TXC CORPORATION

Financial Statements for the
Years Ended December 31, 2004 and 2003 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 as of December 31, 2004 and 2003 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 Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of TXC Corporation and subsidiaries as of December 31, 2004 and 2003, and expressed an unqualified opinion with explanatory paragraph on such financial statements.

March 2, 2005

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

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

TXC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

ASSETS	2004 Amount	2004 %	2003 Amount	2003 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 204,718	5	$ 552,862	15
Short-term investments, net (Notes 2 and 4)	-	-	3,400	-
Notes receivable, net (Notes 2, 5 and 20)	34,349	1	63,908	2
Accounts receivable, net (Notes 2, 5 and 20)	1,061,863	28	741,846	20
Inventories, net (Notes 2 and 6)	544,854	14	527,596	14
Other (Notes 2, 9 and 17)	74,357	2	136,312	4
Total current assets	1,920,141	50	2,025,924	55
LONG-TERM INVESTMENTS (Notes 2 and 7)				
Long-term investments in stock				
Equity method	514,397	14	408,191	11
Cost method	3,000	-	3,000	-
Total long-term investments	517,397	14	411,191	11
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 8)				
Cost				
Land	157,040	4	157,040	5
Land - revaluation increment	8,954	-	8,954	-
Land improvements	377	-	377	-
Buildings	262,903	7	242,367	7
Machinery equipment	1,400,981	37	1,207,418	33
Transportation equipment	2,128	-	1,528	-
Miscellaneous equipment	50,600	1	42,573	1
Total cost	1,882,983	49	1,660,257	46
Less accumulated depreciation	(621,308)	(16)	(518,006)	(14)
Prepayments on purchase of equipment	7,038	-	46,771	1
Property, plant and equipment, net	1,268,713	33	1,189,022	33
INTANGIBLE ASSET				
Prepaid pension cost (Notes 2 and 14)	7,396	-	7,942	-
OTHER ASSETS (Notes 2 and 17)	95,632	3	22,069	1
TOTAL	$3,809,279	100	$3,656,148	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2004 Amount	2004 %	2003 Amount	2003 %
CURRENT LIABILITIES				
Short-term loans (Note 9)	$ 377,996	10	$ 464,698	13
Current portion of long-term loans (Note 12)	55,127	1	25,127	-
Commercial paper (Note 10)	-	-	69,919	2
Notes payable (Note 20)	27,748	1	37,515	1
Accounts payable (Note 20)	384,254	10	398,258	11
Accrued expenses (Note 20)	81,074	2	62,639	2
Other	36,159	1	22,018	-
Total current liabilities	962,358	25	1,080,174	29
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 11)	271,818	7	400,000	11
Long-term loans (Note 12)	288,000	8	214,127	6
Total long-term liabilities	559,818	15	614,127	17
OTHER LIABILITIES				
Land value-increment tax reserve	3,512	-	3,512	-
Deferred income tax liability (Notes 2 and 16)	-	-	1,230	-
Total other liabilities	3,512	-	4,742	-
Total liabilities	1,525,688	40	1,699,043	46
STOCKHOLDERS' EQUITY				
Capital stock (Note 14)				
Common stock	1,607,847	42	1,441,405	40
Capital surplus				
Additional paid-in capital	363,804	10	290,249	8
Asset revaluation reserve	5,442	-	5,442	-
Retained earnings (Note 14)				
Legal reserve	79,959	2	65,708	2
Special reserve	409	-	-	-
Unappropriated earnings	260,217	7	154,710	4
Cumulative translation adjustments (Note 2)	(34,087)	(1)	(409)	-
Total stockholders' equity	2,283,591	60	1,957,105	54
TOTAL	$3,809,279	100	$3,656,148	100

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

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2004		2003	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$2,926,704	101	$2,203,094	101
SALES DISCOUNTS AND RETURNS	43,064	1	30,035	1
NET SALES	2,883,640	100	2,173,659	100
COST OF SALES	2,312,557	80	1,789,046	82
GROSS PROFIT	571,083	20	384,013	18
UNREALIZED GAIN ON TRANSACTION WITH INVESTