reclassifications

Certain accounts for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of the financial statements for the year ended December 31, 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Corporation adopted the newly released Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

   The Corporation had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Stockholders' Equity (Net of Tax)
Available-for-sale financial assets	$ -	$ 2
Financial liabilities at fair value through profit or loss, noncurrent	(17,267)	-
	$ (17,267)	$ 2

The adoption of the newly released SFASs resulted in a cumulative effect of changes in accounting principles of NT$17,267 thousand (net of tax), a decrease in net income of NT$17,267 thousand, and a decrease in after income tax basic earnings per share of NT$0.08 dollar, for the year ended December 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005, were reclassified to conform with the financial statements as of and for the year ended December 31, 2006. The previously issued financial statements as of and for the year ended December 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

1) 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 investment 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.

2) 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 investee companies. Cash dividends received are recorded as reductions of the investment.

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

3) 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 either 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.

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the 2006 classifications prescribed by the newly released and revised SFAS. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments	$ 60,000	$ -
Long-term investments	3,000	-
Available-for-sale financial assets	-	60,000
Financial assets carried at cost	-	3,000
	$ 63,000	$ 63,000

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	
	2006	2005
Cash on hand	$ 1,531	$ 701
Checking accounts and demand deposits	183,892	195,728
Time deposits	116,711	16,557
Cash equivalents		
Bonds with repurchase rights	495,000	-
	$797,134	$212,986

5. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2006	**2005**
Derivatives - financial liabilities		
Forward contracts	$ 1,744	$ -
Interest rate swap contracts	$ 18,944	$ -

The Corporation entered into derivative transactions during the years ended December 31, 2006 and 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations.

Outstanding forward contracts as of December 31, 2006 and 2005:

	Currency	**Maturity**	**Contract Amount (In Thousands)**
December 31, 2006			
Sell	USD/NTD	January 9, 2007 to February 9, 2007	US$4,000/NT$129,718
Sell	USD/JPY	January 26, 2007 to February 15, 2007	US$4,500/JP¥527,888
Sell	NTD/JPY	February 14, 2007	NT$8,268/JP¥30,000

Outstanding Interest rate swap contracts as of December 31, 2006:

Maturity Date	**Contract Amount (In Thousands)**	**Range of Interest Rates Paid**	**Range of Interest Rates Received**
August 12, 2010	$ 300,000	3.68%	Rate on 90-day commercial paper

Net gains arising from derivative financial instruments for the year ended December 31, 2006 was $4,079 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2006	**2005**
Mutual funds	$150,183	$ 60,000

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2006	2005
Notes receivable from third parties	$ 44,813	$ 85,758
Notes receivable from related parties	-	-
	44,813	85,758
Less allowance for doubtful accounts	(224)	(429)
	$ 44,589	$ 85,329
Accounts receivable from third parties	$ 1,680,058	$ 1,170,313
Accounts receivable from related parties	13,724	27,994
	1,693,782	1,198,307
Less allowance for doubtful accounts	(13,335)	(9,333)
	$ 1,680,447	$ 1,188,974

8. INVENTORIES

	December 31	
	2006	2005
Raw materials	$ 103,999	$ 78,649
Supplies and spare parts	11,830	8,907
Work in-process	103,637	113,366
Finished goods	187,939	136,118
Merchandise inventories	193,878	230,629
Merchandise in transit	27,715	35,954
	628,998	603,623
Less allowance for loss on decline in market value and obsolescence	(28,093)	(15,990)
	$ 600,905	$ 587,633

9. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2006	2005
Non-publicly traded stocks	$ 3,000	$ 3,000

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Taiwan Crystal Technology International Ltd. ("TCTI")	$ 1,137,953	100	$ 845,913	100
TXC Technology Inc.	2,702	100	5,097	100
TXC Japan Corporation	2,788	100	2,072	100
	$ 1,143,443		$ 853,082	

On September 13, 2005, the Corporation's stockholders resolved to establish TXC Japan Corporation, a wholly owned subsidiary that will engage in marketing. The Corporation invested $2,973 thousand in this subsidiary.

Equity in earnings (loss) of investees for the years ended December 31, 2006 and 2005 was as follows:

	Equity in Investees Gain (Loss)		Original Cost
	2006	2005	2006
TCTI	$ 124,900	$ 48,576	US$ 29,122
TXC Technology Inc.	(2,351)	131	US$ 300
TXC Japan Corporation	(909)	(757)	JP¥ 16,000
	$ 121,640	$ 47,950	

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.

11. PROPERTY, PLANT AND EQUIPMENT

	December 31			
	2006			2005
	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	343	99	169
Buildings	277,570	132,728	144,842	158,759
Machinery equipment	1,810,816	761,124	1,049,692	904,860
Transportation equipment	2,557	1,856	701	1,382
Miscellaneous equipment	80,949	48,503	32,446	31,664
Prepayments on purchase of equipment	37,184	-	37,184	12,035
Unfinished construction	238,904	-	238,904	-
	$ 2,614,416	$ 944,554	$ 1,669,862	$ 1,274,863

See Note 23 for the details of property, plant and equipment pledged as collaterals.

Interest expenses capitalized for the year ended December 31, 2006 amounted to $2,371 thousand, with interest rate of 2.63%.

12. IDLE ASSETS

	December 31, 2006		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	6,747	4,874	1,873
Machinery and equipment	4,995	4,995	-
	$13,995	$ 9,869	$ 4,126

	December 31, 2005		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	7,142	4,874	2,268
Machinery and equipment	3,813	3,813	-
	$13,208	$ 8,687	$ 4,521

Impairment loss was as follows:

	December 31, 2006	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Machinery and equipment	$ 1,182	$ -

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

13. SHORT-TERM LOANS

	December 31			
	2006		2005	
	Amount	Interest Rate %	Amount	Interest Rate %
Material procurements loans	$ 57,487	0.80~1.21	$145,208	0.72~1.17
Unsecured bank loans	147,788	1.745~6.00	20,000	1.68
	$205,275		$165,208	

See Note 23 for details of pledged assets.

14. BONDS PAYABLE

	December 31	
	2006	2005
Domestic		
First domestic unsecured convertible corporate bonds	$ -	$ 19,800
Second domestic unsecured convertible corporate bonds	800,000	-
Liability component of domestic unsecured convertible corporate bonds	(36,689)	-
Add accrued interest compensation	-	699
	$ 763,311	$ 20,499

First Domestic Unsecured Convertible Corporate Bonds

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 of 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 three months after 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.

Second Domestic Unsecured Convertible Corporate Bonds

On November 8, 2006, the Corporation issued second domestic unsecured convertible bonds with an aggregate value of $800,000 thousand and maturity on November 8, 2011. Nominal interest is 0%. As of December 31, 2006, the Corporation’s outstanding domestic unsecured convertible corporate bonds were $800,000 thousand. According to Statement of Financial Accounting Standards No. 36, “Disclosure and Presentation of Financial Instruments,” these domestic unsecured convertible bonds were separated into convertible options, equity (Note 17), and bonds payable, liability. Other details of the bond issuance are summarized as follows:

(a) On the third anniversaries of the issuance date, bonds are redeemable at face value.

(b) During the period between one month after issuance and the 40th day before maturity, the Corporation can redeem the bonds from holders at contracted price.

(c) During the period between one month after issuance and the 10th 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$52.00. 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.

15. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31 2006	December 31 2005
Unsecured bank loans	Repayable at maturity on September 3, 2021	$ 160,000	$ -
Unsecured bank loans	Repayable in quarterly installments, maturing on February 2, 2007	-	40,000
Unsecured bank loans	Repayable at maturity on October 26, 2008	200,000	250,000
Chinatrust loan		50,000	180,000
		410,000	470,000
Less current portion		(50,000)	(80,000)
		$ 360,000	$ 390,000
Interest rate (%)		2.15~3.0579	0~2.8716

See Note 23 for collateral on long-term loans.

As of December 31, 2006, the Corporation had issued to various banks promissory notes amounting to $1,875,500 thousand to secure short-term loans 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
$ 300,000	$ 300,000	Three years after the first drawdown date including additional one year.	2.9611%	Six semiannual installments starting from one year after the first drawdown date.
200,000	50,000	Three years after the first drawdown date.	3.0579%	Lump sum on due date.
$ 500,000	$ 350,000			

16. PENSION PLAN

The Labor Pension Act (the Act) became effective on July 1, 2005, and the pension mechanism under the Act is deemed a defined contribution plan. Employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act or 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 have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. Employees who joined the Corporation after July 1, 2005 can only be subject to the pension mechanism under the Act.

The Act prescribes that the contribution by an employer to employees' pension accounts per month shall be in amount equal to not less than 6% of each employee's monthly salary. Pursuant to the Act, the Corporation has made monthly contributions to employees' pension accounts starting from July 1, 2005, and recognized pension costs of $12,802 thousand for the year ended December 31, 2006.

The Corporation has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Corporation contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund). The Fund is administered by the pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China.

Information of Pension

Net periodic pension costs for the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Service cost	$ 1,884	$ 3,859
Interest cost	1,596	1,543
Expected return on plan assets	(1,721)	(1,516)
Amortization of unrecognized losses	377	557
Net periodic pension cost	$ 2,136	$ 4,443

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

	2006	2005
Benefit obligations		
Vested benefit obligation	$ (4,633)	$ (4,596)
Nonvested benefits	(37,355)	(33,522)
Accumulated benefit obligation	(41,988)	(38,118)
Effect of future salary increase	(14,635)	(11,002)
Projected benefit obligation	(56,623)	(49,120)
Plan assets at fair value	55,989	50,429
Plan assets in excess of projected benefit obligation (Projected benefit obligation in excess of plan assets)	(634)	1,309
Unrecognized net transition obligation	634	972
Unrecognized net losses	10,048	5,666
Accrued pension cost	$ 10,048	$ 7,947
Vested benefits	$ (5,421)	$ (5,111)

Actuarial Assumptions

	2006	2005
Discount rate used in determining present values	2.75%	3.25%
Future salary increase rate	2.50%	2.00%
Expected rate of return on plan assets	2.75%	3.25%

Summary of changes in the pension fund is as follows:

	2006	2005
Contribution	$ 4,237	$ 4,994
Payment of benefits	$ -	$ 2,197

17. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital is $3,000,000 thousand and $2,600,000 thousand at December 31, 2006 and 2005 ($10.00 par value per share). As of December 31, 2006, the Corporation's outstanding capital stock was $2,056,983 thousand divided into 205,698 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	1,109,049
Stock dividends from capital surplus	127,693
Employee stock option	65,840
Convertible bonds	211,221
	$ 2,056,983

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, 2006 and 2005 was as follows:

	2006		2005	
Employee Stock Options	**Units**	**Weighted Average Exercise Price**	**Units**	**Weighted Average Exercise Price**
Outstanding, beginning	4,129	$ 17.0	7,935	$ 17.0
Current issuance	-	-	-	-
Current exercise	(3,607)	19.3	(1,912)	17.1
Current cancel	(192)	-	(1,894)	-
Outstanding, ending	330		4,129	
Exercisable options, ending	330		2,754	

As of December 31, 2006, 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~$13.1	-	-	$16.2	-	$13.1
$34.10~$28.9	144	0.25	28.9	144	28.9
$17.60~$14.4	186	0.82	16.4	186	14.4
	330			330	

No compensation cost was recognized under intrinsic value method for the years ended December 31, 2006 and 2005. The assumptions and pro forma results of the Corporation for the year ended December 31, 2006 would have been as follows:

Assumptions	
Expected dividend yield	-
Expected volatility	46.75%
Risk free interest rate	1.92%
Expected life	3.875 years

	2006	2005
Net income		
Net income as reported	$842,241	$480,468
Pro forma net income	834,539	449,496
Earnings per share (EPS) - after income tax (in dollars)		
Basic EPS as reported	$ 4.13	$ 2.73
Pro forma basic EPS	$ 4.11	$ 2.55
Diluted EPS as reported	$ 3.83	$ 2.64
Pro forma diluted EPS	$ 3.81	$ 2.47

Capital Surplus

Capital surplus can only be used to offset a deficit under the Corporation 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. Capital surplus consisted of the following:

	December 31	
	2006	2005
Additional paid-in capital	$290,248	$290,248
Employee stock option	54,449	20,939
Convertible bonds	188,779	180,213
Warrants	39,680	-
	$573,156	$491,400

Earnings Distribution and Dividend Policy

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 fully or partially distributed for dividends, with the stockholders' approval, according to the following percentages:

(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 2005 and 2004 earnings was approved in the stockholders' meeting on June 15, 2005 and June 13, 2004, respectively. The appropriations and dividends per share are as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2005	**For Fiscal Year 2004**	**For Fiscal Year 2005**	**For Fiscal Year 2004**
Legal reserve	$ 48,047	$ 25,815	$ -	$ -
Cash dividends	188,909	82,404	1.0	0.50
Stock dividends	113,345	82,405	0.6	0.50
Employees' bonus - stock	34,347	18,728	-	-
Remuneration to directors and supervisors - cash	6,869	3,746	-	-

The amounts of the above appropriations of earnings for 2005 and 2004 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 2005 and 2004, the after income tax basic earnings per share for the years ended December 31, 2005 and 2004 would have decreased from NT$2.73 to NT$2.50 and NT$1.63 to NT$1.49, respectively. The shares distributed as bonus to employees represented 1.84% and 1.16% of the Corporation's total outstanding common shares as of December 31, 2005 and 2004, respectively.

As of March 5, 2007, the board of directors of TXC Corporation has not resolved the appropriation of 2006 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).

18. INCOME TAX

The reconciliation of imputed income tax on pretax income at statutory tax rate to income tax expense was as follows:

	Years Ended December 31	
	2006	**2005**
Tax on pretax income at 25% statutory rate	$239,602	$132,482
Add (deduct) tax effects of		
Permanent differences	96	(285)
Temporary differences	(25,326)	(15,158)
Tax-exempt income for five years	(74,355)	(15,695)
	140,017	101,344
Income tax (10%) on undistributed earnings	8,895	-
Less investment tax credit	(74,456)	(50,672)
Current tax credit	$ 74,456	$ 50,672

Income tax expense consisted of the following:

	Years Ended December 31	
	2006	2005
Current tax expense	$ 74,456	$ 50,672
Prior year's adjustment	1,328	(163)
Deferred tax expenses (benefits)		
Temporary difference	24,893	15,366
Investment tax credits	(1,736)	(16,376)
Income tax expense	$ 98,941	$ 49,499

Changes of income tax payable:

	December 31	
	2006	2005
Balance, beginning of year	$ 30,437	$ 30,855
Accrued income tax this year	74,456	50,672
Current payment	(31,765)	(50,927)
Adjustment of prior years' tax expense	1,328	(163)
Balance, end of year	$ 74,456	$ 30,437

Deferred income tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	2006	2005
Deferred income tax assets, current		
Investment tax credit	$ 31,124	$ 30,690
Loss on decline in value of inventories	7,207	4,180
Unrealized foreign exchange loss	2,739	1,737
Impairment loss	-	2,172
Others	2,120	402
	43,190	39,181
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(1,960)	(3,417)
Net deferred income tax assets, current	$ 41,230	$ 35,764
Deferred income tax assets, noncurrent		
Investment tax credit	$ 93,372	$ 92,070
Impairment loss	2,467	-
Unrealized valuation loss on financial instruments	4,736	-
Others	331	331
	100,906	92,401
Deferred income tax liabilities, noncurrent		
Investment income	(48,512)	(17,140)
Net deferred income tax assets, noncurrent	$ 52,394	$ 75,261

The Corporation's investment tax credits as of December 31, 2006 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	$ 77,341	$ 48,523	2010
	Research and development expenditures	119,890	74,606	2010
	Personnel training	1,721	$ 1,367	2010
		$198,952	$124,496	

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 2002 have been examined and approved by the tax authorities.

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 stockholders income tax expense in the year when dividends are distributed. The information of imputation credit accounts ("ICA") were as follows:

	December 31	
	2006	2005
Balance of ICA	$ 15,370	$ 26,069

	2006 (Estimate)	2005 (Actual)
Imputation tax credit rate	9.18%	10.88%

	December 31	
	2006	2005
Undistributed earnings		
Until 1997	$ -	$ -
From 1998 and thereafter	978,720	493,909
	$978,720	$493,909

19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Corporation's personnel, depreciation, and amortization expenses for the years ended December 31, 2006 and 2005 were summarized as follows:

Function / Expense Item	Year Ended December 31					
	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$261,142	$133,301	$394,443	$218,783	$115,661	$334,444
Labor and health insurance	16,363	8,854	25,217	13,746	7,650	21,396
Pension	10,653	6,385	17,038	6,894	3,302	10,196
Meals	11,567	3,837	15,404	9,634	3,411	13,045
Welfare	5,215	1,902	7,117	3,555	1,561	5,116
Others	-	-	-	-	-	-
Depreciation	211,406	46,636	258,042	164,745	37,076	201,821
Amortization	11,364	39,200	50,564	2,065	28,440	30,505

20. EARNINGS PER SHARE

	Years Ended December 31			
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (dollars)				
Income from continuing operations	$ 4.70	$ 4.21	$ 2.78	$ 2.52
Cumulative effect of changes in accounting principles	(0.11)	(0.08)	-	-
Net income	$ 4.59	$ 4.13	$ 2.78	$ 2.52
Diluted earnings per share (dollars)				
Income from continuing operations	$ 4.36	$ 3.91	$ 2.70	$ 2.44
Cumulative effect of changes in accounting principles	(0.11)	(0.08)	-	-
Net income	$ 4.25	$ 3.83	$ 2.70	$ 2.44

	Years Ended December 31									
	2006					2005				
	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	$ 935,426	$ 842,241				$ 529,967	$ 480,468			
Basic earnings per share	$ 935,426	$ 842,241	203,945	$ 4.59	$ 4.13	$ 529,967	$ 480,468	190,740	$ 2.78	$ 2.52
Convertible bonds	3,063	2,297	15,627			3,740	2,805	6,418		
Employee stock option	-	-	1,115			-	-	689		
Net diluted earnings per share	$ 938,489	$ 844,538	220,687	$ 4.25	$ 3.83	$ 533,707	$ 483,273	197,847	$ 2.70	$ 2.44

21. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair values of assets and liabilities were as follows:

	December 31			
	2006		2005	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 797,134	$ 797,134	$ 212,986	$ 212,986
Available-for-sale financial assets, current	150,183	150,183	60,000	60,004
Notes and accounts receivable, net	1,725,036	1,725,036	1,274,303	1,274,303
Investments accounted for using equity method	1,143,443	1,143,443	853,083	853,083
Financial assets carried at cost	3,000	3,000	3,000	3,000
Liabilities				
Short-term loans	205,275	205,275	165,208	165,208
Notes and accounts payable	801,823	801,823	608,690	608,690
Accrued expenses	155,386	155,386	128,544	128,544
Bonds payable	763,311	763,311	20,499	20,499
Long-term loans (including current portion	410,000	410,000	470,000	470,000
Derivative financial instruments				
Interest rate swap contract				
Taiwan	(18,944)	(18,944)	-	-
Forward contract				
Taiwan	(1,744)	(1,744)	-	-

Methods and assumptions used in the determination of fair values of financial instruments were as follows:

(a) The fair values of short-term financial instruments such as cash and cash equivalents, receivables, payables and short-term loans are based on their carrying amounts because of their short maturities. The carrying amounts of these financial instruments approximate their fair values.

(b) Fair values of available-for-sale financial assets were based on their quoted market price on the balance sheet date.

(c) Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.

(d) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.

(e) The fair value of the long-term loans and bonds payable was determined using the discounted value of expected cash flows, which approximates their carrying amount.

Fair value of assets and liabilities based on:

	Quoted Market Price		Valuation Techniques Incorporating Estimates and Assumptions	
	December 31		December 31	
	2006	2005	2006	2005
Assets				
Cash and cash equivalents	$ -	$ -	$ 797,134	$ 212,986
Notes and accounts receivable, net	-	-	1,725,036	1,274,303
Available-for-sale financial assets, current	150,183	60,000	-	-
Investments accounted for using equity method	-	-	1,143,443	853,082
Financial assets carried at cost	-	-	3,000	3,000
Liabilities				
Short-term loans	-	-	205,275	165,208
Notes and accounts payable	-	-	801,823	608,690
Accrued expenses	-	-	155,386	128,544
Financial liabilities at fair value through profit or loss, current	-	-	1,744	-
Bonds payable	-	-	763,311	20,499
Long-term loans (including current portion	-	-	410,000	470,000
Financial liabilities at fair value through profit of loss, noncurrent	-	-	18,944	-

Gain recognized from the changes in fair value of derivatives estimated using valuation techniques was $4,079 thousand for the year ended December 31, 2006.

As of December 31, 2006, financial liabilities exposed to cash flow interest rate risk were $18,944 thousand.

Information about financial risks was as follows:

(a) Market risk: The Corporation's 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 risk refers to the risk arising from interest rate fluctuations in the market. The Corporation does not have significant price risk.

(b) Credit risk: Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties or third-parties breached the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing derivative financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes its exposure to default by those parties is low.

(c) Liquidity risk: The Corporation has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low.

22. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Corporation
Tai-Shing Electronics 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 (Ningbo) Corporation (NGB)	Subsidiary’s equity-method investee

Major transactions with related parties were summarized below:

Purchases of Inventory and Processing Costs

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$474,123	17	$403,015	20
NGB	316,266	11	-	-
TXC Japan Corporation	12	-	-	-
	$790,401	28	$403,015	20

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

Sales

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$ 27,535	1	$ 39,353	1
Tai-Shing	19,997	-	21,226	1
NGB	6,284	-		
TXC Technology Inc.	299	-	43	-
TXC Japan Corporation	101	-		
	$ 54,216	1	$ 60,622	2

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

Consulting Fee

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
TXC Technology Inc.	$ 29,306	45	$ 24,008	60
TXC Japan Corporation	17,872	28	4,379	11
GPT	11,672	18	11,597	29
NGB	5,921	9		
	$ 64,771	100	$ 39,984	100

Other Expenses

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Tai-Shing	$ 5,805	3	$ 4,229	4

Receivable from and Payable to Related Parties

		December 31			
		2006		2005	
Item	Related Party	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Accounts receivable	Tai-Shing	$ 6,554	1	$ 9,070	-
	NGB	6,244	-	-	-
	GPT	593	-	18,919	2
	TXC Technology Inc.	277	-	5	-
	TXC Japan Corporation	56	-	-	-
		$ 13,724	1	$ 27,994	2
Other current assets	TXC Technology Inc.	$ 872	1	$ 4,004	5
Notes payable	Tai-Shing	$ 701	1	$ 264	-
Accounts payable	NGB	$ 278,816	37	$ -	-
	Tai-Shing	410	-	183	-
	TXC Japan Corporation	12	-	-	-
	GPT	-	-	154,103	28
		$ 279,238	37	$ 154,286	28

Item	Related Party	December 31			
		2006		2005	
		Amount	% to Total Account Balance	Amount	% to Total Account Balance
Accrued expense	Tai-Shing	$ -	-	$ 273	-
	GPT	-	-	83	-
	TXC Japan Corporation	2	-	-	-
		$ 2	-	$ 356	-

In the year ended December 31, 2005, the Corporation sold its equipment to NGB through GPT, at the net book value of $38,955 thousand and price of $38,951 thousand or loss of $4 thousand.

In the years ended December 31, 2006 and 2005, the Corporation invested in NGB through TCTI in the form of machinery and equipment at their net book value of $9,723 thousand and $23,668 thousand, respectively, and have no disposal gain or loss.

As of December 31, 2005, the Corporation's guarantee for NGB's loans amounted to $97,365 thousand.

23. PLEDGED ASSETS

As of December 31, 2006 and 2005, the following assets had been pledged at their book values to secure short-term loans, long-term debts and commercial paper issued:

	2006	2005
Property, plant and equipment		
Land	$ 165,994	$ 165,994
Buildings, net	77,299	79,224
Machinery and equipment, net	351,144	312,343
Restricted deposit	50	-
	$ 594,487	$ 557,561

24. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of December 31, 2006, which were not shown in the financial statements, were as follows:

Unit: In Thousands

Commitment	Contract Price	Paid Up	Not Yet Paid
Building construction	$282,600	$206,735	$75,865

Guarantee for short-term loan and long-term loan is described in Note 15.

Guarantee for customs tax amounted to about $15,000 thousand.

Unused letters of credit was about JP¥255,324 thousand.

As of December 31, 2005, the Corporation had derivative financial instruments. Please refer to Note 21.

As of December 31, 2006, the Corporation's guarantee for loan of its subsidiary amounted to $366,552.

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

Segment Information

No segment information.

Geographic Area Information

No geographic area information.

Export Sales

Area	2006	2005
Americas	$ 154,117	$ 155,400
Europe	80,455	60,950
Asia	3,162,803	2,078,080
	$ 3,397,375	$ 2,294,430

Major Customer Information

Customer	2006	2005
Dafon (Shanghai) Computer Co., Ltd.	$ 420,866	$ 401,886

26. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Corporation and its investees:

a. Financing provided: None.

b. Endorsement/guarantee provided: Table 1 (attached).

c. Marketable securities held: Table 2 (attached).

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: None.

e. Acquisition of individual real estate properties at costs of at least $100 million or 20% of the paid-in capital: None.

f. Disposal of individual real estate properties at prices of at least $100 million or 20% of the paid-in capital: None.

g. Total purchases from or sales to related parties of at least $100 million or 20% of the paid-in capital: Table 3 (attached).

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached).

i. Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached).

j. Derivative transactions: Please refer to Note 21 for the related information and Table 6 (attached).

k. Investment in Mainland China: Table 7 (attached).

TABLE 1

TXC CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limit on Each Guaranteed Party's Endorsement/ Guarantee Amounts (Note 2)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 3)
		Name	Nature of Relationship (Note 1)						
0	TXC Corporation	TXC (Ningbo) Corporation	2	$ 1,902,347	$ 97,365	$ 97,365	$ -	3	$ 3,804,693

Note 1: The number 2 above represents an investee in which the Corporation holds directly and indirectly all of the equity interest.
Note 2: Not to exceed 50% of the Corporation's net equity. ($3,804,693 thousand × 50% = $1,902,347 thousand)
Note 3: Not to exceed the net worth of the Corporation.

TABLE 2

TXC CORPORATION

MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
TXC Corporation	Beneficiary certificate							
	Ta Chong Bond Fund	-	Available-for-sale financial assets	4,619	$ 60,149	-	$ 60,149	
	Fubon Chi-Hsiang Fund	-	〃	2,062	30,014	-	30,014	
	Fubon Jin-Ju-I Fund	-	〃	4,907	60,020	-	60,020	
					$ 150,183			
	Stock							
	TCTI	Subsidiary	Long-term investments - equity method	29,122	$ 1,137,953	100	-	
	TXC Technology Inc.	Subsidiary	〃	300	2,702	100	-	
	TXC Japan Corporation	Subsidiary	〃	2	2,788	100	-	
					$ 1,143,443			
	Marson Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	414	$ 3,000	5	-	
TCTI	Stock							
	GPT	Subsidiary	Long-term investments - equity method	50	$ 24,207 (US$ 743)	100	-	
	TXC (Ningbo) Corporation	Subsidiary	〃	US$ 29,122	$ 1,121,829 (US$ 34,416)	100	-	

(Continued)

TXC CORPORATION

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms (Note)	Unit Price	Payment Terms	Ending Balance	% to Total	
TXC Corporation	GPT	Subsidiary	Purchase	$ 474,123	17	-	-	-	$ -	-	
	NGB	Subsidiary	Purchase	316,266	11	-	-	-	(278,816)	37	
NGB	GPT	Ultimate parent	Sales	474,123 (US$ 14,494)	(43)	-	-	-	183 (US$ 6)	-	

Note: The terms of sales to related parties were not significantly different from those to third parties. For purchase transactions, prices are determined in accordance with the related contractual agreements and no other similar transaction could be compared with.

TABLE 4

TXC CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
NGB	TXC Corporation	Ultimate parent	$ 278,816 (US$ 8,550)	2.27	$ -	-	$ 68,046 (US$ 2,088)	$ -

TXC CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				December 31, 2006	December 31, 2005	Shares (in Thousands)	Percentage of Ownership	Carrying Value			
TXC Corporation	TCTI	WESTERN Samoa	Investment holding	$ 919,527 US$ 29,122	$ 765,624 US$ 23,000	29,122	100	$ 1,137,953	$ 130,723	$ 124,900	
	TXC Technology Inc.	U.S.A.	Marketing activities	9,879 US$ 300	9,879 US$ 300	300	100	2,702	(2,351)	(2,351)	
	TXC Japan Corporation	Japan	Marketing activities	4,661 JP¥ 16,000	2,973 JP¥ 10,000	2	100	2,788	(909)	(909)	
TCTI	GPT	B.V.I.	National trading	US$ 50	US$ 50	50	100	24,207 US$ 743	13,917 US$ 428	13,917 US$ 428	
	NGB	Ningbo	Manufacture and sales of electronics products	US$ 29,122	US$ 23,000	US$ 29,122	100	1,121,829 US$ 34,416	116,847 US$ 3,592	116,847 US$ 3,592	

TABLE 6

Derivative Transactions

NGB entered into derivative transactions during the year ended December 31, 2006 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward contracts as of December 31, 2006:

	Currency	Maturity	Contract Amount (In Thousands)
December 31, 2006			
Sell	USD/RMB	January 31, 2007 to April 30, 2007	US$2,000/RMB15,570
Sell	USD/JPY	January 16, 2007	US$86/JP¥10,000

TABLE 7

TXC CORPORATION

INFORMATION OF INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

1. The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of December 31, 2006 (US$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006 (US$ in Thousand)	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
					Outflow (US$ in Thousand)	Inflow					
TXC (Ningbo) Corporation	Manufacturing and sales of crystal, crystal oscillator and SAW (surface acoustic wave)	RMB238,523	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	$765,624 (US$23,000)	$139,341 (US$4,287)	$ -	$904,965 (US$27,287)	100%	$116,847 (US$3,592)	$1,121,829 (US$34,416)	$ -

2. The limitation on investment:

Accumulated Investment in Mainland China as of December 31, 2006 (US$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousand)	Upper Limit on Investment (Note)
$904,965 (US$27,287)	$928,611 (US$28,000)	$1,521,877

Note: Not to exceed 40% of the Corporation's net equity ($3,804,693 thousand × 40% = $1,521,877 thousand).

3. Significant direct or indirect transactions with the investee company, prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports:

Company Name	Nature of Relationship	Transaction Details					Accounts (Notes) Receivable (Payable)		Unrealized Gain or Loss
		Purchase/Sale	Amount	Price	Payment Term	Compared with Terms of Third Parties	Balance	%	
NGB	Subsidiary	Purchase	$33,819 (US$1,041)	Negotiated price	Similar	Similar	$6,837 (US$210)	2	$ -
		Sale	$790,380 (US$24,100)	Negotiated price	Similar	Similar	$278,816 (US$8,550)	77	$ -

SCHEDULE 1

TXC CORPORATION

CASH AND CASH EQUIVALENTS
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, and Foreign Currency)

Item		Amount
Cash		
Petty cash		$ 240
Cash on hand		1,291
Cash in banks		
Checking deposits		51,347
Demand deposits		18,249
Foreign-currency deposits	Including US$1,472.8 thousand @NT$32.596, JP¥234,762 thousand @NT$0.2743 and HK$452 thousand @NT$4.191	114,296
Time deposits	Due date 2006.12.11~2007.1.11, interest rate at 1.705%~5.2%, including foreign currency time deposit US$2,200 thousand @NT$32.596	116,711
		302,134
Cash equivalents		
Bonds with repurchase rights	Due date 2006.11.09~2007.02.09, interest rate at 1.56%~1.60%	495,000
		$ 797,134

TXC CORPORATION

AVAILABLE-FOR-SALE FINANCIAL ASSETS
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

						Market Price	
Security Type and Company Name	**Explanations**	**Shares/Units**	**Book Value**	**Amount**	**Cost**	**Unit Price (NT$)**	**Amount**
Fund							
Fubon Chi-Hsiang Fund	Beneficiary certificate	2,062		$ 30,014	$ 30,000	14.5543	$ 30,014
Ta Chong Bond Fund	〃	4,619		60,149	60,000	13.0233	60,149
Fubon Jin-Ju-I Fund	〃	4,907		60,020	60,000	12.2313	60,020
				$150,183	$150,000		$150,183

SCHEDULE 3

TXC CORPORATION

NOTES RECEIVABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Third parties		
Gemtek Technology Co., Ltd.		$ 10,685
KMSH		18,446
Compal Communications Inc.		13,583
Others (Note)		2,099
		44,813
Less allowance for doubtful accounts		(224)
		$ 44,589

Note: Each of the accounts was less than 5% of the total account balance.

SCHEDULE 4

TXC CORPORATION

ACCOUNTS RECEIVABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Related parties		
Growing Profits Trading Ltd.		$ 593
Tai-Shing Electronics Components Corporation		6,554
TXC Technology Inc.		277
TXC Japan Corporation		56
TXC (Ningbo) Corporation		6,244
		13,724
Third parties		
Hon Hai Corporation		$ 258,699
Dafon (Shanghai) Computer Co., Ltd.		185,741
Asuspower Computer (HK) Ltd.		138,868
Compal Communications Inc.		108,287
Others (Note)		988,463
		1,680,058
Less allowance for doubtful accounts		(13,335)
		1,666,723
		$ 1,680,447

Note: Each of the accounts was less than 5% of the total account balance.

SCHEDULE 5

TXC CORPORATION

INVENTORIES
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Cost	Market Value (Note)
Raw materials		$ 103,999	$ 100,481
Supplies and spare parts		11,830	11,394
Work in process		103,637	96,575
Finished goods		187,939	182,140
Merchandise inventories		193,878	182,600
Merchandise in transit		27,715	27,715
		628,998	$ 600,905
Less allowance for loss on decline in market value and obsolescence		(28,093)	
		$ 600,905	

Note: The market value is based on net realizable value of finished goods, work in process and merchandise and on replacement cost of raw materials and reversal of loss on decline in value of slow moving inventory.

SCHEDULE 6

TXC CORPORATION

OTHER CURRENT ASSETS
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Deferred income tax assets - current		$ 41,230
Tax refund receivable		22,293
Advance to employees		4,749
Prepayment for purchase		4,184
Others		6,103
		$ 78,559

TXC CORPORATION

CHANGES IN FINANCIAL ASSETS CARRIED AT COST - NONCURRENT
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and shares)

	Beginning Balance		Increase		Decrease		Ending Balanced		
Name	Shares	Carrying Value	Shares	Amount	Shares	Amount	Shares	Carrying Value	Pledge or Security
Marson Technology Co., Ltd.	414	$ 3,000	-	$ -	-	$ -	414	$ 3,000	None

TXC CORPORATION

CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and Shares)

	Beginning Balance		Increase		Decrease		Equity in Investees Gain (Loss)	Ending Balance			Market Price or Net Asset Value		Valuation Method	Pledge or Security
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	% of Ownership	Amount	Unit Price	Amount		
Not listed company														
Taiwan Crystal Technology International Ltd.	23,000	$ 845,913	6,122	$ 167,140	-	$ -	$ 124,900	29,122	100	$ 1,137,953	42	$ 1,137,953	Equity method	None
TXC Technology Inc.	300	5,097	-	-	-	(44)	(2,351)	300	100	2,702	9	2,702	Equity method	None
TXC Japan Corporation	1	2,072	1	1,688	-	(63)	(909)	2	100	2,788	1,394	2,788	Equity method	None
		$ 853,082		$ 168,828		$ (107)	$ 121,640			$ 1,143,443		$ 1,143,443		

Note: The financial statements used as basis for calculating the above equity-method investments were audited, except for TXC Technology Inc. and TXC Japan Corporation.

SCHEDULE 9

TXC CORPORATION

CHANGES IN PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Beginning Balance	Changes for the Period			Ending Balance	Pledge or Security
		Increase	Decrease	Reclassification		
Cost						
Land	$ 157,040	$ -	$ -	$ -	$ 157,040	Note 23
Land improvements	442	-	-	-	442	
Buildings	272,793	4,777	-	-	277,570	Note 23
Machinery equipment	1,453,138	383,493	(27,900)	2,085	1,810,816	Note 23
Transportation equipment	2,557	-	-	-	2,557	
Miscellaneous equipment	67,945	14,672	(1,997)	329	80,949	
Prepayments on purchase of equipment	12,035	25,149	-	-	37,184	
Unfinished construction	-	238,904	-	-	238,904	
	$ 1,965,950	$ 666,995	$ (29,897)	$ 2,414	$ 2,605,462	
Revaluation increment						
Land - revaluation increment	$ 8,954	$ -	$ -	$ -	$ 8,954	
Accumulated depreciation						
Land improvements	$ 273	$ 70	$ -	$ -	$ 343	
Buildings	114,034	18,694	-	-	132,728	
Machinery equipment	548,278	224,728	(16,694)	4,812	761,124	
Transportation equipment	1,175	681	-	-	1,856	
Miscellaneous equipment	36,281	13,869	(1,976)	329	48,503	
	$ 700,041	$ 258,042	$ (18,670)	$ 5,141	$ 944,554	

SCHEDULE 10

TXC CORPORATION

INTANGIBLE ASSETS
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Amount
Pension prepayment	$ 7,947

TXC CORPORATION

OTHER ASSETS
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Idle assets		$ 4,126
Refundable deposits		2,971
Deferred charges		11,498
Deferred income tax assets - noncurrent		52,394
		$ 70,989

TXC CORPORATION

SHORT-TERM LOANS
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Creditor	Nature of Loan	Amount	Due Date	Interest Rate %	Pledge or Security
Hua Nan Bank	Procurements loans	$ 26,497	Six months	0.800~1.050	Note 23
Bank SinoPac	Procurements loans	19,132	Six months	0.930	
Bank of Taiwan	Procurements loans	3,658	Six months	1.170	
HSBC	Procurements loans	8,200	Six months	1.152~1.210	
Chinatrust	Unsecured loans	115,192	Nine months	1.98~6.00	
TaiShin Bank	Unsecured loans	32,596	One month	5.98	
		$ 205,275			

SCHEDULE 13

TXC CORPORATION

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

							Fair Value	
Name of Financial Instrument	**Explanation**	**Shares**	**Par Value**	**Amount**	**Interest Rate %**	**Cost**	**Unit Price**	**Amount**
Forward contracts		-	$ -	$ -	-	$ -	-	$ 1,744

SCHEDULE 14

TXC CORPORATION

NOTES PAYABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Related parties		
Tai-Shing Electronics Components Corporation		$ 701
Third parties		
Ienitron Corporation		10,787
Others (Note)		43,798
		$ 55,286

Note: Each of the accounts was less than 5% of the total account balance.

SCHEDULE 15

TXC CORPORATION

ACCOUNTS PAYABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Related parties		
Tai-Shing Electronics Components Corporation		$ 410
TXC Japan Corporation		12
TXC (Ningbo) Corporation		278,816
		279,238
Third parties		
Faith Victory		69,005
Troq		66,520
Seiko		45,771
East Crystal		42,940
Others (Note)		243,063
		467,299
		$ 746,537

Note: Each of the accounts was less than 5% of the total account balance.

SCHEDULE 16

TXC CORPORATION

ACCRUED EXPENSES
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Related parties		
TXC Japan Corporation		$ 2
Third parties		
Salaries		92,041
Others (Note)		63,343
		155,384
		$ 155,386

Note: Each of the accounts was less than 5% of the total account balance.

TXC CORPORATION

OTHER CURRENT LIABILITIES
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Temporary receipts		$ 4,905
Other		2,769
		$ 7,674

TXC CORPORATION

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - NONCURRENT
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

							Fair Value	
Name of Financial Instrument	Explanation	Shares	Par Value	Amount	Interest Rate %	Cost	Unit Price	Amount
Interest rate swap contracts		-	$ -	$ -	-	$ 18,944	-	$ 18,944

TXC CORPORATION

BONDS PAYABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

					Amount						
Bond Type	**Trustees**	**Date of Issuance**	**Payment Terms**	**Interest Rate**	**Issuance Amount**	**Repayment**	**Ending Balance**	**Unamortized Premium (Discount)**	**Carrying Value**	**Repayment Method**	**Securities**
2nd domestic unsecured convertible bonds	-	2006.11.08	-	-	$ 800,000	$ -	$ 800,000	$ (36,689)	$ 763,311	Except those sold, for resale, and redeemed, the bonds are repayable at maturity.	None

SCHEDULE 20

TXC CORPORATION

LONG-TERM LOANS
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Creditors	Repayment Period	Repayment Method	Interest Rate %	Amount Current Portion	Amount Noncurrent Portion	Amount Total Amount	Pledge or Security
Bank of Taiwan	2006.09.03~2021.09.03	Repayable at maturity	2.5850	$ -	$ 160,000	$ 160,000	None
Chinatrust	2005.10.26~2008.10.26	Repayable at maturity	2.1500	-	200,000	200,000	None
Chinatrust and five other financial institutions	2004.12.31~2007.12.30	Repayable at maturity	2.9211	50,000	-	50,000	Note 23
				$ 50,000	$ 360,000	$ 410,000	

SCHEDULE 21

TXC CORPORATION

LAND VALUE INCREMENT TAX RESERVE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Land value increment tax reserve		$ 3,512

SCHEDULE 22

TXC CORPORATION

OTHER PAYABLE
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Deferred credits		$ 240

TXC CORPORATION

OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Amount
Mirco-electronics	$ 856,303
Electronic components	3,912,194
	4,768,497
Less sales returns	(35,746)
Less sales discounts	(25,821)
	4,706,930
Project revenue	132,763
	$ 4,839,693

SCHEDULE 24

TXC CORPORATION

COST OF SALES
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Amount
Direct materials	
Beginning materials	$ 87,556
Material purchase	597,541
Less adjustment items	(2,595)
Ending materials	(115,829)
	566,673
Direct labor	178,194
Overhead	561,646
Manufacturing cost	1,306,513
Beginning work in process	113,366
Add purchases	44,044
Add adjustment items	50,864
Ending work in process	(103,637)
Finished goods cost	1,411,150
Beginning finished goods	136,118
Add purchase	3,381
Add adjustment items	276,449
Ending finished goods	(187,939)
Production cost	1,639,159
Beginning merchandise inventory	230,629
Add purchase	2,027,408
Less adjustment items	(279,137)
Ending merchandise inventory	(193,878)
	1,785,022
Project cost	126,860
	$ 3,551,041

TXC CORPORATION

OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Sales and Marketing	General and Administration	Research and Development
Salary		$ 41,717	$ 46,989	$ 44,595
Research expense		-	-	19,239
Labor service expense		30	13,897	1,254
Depreciation		749	8,393	37,494
Commission		34,980	-	-
Export expense		25,195	195	-
Others		109,298	40,954	18,338
		$ 211,969	$ 110,428	$ 120,920

SCHEDULE 26

TXC CORPORATION

NONOPERATING INCOME AND GAINS
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Amount
Interest income	$ 5,204
Investment income accounted for by the equity method	124,900
Gain on disposal of investments	1,184
Foreign exchange gains	94,629
Valuation gains on financial instruments	4,079
Others	37,563
	$ 267,559

SCHEDULE 27

TXC CORPORATION

NONOPERATING EXPENSES AND LOSSES
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Item	Explanation	Amount
Interest expense		$ 22,849
Investment loss accounted for by the equity method		3,260
Loss on disposal of assets		904
Loss on physical inventory		958
Foreign exchange losses		88,336
Loss on decline in value of inventories		33,721
Loss on idle assets' depreciation		1,940
Impairment loss		1,182
Valuation loss on financial instruments		1,744
		$ 154,894

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, 2006 and 2005 and Independent Auditors' Report

REPRESENTATION LETTER

The entities included in the combined financial statements of TXC Corporation as of and for the year ended December 31, 2006, which were prepared in conformity with the Regulations Governing the Preparation of Combined Business Report and Combined Financial Statements of a Public Company and its Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements." The information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, TXC Corporation and subsidiaries did not prepare a separate set of combined financial statements.

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, 2006 and 2005, 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, 2006 and 2005, 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 , requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, 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.

As stated in Note 3 to the consolidated financial statements, on January 1, 2006, TXC Corporation and subsidiaries adopted the newly released Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments" and related revisions of previously released SFASs.

March 5, 2007

Notice to Readers

T*he 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.

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amount)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 900,426	14	$ 259,332	6
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	163	-	-	-
Available-for-sale financial assets (Notes 2, 3 and 6)	150,183	2	60,000	1
Notes receivable, net (Notes 2 and 7)	44,589	1	85,329	2
Accounts receivable, net (Notes 2, 7 and 21)	1,801,501	28	1,304,098	27
Inventories, net (Notes 2 and 8)	735,179	11	705,573	15
Other current assets (Notes 2 and 17)	125,207	2	98,864	2
Total current assets	3,757,248	58	2,513,196	53
LONG-TERM INVESTMENTS				
Financial assets carried at cost (Notes 2 and 9)	3,000	-	3,000	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 22)				
Cost				
Land	157,040	3	157,040	3
Land improvements	442	-	442	-
Buildings	457,775	7	448,482	10
Machinery and equipment	2,703,090	42	2,192,147	46
Transportation equipment	9,698	-	6,292	-
Miscellaneous equipment	114,407	2	92,664	2
Land - revaluation increment	8,954	-	8,954	-
	3,451,406	54	2,906,021	61
Less accumulated depreciation	(1,162,094)	(18)	(837,745)	(17)
Unfinished construction and prepayments for purchase of equipment	291,200	4	49,147	1
Property, plant and equipment, net	2,580,512	40	2,117,423	45
INTANGIBLE ASSETS				
Land right (Note 22)	15,786	1	15,734	-
Pension prepayment (Notes 2 and 15)	7,947	-	7,947	-
Other	489	-	33	-
Total intangible assets	24,222	1	23,714	-
OTHER ASSETS				
Idle assets (Notes 2, 3 and 11)	4,126	-	4,521	-
Refundable deposits	3,022	-	2,381	-
Deferred charges, net	21,593	-	11,509	-
Deferred income tax assets (Notes 2 and 17)	52,394	1	75,261	2
Total other assets	81,135	1	93,672	2
TOTAL	$ 6,446,117	100	$ 4,751,005	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Note 12)	$ 343,262	5	$ 353,738	8
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	1,744	-	-	-
Notes payable (Note 21)	55,286	1	52,422	1
Accounts payable (Note 21)	755,111	12	581,561	12
Income tax payable (Note 17)	74,456	1	30,437	1
Accrued expenses (Note 21)	179,929	3	147,524	3
Current portion of long-term loans (Notes 14 and 22)	50,000	1	80,000	2
Other current liabilities	14,764	-	19,447	-
Total current liabilities	1,474,552	23	1,265,129	27
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	18,944	-	-	-
Bonds payable (Notes 2 and 13)	763,311	12	20,499	-
Long-term loans, net of current portion (Notes 14 and 22)	380,876	6	460,320	10
Total long-term liabilities	1,163,131	18	480,819	10
OTHER LIABILITIES				
Land value increment tax reserve (Notes 2 and 10)	3,512	-	3,512	-
Guarantee deposits received	229	-	250	-
Total other liabilities	3,741	-	3,762	-
Total liabilities	2,641,424	41	1,749,710	37
STOCKHOLDERS' EQUITY (Note 16)				
Capital stock				
Common stock, $10 par value; Authorized - 300,000 thousand and 260,000 thousand shares at December 31, 2006 and 2005; Issued - 205,698 thousand and 186,199 thousand shares at December 31, 2006 and 2005	2,056,983	32	1,861,987	39
Capital surplus	573,156	9	491,400	11
Retained earnings				
Legal reserve	153,821	3	105,774	2
Special reserve	-	-	34,087	1
Unappropriated earnings	978,720	15	493,909	10
Cumulative translation adjustments (Note 2)	36,388	-	8,696	-
Unrealized gains on financial instruments (Note 2)	183	-	-	-
Asset revaluation increment	5,442	-	5,442	-
Total stockholders' equity	3,804,693	59	3,001,295	63
TOTAL	$ 6,446,117	100	$ 4,751,005	100

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$5,267,771	101	$3,766,094	101
LESS SALES DISCOUNTS AND RETURNS	61,567	1	35,913	1
NET OPERATING REVENUE	5,206,204	100	3,730,181	100
COST OF SALES	3,704,063	71	2,751,460	74
GROSS PROFIT	1,502,141	29	978,721	26
OPERATING EXPENSES				
Sales and marketing	274,001	5	198,069	5
General and administration	111,068	2	97,176	3
Research and development	120,920	3	114,374	3
Total operating expenses	505,989	10	409,619	11
OPERATING INCOME	996,152	19	569,102	15
NONOPERATING INCOME AND GAINS				
Interest income	5,725	-	2,529	-
Gain on disposal of assets	-	-	81	-
Gain on disposal of investments	1,184	-	789	-
Gain on physical inventory	-	-	360	-
Foreign exchange gains	94,629	2	114,908	3
Valuation gain on financial instruments	4,239	-	-	-
Others	42,218	1	22,214	1
Total nonoperating income and gains	147,995	3	140,881	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense	35,582	1	58,196	2
Loss on disposal of assets	5,998	-	1,985	-
Loss on physical inventories	958	-	803	-
Foreign exchange losses	94,267	2	77,821	2
Loss on decline in value of inventories	34,352	1	24,307	1
Valuation loss on financial instruments	1,744	-	-	-
Impairment loss	3,583	-	11,309	-
Others	7,796	-	5,472	-
Total nonoperating expenses and losses	184,280	4	179,893	5

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 959,867	18	$ 530,090	14
INCOME TAX EXPENSE (Notes 2 and 16)	(100,359)	(2)	(49,622)	(1)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	859,508	16	480,468	13
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, Net of tax benefit of NT$5,756 thousand	(17,267)	-	-	-
CONSOLIDATED NET INCOME	$ 842,241	16	$ 480,468	13

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
CONSOLIDATED EARNINGS PER SHARE (Note 19)				
Basic	$ 4.59	$ 4.13	$ 2.78	$ 2.52
Diluted	$ 4.25	$ 3.83	$ 2.70	$ 2.44

(Concluded)

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others			
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Asset Revaluation Reserve	Unrealized Gains on Financial Instruments	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2005	$ 1,607,847	$ 363,804	$ 79,959	$ 409	$ 260,217	$ 5,442	$ -	$ (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)
Bonuses to employees - capital stock	18,728	-	-	-	(18,728)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(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	491,400	105,774	34,087	493,909	5,442	-	8,696	3,001,295
Effect of adopting the newly released statement of Financial Accounting Standards No. 34	-	-	-	-	(17,267)	-	-	-	(17,267)
Appropriation of 2005 net income									
Legal reserve	-	-	48,047	-	(48,047)	-	-	-	-
Special reserve	-	-	-	(34,087)	34,087	-	-	-	-
Stock dividend	113,345	-	-	-	(113,345)	-	-	-	-
Cash dividends	-	-	-	-	(188,909)	-	-	-	(188,909)
Bonuses to employees - capital stock	34,347	-	-	-	(34,347)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(6,869)	-	-	-	(6,869)
Convertible bonds converted to common stock	11,234	8,566	-	-	-	-	-	-	19,800
Employee stock option converted to common stock	36,070	33,510	-	-	-	-	-	-	69,580
Equity component of compound financial instrument	-	39,680	-	-	-	-	-	-	39,680
Net income in 2006	-	-	-	-	859,508	-	-	-	859,508
Changes in valuation gain or loss on available-for-sale financial assets	-	-	-	-	-	-	183	-	183
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	27,692	27,692
BALANCE, DECEMBER 31, 2006	$ 2,056,983	$ 573,156	$ 153,821	$ -	$ 978,720	$ 5,442	$ 183	$ 36,388	$ 3,804,693

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 842,241	$ 480,468
Cumulative effect of changes in accounting principles	17,267	-
Net income before cumulative effect of changes in accounting principles	859,508	480,468
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	343,543	259,689
Nonoperating loss - idle assets	2,876	2,034
Amortization	53,803	32,407
Bad debt expense	7,749	2,129
Loss on decline in value of inventories	34,352	24,307
Loss on physical inventory	958	443
Gain on disposal of investments	(1,184)	(789)
Loss on disposal of assets	5,998	1,904
Unrealized gain on financial instruments, net	(2,495)	-
Impairment loss	3,583	11,309
Accrued interest compensation	2,292	(3,319)
Deferred income tax	23,157	(1,009)
Net changes in operating assets and liabilities		
Notes receivable	40,945	(48,190)
Accounts receivable	(505,357)	(189,643)
Inventories	(64,916)	(80,252)
Other current assets	(20,876)	(25,695)
Prepaid pension expense	-	(551)
Notes payable	2,864	24,520
Accounts payable	173,551	181,701
Accrued expenses	32,405	55,833
Income tax payable	44,019	(419)
Other current liabilities	(4,683)	8,370
Net cash provided by operating activities	1,032,092	735,247
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of available-for-sale financial assets	(460,000)	(350,000)
Proceeds from disposal of available-for-sale financial assets	371,184	290,789
Other financial assets sold	-	9,591
Acquisitions of property, plant and equipment	(793,133)	(562,456)
Proceeds from disposal of property, plant and equipment	1,043	601
Increase in refundable deposits paid	(641)	(603)
Increase in deferred charges	(63,891)	(29,381)
Net cash used in investing activities	(945,438)	(641,459)

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	$ (10,476)	$(141,979)
Issue of convertible bonds	800,000	-
Increase in guarantee deposits	(21)	250
Increase (decrease) in long-term loans	(109,445)	131,005
Remuneration to directors and supervisors	(6,869)	(3,746)
Cash dividends	(188,909)	(82,404)
Proceeds from the exercise of employee stock option	69,580	32,603
Net cash provided by (used in) financing activities	553,860	(64,271)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	580	(3,430)
NET INCREASE IN CASH AND CASH EQUIVALENTS	641,094	26,087
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	259,332	233,245
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 900,426	$ 259,332
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (including interest capitalized $2,371 thousand)	$ 37,457	$ 29,715
Income tax	$ 33,183	$ 51,050
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 50,000	$ 80,000
Convertible bonds	$ 19,800	$ 248,000

(Concluded)

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

(With Deloitte & Touche audit report dated March 5, 2007)

TXC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

TXC Corporation (TXC) 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 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's shares began to be traded on the Taiwan Stock Exchange.

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

TXC and its consolidated subsidiaries, listed in Note 2, are hereinafter collectively referred to as the "Corporation."

As of December 31, 2006 and 2005, The Corporation had 1,656 and 1,367 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, requirements of the Business Accounting Law and Guideline Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. 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, depreciation, and pension, etc. Actual results could differ from these estimates.

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

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TXC 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, 2006	Percentage of Ownership at December 31, 2005
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%	100%
TCTI	Growing Profits Trading Ltd. ("GPT")	National trading	100%	100%
	TXC (NGB) Corporation ("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.

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents and those expected to be converted to cash, sold or consumed within 12 months from the balance sheet date. Property, plant and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations incurred for operating purposes and expected to be paid or settled within 12 months from the balance sheet date. All other liabilities not classified as current liabilities are noncurrent liabilities.

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.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. The financial instruments are recognized and carried at fair value plus transaction costs with fair value changes recognized in profit or loss. A regular way purchase or sale of financial instruments is recognized and derecognized using transaction date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. Derivatives that do not meet the criteria for hedge accounting are recognized at fair value. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Available-for-sale financial assets are recognized and carried at fair value plus transaction costs that are directly attributable to the acquisition. The changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial asset is recognized and derecognized using transaction date accounting.

The fair value of investments in open-end funds is the year-end net asset value of the funds.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Revenue Recognition and Allowance for Doubtful Accounts

Revenue is recognized when ownership and risk of loss or liability for change to 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.

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 value of finished goods, work in process and merchandise and on replacement cost of raw materials.

Financial Assets Carried at Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks.

Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of investees attributable to periods prior to the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as an increase in the number of shares held. The cost per share is recalculated based on the new number of shares.

If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

Investments Accounted for Using Equity Method

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on the investee are accounted for by the equity method.

Gains or losses on sales to investees over which the Corporation has a controlling interest are deferred until such gains or losses are realized through the subsequent sale of the related products to third parties.

Gains or losses on sales of investee to the Corporation are deferred in proportion to the Corporation's ownership percentage in the investees until they are realized through transactions with third parties.

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.

Depreciation is calculated using the straight-line method over the estimated useful lives of: buildings - 5 to 60 years; machinery and equipment - 3 to 10 years; transportation equipment - 3 to 6 years; miscellaneous equipment - 5 to 15 years.

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 its option plans, the Corporation adopted the intrinsic value method under which any compensation cost is charged to expense over the vesting period.

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 asset or liabilities are determined actuarially.

Convertible Bonds

Convertible bonds that were issued before December 31, 2005 are classified as current or noncurrent according to the redemption dates. 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.

For convertible bonds issued on or after January 1, 2006, the carrying value of host contract is recorded in total proceeds from the issuance less the (1) fair value of embedded derivatives and (2) issuance costs allocated to bond payable under the initially recognized amount. When the fair value of the bonds is subsequently measured at amortized cost using the effective interest rate method, the related interest expense or redemption gain is recognized as loss or earnings. When the bondholder exercises the conversion option before bond maturity, the adjusted carrying value of the debt components (bonds and embedded derivatives are included) is credited to a capital stock accounts.

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 for financial reporting. 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, if it is expected that a foreign subsidiary will not distribute its earnings in the future and the difference will permanently exist.

The Corporation adopts the flow-through method for income tax credits resulting from the purchase of certain 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.

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

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

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 of 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.

The above prevailing exchange rates are based on the Interbank Spot Market closing rates of Central Bank of China.

Reclassifications

Certain accounts for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of the financial statements for the year ended December 31, 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Corporation adopted the newly released Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation for Financial Instruments" and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Corporation had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Stockholders' Equity (Net of Tax)
Available-for-sale financial assets	$ -	$ 2
Financial liabilities at fair value through profit or loss, noncurrent	(17,267)	-
	$ (17,267)	$ 2

The adoption of the newly released SFASs resulted in a cumulative effect of changes in accounting principles of NT$17,267 thousand (net of tax), a decrease in net income of NT$17,267 thousand, and a decrease in after income tax basic earnings per share of NT$0.08 dollar, for the year ended December 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to conform with the financial statements as of and for the year ended December 31, 2006. The previously issued financial statements as of and for the year ended December 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

1) 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 investment 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.

2) 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 investee companies. Cash dividends received are recorded as reductions of the investment.

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

3) 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 either 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.

Certain accounts in financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the 2006 classifications prescribed by the newly released and revised SFAS. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments	$ 60,000	$ -
Long-term investments	3,000	-
Available-for-sale financial assets	-	60,000
Financial assets carried at cost	-	3,000
	$ 63,000	$ 63,000

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	
	2006	2005
Cash on hand	$ 2,038	$ 1,046
Checking accounts and demand deposits	286,677	241,729
Time deposits	116,711	16,557
Cash equivalents		
Bonds with repurchase rights	495,000	-
	$900,426	$259,332

5. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2006	2005
Derivatives - financial assets		
Forward contracts	$ 163	$ -
Derivatives - financial liabilities		
Forward contracts	$ 1,744	$ -
Interest rate swap contracts	$ 18,944	$ -

The Corporation entered into derivative transactions during the years ended December 31, 2006 and 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations.

Outstanding forward contracts as of December 31, 2006 and 2005:

	Currency	Maturity	Contract Amount (In Thousands)
December 31, 2006			
Sell	USD/NTD	January 9, 2007 to February 9, 2007	US$4,000/NT$129,718
Sell	USD/JPY	January 26, 2007 to February 15, 2007	US$4,500/JP¥527,888
Sell	NTD/JPY	February 14, 2007	NT$8,268/JP¥30,000
Sell	USD/RMB	January 31, 2007 to April 30, 2007	US$2,000/RMB15,570
Sell	USD/JPY	January 16, 2007	US$86/JP¥10,000

Outstanding Interest rate swap contracts as of December 31, 2006:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
August 12, 2010	300,000	3.68%	Rate on 90-day commercial paper

Net gains arising from derivative financial instruments for the year ended December 31, 2006 was $4,097 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2006	2005
Mutual funds	$150,183	$ 60,000

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2006	2005
Notes receivable from third parties	$ 44,813	$ 85,839
Less allowance for doubtful accounts	(224)	(510)
	$ 44,589	$ 85,329
Accounts receivable from third parties	$ 1,810,313	$ 1,306,259
Accounts receivable from related parties	6,554	9,070
	1,816,867	1,315,329
Less allowance for doubtful accounts	(15,366)	(11,231)
	$ 1,801,501	$ 1,304,098

8. INVENTORIES

	December 31	
	2006	2005
Raw materials	$160,020	$115,393
Supplies	11,816	8,907
Work in-process	149,247	151,915
Finished goods	223,293	164,736
Merchandise inventories	199,020	239,743
Merchandise in transit	24,178	44,433
	767,574	725,127
Less allowance for decline in market value and obsolescence	(32,395)	(19,554)
	$735,179	$705,573

9. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2006	2005
Non-publicly traded stocks	$ 3,000	$ 3,000

10. PROPERTY, PLANT AND EQUIPMENT

	December 31			
	2006			2005
	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	343	99	169
Buildings	457,775	156,191	301,584	319,479
Machinery equipment	2,703,090	937,706	1,765,384	1,535,270
Transportation equipment	9,698	4,210	5,488	3,216
Miscellaneous equipment	114,407	63,644	50,763	44,148
Prepayments on purchase of equipment	49,137	-	49,137	46,731
Unfinished construction	242,063	-	242,063	2,416
	$3,742,606	$1,162,094	$2,580,512	$2,117,423

See Note 22 for the details of property, plant and equipment pledged as collaterals.

Interest expense capitalized for the year ended December 31, 2006 amount to $2,371 thousand, with interest rate of 2.63%.

11. IDLE ASSETS

	December 31, 2006		
	Cost	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	6,747	4,874	1,873
Machinery and equipment	10,239	10,239	-
	$19,239	$15,113	$ 4,126

	December 31, 2005		
	Cost	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	7,142	4,874	2,268
Machinery and equipment	6,389	6,389	-
Miscellaneous equipment	46	46	-
	$15,830	$11,309	$ 4,521

Impairment loss was as follows:

	December 31, 2006	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Machinery and equipment	$ 3,583	$ -

	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	$ -

12. SHORT-TERM LOANS

	December 31			
	2006		2005	
	Amount	Interest Rate %	Amount	Interest Rate %
Material procurements loans	$ 57,487	0.8~1.21	$145,208	0.718~1.170
Unsecured bank loans	285,775	1.745~6.38	208,530	1.68~5.70
	$343,262		$353,738	

See Note 22 for details of pledged assets.

13. BONDS PAYABLE

	December 31	
	2006	**2005**
Domestic		
First domestic unsecured convertible corporate bonds	$ -	$ 19,800
Second domestic unsecured convertible corporate bonds	800,000	-
Liability component of domestic unsecured convertible corporate bonds	(36,689)	-
Add accrued interest compensation	-	699
	$763,311	$ 20,499

First Domestic Unsecured Convertible Corporate Bonds

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 of 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 three months after 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.

Second Domestic Unsecured Convertible Corporate Bonds

On November 8, 2006, the Corporation issued second domestic unsecured convertible bonds with an aggregate value of $800,000 thousand and maturity on November 8, 2011. Nominal interest is 0%. As of December 31, 2006, the Corporation's outstanding domestic unsecured convertible corporate bonds were $800,000 thousand. According to Statement of Financial Accounting Standards No. 36, "Disclosure and Presentation of Financial Instruments," these domestic unsecured convertible bonds were separated into convertible options, equity (Note 16), and bonds payable, liability. Other details of the bond issuance are summarized as follows:

(a) On the third anniversaries of the issuance date, bonds are redeemable at face value.

(b) During the period between one month after issuance and the 40th day before maturity, the Corporation can redeem the bonds from holders at contracted price.

(c) During the period between one month after issuance and the 10th 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.

(d) The original conversion price per share is NT$52.00. 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.

14. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31 2006	December 31 2005
Secured bank loans	Repayable in quarterly installments, maturing on August 31, 2008	$ 20,876	$ 70,320
Unsecured bank loans	Repayable in quarterly installments, maturing on February 2, 2007	-	40,000
Unsecured bank loans	Repayable at maturity on October 26, 2008	200,000	250,000
Unsecured bank loans	Repayable at maturity on September 3, 2021	160,000	-
Chinatrust loan		50,000	180,000
		430,876	540,320
Less current portion		(50,000)	(80,000)
		$380,876	$460,320
Interest rate (%)		2.15~5.85	0~5.85

See Note 22 for collateral on long-term loans.

As of December 31, 2006, the Corporation has issued to various banks promissory notes amounting to $1,875,500 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	$300,000	Three years after the first drawdown date including additional one year.	2.9611%	Six semiannual installments starting from one year after the first drawdown date.
Second	200,000	50,000	Three years after the first drawdown date.	3.0579%	Lump sum on due date.
	$500,000	$350,000			

15. PENSION PLAN

The Labor Pension Act (the Act) became effective on July 1, 2005, and the pension mechanism under the Act is deemed a defined contribution plan. Employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act or 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 have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. Employees who joined the Corporation after July 1, 2005 can only be subject to the pension mechanism under the Act.

The Act prescribes that the contribution by an employer to employees' pension accounts per month shall be in amount equal to not less than 6% of each employee's monthly salary. Pursuant to the Act, the Corporation has made monthly contributions to employees' pension accounts starting from July 1, 2005, and recognized pension costs of $12,802 thousand for the year ended December 31, 2006.

The Corporation has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Corporation contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund). The Fund is administered by the pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China.

Information of Pension

Net periodic pension costs in the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Service cost	$ 1,884	$ 3,859
Interest cost	1,596	1,543
Expected return on plan assets	(1,721)	(1,516)
Amortization of unrecognized losses	377	557
Net periodic pension cost	$ 2,136	$ 4,443

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

	2006	2005
Benefit obligations		
Vested benefit obligation	$ (4,633)	$ (4,596)
Nonvested benefits	(37,355)	(33,522)
Accumulated benefit obligation	(41,988)	(38,118)
Effect of future salary increase	(14,635)	(11,002)
Projected benefit obligation	(56,623)	(49,120)
Plan assets at fair value	55,989	50,429
Plan assets in excess of projected benefit obligation (Projected benefit obligation in excess of plan assets)	(634)	1,309
Unrecognized net transition obligation	634	972
Unrecognized net losses	10,048	5,666
Accrued pension cost	$ 10,048	$ 7,947
Vested benefits	$ (5,421)	$ (5,111)

Actuarial Assumptions

	2006	2005
Discount rate used in determining present values	2.75%	3.25%
Future salary increase rate	2.50%	2.00%
Expected rate of return on plan assets	2.75%	3.25%

Summary of changes in the pension fund is as follows:

	2006	2005
Contribution	$ 4,237	$ 4,994
Payment of benefits	$ -	$ 2,197

16. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital is $3,000,000 thousand and $2,600,000 thousand at December 31, 2006 and 2005 ($10.00 par value per share). As of December 31, 2006, the Corporation's outstanding capital stock was $2,056,983 thousand divided into 205,698 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	1,109,049
Stock dividends from capital surplus	127,693
Employee stock option	65,840
Convertible bonds	211,221
	$ 2,056,983

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, 2006 and 2005 was as follows:

	2006		2005	
Employee Stock Options	**Units**	**Weighted Average Exercise Price**	**Units**	**Weighted Average Exercise Price**
Outstanding, beginning	4,129	$ 17.0	7,935	$ 17.0
Current issuance	-	-	-	-
Current exercise	(3,607)	19.3	(1,912)	17.1
Current cancel	(192)	-	(1,894)	-
Outstanding, ending	330		4,129	
Exercisable options, ending	330		2,754	

As of December 31, 2006, 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~$13.1	-	-	$16.2	-	$13.1
$34.10~$28.9	144	0.25	28.9	144	28.9
$17.60~$14.4	186	0.82	16.4	186	14.4
	330			330	

No compensation cost was recognized under intrinsic value method for the years ended December 31, 2006 and 2005. The assumptions and pro forma results of the Corporation for the year ended December 31, 2006 would have been as follows:

Assumptions	
Expected dividend yield	-
Expected volatility	46.75%
Risk free interest rate	1.92%
Expected life	3.875 years

	2006	2005
Net income		
Net income as reported	$842,241	$480,468
Pro forma net income	834,539	449,496
Earnings per share (EPS) - after income tax (in dollars)		
Basic EPS as reported	$ 4.13	$ 2.73
Pro forma basic EPS	$ 4.11	$ 2.55
Diluted EPS as reported	$ 3.83	$ 2.64
Pro forma diluted EPS	$ 3.81	$ 2.47

Capital Surplus

Capital surplus can only be used to offset a deficit under the Corporation 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. Capital surplus consisted of the following:

Capital

	December 31	
	2006	2005
Additional paid-in capital	$290,248	$290,248
Employee stock option	54,449	20,939
Convertible bonds	188,779	180,213
Warrants	39,680	-
	$573,156	$491,400

Earnings Distribution and Dividend Policy

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 fully or partially distributed for dividends, with the stockholders' approval, according to the following percentages:

(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 2005 and 2004 earnings was approved in the stockholders' meeting on June 15, 2006 and June 13, 2005, respectively. The appropriations and dividends per share are as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2005	**For Fiscal Year 2004**	**For Fiscal Year 2005**	**For Fiscal Year 2004**
Legal reserve	$ 48,047	$ 25,815	$ -	$ -
Cash dividends	188,909	82,404	1.0	0.50
Stock dividends	113,345	82,405	0.6	0.50
Employees' bonus - stock	34,347	18,728	-	-
Remuneration to directors and supervisors - cash	6,869	3,746	-	-

The amounts of the above appropriations of earnings for 2005 and 2004 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, 2005 and 2004 would have decreased from NT$2.73 to NT$2.50 and NT$1.63 to NT$1.49, respectively. The shares distributed as bonus to employees represented 1.84% and 1.16% of the Corporation's total outstanding common shares as of December 31, 2005 and 2004, respectively.

As of March 5, 2007, 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).

17. INCOME TAX

The reconciliation of imputed income tax on pretax income at statutory tax rate to income tax expense was as follows:

	Years Ended December 31	
	2006	**2005**
Tax on pretax income at statutory rate	$251,755	$140,618
Add (deduct) tax effects of		
Permanent differences	96	444
Temporary differences	(25,326)	(15,158)
Tax-exempt income for five years	(74,355)	(15,695)
	152,170	110,209
Income tax (10%) on undistributed earnings	8,895	-
Less investment tax credit	(84,759)	(59,537)
Current tax credit	$ 76,306	$ 50,672

Income tax expense consisted of the following:

	Years Ended December 31	
	2006	**2005**
Current tax expense	$ 76,306	$ 50,672
Prior year's adjustment	896	(40)
Deferred tax expenses (benefits)		
Temporary difference	24,893	15,366
Investment tax credits	(1,736)	(16,376)
Income tax expense	$100,359	$ 49,622

Changes of income tax payable:

	December 31	
	2006	**2005**
Balance, beginning of year	$ 30,437	$ 30,855
Accrued income tax this year	76,306	50,672
Current payment	(33,183)	(51,050)
Adjustment of prior years' tax expense	896	(40)
Balance, end of year	$ 74,456	$ 30,437

Deferred income tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	2006	2005
Deferred income tax assets, current		
Investment tax credit	$ 31,124	$ 32,912
Loss on decline in value of inventories	7,207	4,180
Unrealized foreign exchange loss	2,739	1,737
Impairment loss	-	2,172
Others	2,120	402
	43,190	41,403
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(1,960)	(5,639)
Net deferred income tax assets, current	$ 41,230	$ 35,764
Deferred income tax assets, noncurrent		
Investment tax credit	$ 93,372	$ 92,070
Impairment loss	2,467	-
Unrealized valuation loss on financial instruments	4,736	-
Others	331	331
	100,906	92,401
Deferred income tax liabilities, noncurrent		
Investment income	(48,512)	(17,140)
Net deferred income tax assets, noncurrent	$ 52,394	$ 75,261

The Corporation's investment tax credits as of December 31, 2006 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	$ 77,341	$ 48,523	2010
	Research and development expenditures	119,890	74,606	2010
	Personnel training	1,721	$ 1,367	2010
		$198,952	$124,496	
Purchase of machinery and equipment	Purchase of machinery and equipment	$ 10,303	$ -	2010

The sales generated from the following expansion and construction of the TXC 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 TXC Corporation's income tax returns up to 2002 have been examined and approved by the tax authorities.

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	
	2006	**2005**
Balance of ICA	$ 15,370	$ 26,069

	2006 (Estimate)	**2005 (Actual)**
Imputation tax credit rate	9.18%	10.88%

	December 31	
	2006	**2005**
Undistributed earnings		
Until 1997	$ -	$ -
From 1998 and thereafter	978,720	493,909
	$978,720	$493,909

18. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Corporation's personnel, depreciation, and amortization expenses for the years ended December 31, 2006 and 2005 were summarized as follows:

Function / Expense Item	Years Ended December 31					
	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$314,250	$182,360	$496,610	$253,834	$128,303	$382,137
Labor and health insurance	20,060	10,230	30,290	16,012	8,639	24,651
Pension	10,941	6,693	17,634	7,107	3,375	10,482
Meals	11,567	5,864	17,431	9,634	5,206	14,840
Welfare	5,844	2,844	8,688	4,021	2,085	6,106
Others	-	-	-	-	-	-
Depreciation	285,824	57,719	343,543	214,294	45,395	259,689
Amortization	12,143	41,660	53,803	2,116	30,291	32,407

19. EARNINGS PER SHARE

	Years Ended December 31			
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (dollars)				
Income from continuing operations	$ 4.70	$ 4.21	$ 2.78	$ 2.52
Cumulative effect of changes in accounting principle	(0.11)	(0.08)	-	-
Net income	$ 4.59	$ 4.13	$ 2.78	$ 2.52
Diluted earnings per share (dollars)				
Income from continuing operations	$ 4.36	$ 3.91	$ 2.70	$ 2.44
Cumulative effect of changes in accounting principle	(0.11)	(0.08)	-	-
Net income	$ 4.25	$ 3.83	$ 2.70	$ 2.44

	Years Ended December 31									
	2006					2005				
	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	$ 935,426	$ 842,241				$ 529,967	$ 480,468			
Basic earnings per share	$ 935,426	$ 842,241	203,945	$ 4.59	$ 4.13	$ 529,967	$ 480,468	190,740	$ 2.78	$ 2.52
Convertible bonds	3,063	2,297	15,627			3,740	2,805	6,418		
Employee stock option	-	-	1,115			-	-	689		
Net diluted earnings per share	$ 938,489	$ 844,538	220,687	$ 4.25	$ 3.83	$ 533,707	$ 483,273	197,847	$ 2.70	$ 2.44

20. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair values of assets and liabilities were as follows:

	December 31			
	2006		2005	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 900,426	$ 900,426	$ 259,332	$ 259,332
Available-for-sale financial assets, current	150,183	150,183	60,000	60,004
Notes and accounts receivable, net	1,846,090	1,846,090	1,389,427	1,389,427
Financial assets carried at cost	3,000	3,000	3,000	3,000
Liabilities				
Short-term loans	343,262	343,262	353,738	353,738
Notes and accounts payable	810,397	810,397	633,983	633,983
Accrued expense	179,929	179,929	147,524	147,524
Bonds payable	763,311	763,311	20,499	20,499
Long-term loans (including current portion	430,876	430,876	540,320	540,320
Derivative financial instruments				
Interest rate swap contract				
Taiwan	(18,944)	(18,944)	-	-
Forward contract				
Taiwan	(1,744)	(1,744)	-	-
Foreign country	163	163	-	-

Methods and assumptions used in the determination of fair values of financial instruments were as follows:

(a) The fair values of short-term financial instruments such as cash and cash equivalents, receivables, payables and short-term loans are based on their carrying amounts because of their short maturities. The carrying amounts of these financial instruments approximate their fair values.

(b) Fair values of available-for-sale financial assets were based on their quoted market price on the balance sheet date.

(c) Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.

(d) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.

(e) The fair value of the long-term loans and bonds payable was determined using the discounted value of expected cash flows, which approximates their carrying amount.

Fair value of assets and liabilities based on:

	Quoted Market Price		**Valuation Techniques Incorporating Estimates and Assumptions**	
	December 31		**December 31**	
	2006	**2005**	**2006**	**2005**
Assets				
Cash and cash equivalents	$ -	$ -	$ 900,426	$ 259,332
Financial assets at fair value through profit or loss, current	-	-	163	-
Notes and accounts receivable, net	-	-	1,846,090	1,389,427
Available-for-sale financial assets, current	150,183	60,000	-	-
Financial assets carried at cost	-	-	3,000	3,000
Liabilities				
Short-term loans	-	-	343,262	353,738
Notes and accounts payable	-	-	810,397	633,983
Accrued expenses	-	-	179,929	147,524
Financial liabilities at fair value through profit or loss, current	-	-	1,744	-
Bonds payable	-	-	763,311	20,499
Long-term loans (including current portion)	-	-	430,876	540,320
Financial liabilities at fair value through profit of loss, noncurrent	-	-	18,944	-

Gain recognized from the changes in fair value of derivatives estimated using valuation techniques was $4,079 thousand for the year ended December 31, 2006.

As of December 31, 2006, financial liabilities exposed to cash flow interest rate risk were $18,944 thousand.

Information about financial risks was as follows:

(a) Market risk: The Corporation's 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 risk refers to the risk arising from interest rate fluctuations in the market. The Corporation does not have significant price risk.

(b) Credit risk: Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties or third-parties breached the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing derivative financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes its exposure to default by those parties is low.

(c) Liquidity risk: The Corporation has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low.

21. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Corporation
Tai-Shing Electronics Components Corporation (Tai-Shing)	Chairman is the Corporation's general manager

Major transactions with related parties were summarized below:

Sales

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 19,997	-	$ 21,226	1

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

Other Expenses

	Years Ended December 31			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 5,805	1	$ 4,229	3

Receivable from and Payable to Related Parties

		December 31			
		2006		2005	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Accounts receivable	Tai-Shing	$ 6,554	-	$ 9,070	-
Notes payable	Tai-Shing	$ 701	1	$ 264	-
Accounts payable	Tai-Shing	$ 401	-	$ 183	-
Accrued expense	Tai-Shing	$ -	-	$ 273	-

22. PLEDGED ASSETS

As of December 31, 2006 and 2005, the following assets had been pledged at their book values to secure short-term loans, long-term debts and commercial paper issued:

	2006	2005
Property, plant and equipment		
Land	$ 165,994	$ 165,994
Buildings, net	234,041	239,946
Machinery and equipment, net	529,476	507,492
Restricted deposit	50	-
Intangible assets - land right	15,786	15,734
	$ 945,347	$ 929,166

23. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of December 31, 2006, which were not shown in the financial statements, were as follows:

Unit: In Thousands

Commitment	Contract Price	Paid Up	Not Yet Paid
Building construction	$282,600	$206,735	$75,865

Guarantee for short-term loan and long-term loan is described in Note 14.

Guarantee for customs tax amounted to about $15,000 thousand.

Unused letters of credit were JP¥255,324 thousand.

As of December 31, 2005, the Corporation had derivative financial instruments. Please refer to Note 20.

24. 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
2006				
Sales to other than consolidated entities	$ 400,730	$ 4,805,474	$ -	$ 5,206,204
Sales among consolidated entities	1,336,789	34,219	(1,371,008)	-
Total sales	$ 1,737,519	$ 4,839,693	$ (1,371,008)	$ 5,206,204
Operating income	$ 151,266	$ 845,335	$ (449)	$ 996,152
Non-operating income and gains				147,995
Non-operating expenses and losses				(184,280)
Income before income tax				$ 959,867
Identifiable assets	$ 1,630,910	$ 5,100,615	$ (288,408)	6,443,117
Long-term investments				3,000
Total assets				$ 6,446,117
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

Export Sales

Area	2006	2005
America	$ 154,117	$ 155,400
Europe	80,455	60,950
Asia	3,162,803	2,078,080
	$ 3,397,375	$ 2,294,430

Major Customer Information

Customer	2006	2005
Dafon (Shanghai) Computer Co., Ltd.	$ 420,866	$ 401,886

25. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Corporation and its investees:

a. Financing provided: None.

b. Endorsement/guarantee provided: Table 1 (attached).

c. Marketable securities held: Table 2 (attached).

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: None.

e. Acquisition of individual real estate properties at costs of at least $100 million or 20% of the paid-in capital: None.

f. Disposal of individual real estate properties at prices of at least $100 million or 20% of the paid-in capital: None.

g. Total purchases from or sales to related parties of at least $100 million or 20% of the paid-in capital: Table 3 (attached).

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached).

i. Names, locations, and related information of investees on which the Company exercises significant influence: Table 5 (attached).

j. Derivative transactions: Please refer to Note 20 for the related information and Table 6 (attached).

k. Investment in Mainland China: Table 7 (attached).

l. Intercompany relationships and significant intercompany transactions: Table 8 (attached).

TABLE 1

TXC CORPORATION AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Each Guaranteed Party's Endorsement/ Guarantee Amounts (Note 2)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 3)
		Name	Nature of Relationship (Note 1)						
0	TXC Corporation	TXC (Ningbo) Corporation	2	$ 1,902,347	$ 97,365	$ 97,365	$ -	3	$ 3,804,693

Note 1: The number 2 above represents an investee in which the Corporation holds directly and indirectly all of the equity interest.
Note 2: Not to exceed 50% of the Corporation's net equity. ($3,804,693 thousand × 50% = $1,902,347 thousand)
Note 3: Not to exceed the net worth of the Corporation.

TXC CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
TXC Corporation	Beneficiary certificate							
	Ta Chong Bond Fund	-	Available-for-sale financial assets	4,619	$ 60,149	-	$ 60,149	
	Fubon Chi-Hsiang Fund	-	〃	2,062	30,014	-	30,014	
	Fubon Jin-Ju-I Fund	-	〃	4,907	60,020	-	60,020	
					$ 150,183			
	Stock							
	TCTI	Subsidiary	Long-term investments - equity method	29,122	$ 1,137,953	100	-	
	TXC Technology Inc.	Subsidiary	〃	300	2,702	100	-	
	TXC Japan Corporation	Subsidiary	〃	2	2,788	100	-	
					$ 1,143,443			
	Marson Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	414	$ 3,000	5	-	
TCTI	Stock							
	GPT	Subsidiary	Long-term investments - equity method	50	$ 24,207 (US$ 743)	100	-	
	TXC (Ningbo) Corporation	Subsidiary	〃	US$ 29,122	$ 1,121,829 (US$ 34,416)	100	-	

(Continued)

TABLE 3

TXC CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms (Note)	Unit Price	Payment Terms	Ending Balance	% to Total	
TXC Corporation	GPT	Subsidiary	Purchase	$ 474,123	17	-	-	-	$ -	-	
	NGB	Subsidiary	Purchase	316,266	11	-	-	-	(278,816)	37	
NGB	GPT	Ultimate parent	Sales	474,123 (US$ 14,494)	(43)	-	-	-	183 (US$ 6)	-	

Note: The terms of sales to related parties were not significantly different from those to third parties. For purchase transactions, prices are determined in accordance with the related contractual agreements and no other similar transaction could be compared with.

TABLE 4

TXC CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
NGB	TXC Corporation	Ultimate parent	$ 278,816 (US$ 8,550)	2.27	$ -	-	$ 68,046 (US$ 2,088)	$ -

TABLE 5

TXC CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
December 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				December 31, 2006	December 31, 2005	Shares (in Thousands)	Percentage of Ownership	Carrying Value			
TXC Corporation	TCTI	WESTERN Samoa	Investment holding	$ 919,527	$ 765,624	29,122	100	$ 1,137,953	$ 130,723	$ 124,900	
				US$ 29,122	US$ 23,000						
	TXC Technology Inc.	U.S.A.	Marketing activities	9,879	9,879	300	100	2,702	(2,351)	(2,351)	
				US$ 300	US$ 300						
	TXC Japan Corporation	Japan	Marketing activities	4,661	2,973	2	100	2,788	(909)	(909)	
				JP¥ 16,000	JP¥ 10,000						
TCTI	GPT	B.V.I.	National trading	US$ 50	US$ 50	50	100	24,207	13,917	13,917	
								US$ 743	US$ 428	US$ 428	
	NGB	Ningbo	Manufacture and sales of electronics products	US$ 29,122	US$ 23,000	US$ 29,122	100	1,121,829	116,847	116,847	
								US$ 34,416	US$ 3,592	US$ 3,592	

TABLE 6

Derivative Transactions

NGB entered into derivative transactions during the year ended December 31, 2006 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward contracts as of December 31, 2006:

	Currency	**Maturity**	**Contract Amount (In Thousands)**
December 31, 2006			
Sell	USD/RMB	January 31, 2007 to April 30, 2007	US$2,000/RMB15,570
Sell	USD/JPY	January 16, 2007	US$86/JP¥10,000

TXC CORPORATION AND SUBSIDIARIES

INFORMATION OF INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and U.S. Dollars)

1. The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of December 31, 2006 (US$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006 (US$ in Thousand)	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
					Outflow (US$ in Thousand)	Inflow					
TXC (Ningbo) Corporation	Manufacturing and sales of crystal, crystal oscillator and SAW (surface acoustic wave)	RMB238,523	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	$765,624 (US$23,000)	$139,341 (US$4,287)	$ -	$904,965 (US$27,287)	100%	$116,847 (US$3,592)	$1,121,829 (US$34,416)	$ -

2. The limitation on investment:

Accumulated Investment in Mainland China as of December 31, 2006 (US$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousand)	Upper Limit on Investment (Note)
$904,965 (US$27,287)	$928,611 (US$28,000)	$1,521,877

Note: Not to exceed 40% of the Corporation's net equity ($3,804,693 thousand × 40% = $1,521,877 thousand).

3. Significant direct or indirect transactions with the investee company, prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports:

Company Name	Nature of Relationship	Purchase/Sale	Transaction Details				Accounts (Notes) Receivable (Payable)		Unrealized Gain or Loss
			Amount	Price	Payment Term	Compared with Terms of Third Parties	Balance	%	
NGB	Subsidiary	Purchase	$33,819 (US$1,041)	Negotiated price	Similar	Similar	$6,837 (US$210)	2	$ -
		Sale	$790,380 (US$24,100)	Negotiated price	Similar	Similar	$278,816 (US$8,550)	77	$ -

TABLE 8

TXC CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Company Name	Counter Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets (%)
0	TXC Corporation	TXC Technology, Inc.	1	Sales	299	-	-
				Other expense - consulting expense	29,306	-	1
				Account receivable	277	-	-
				Other current assets	872	-	-
		TXC Japan Corporation	1	Sales	101	-	-
				Purchase	12	-	-
				Other expense - consulting expense	17,872	-	-
				Account receivable	56	-	-
				Accounts payable	12	-	-
				Accrued expense	2	-	-
		Growing profits Trading Ltd.	1	Sales	27,535	-	1
				Purchase	474,123	-	9
				Other expense - consulting expense	11,672	-	-
				Account receivable	593	-	-
		TXC (NGB) Corporation		Sales	6,284	-	-
				Purchase	316,266	-	6
				Other expense - consulting expense	5,921	-	-
				Account receivable	6,244	-	-
				Account payable	278,816	-	4
1	Growing profits Trading Ltd.	TXC (NGB) Corporation	3	Sales	27,660	-	-
				Purchase	474,123	-	9
				Account receivable	562	-	-
				Account payable	183	-	-
				Other expense - consulting expense	11,712	-	-
		Taiwan Crystal Technology Inc.	3	Other receivable	1,662	-	-

Note 1: 1. Represents the transactions from parent company to subsidiary.
3. Represent the transactions between subsidiaries.

Note2: The term of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, price are determined in accordance with mutual agreement.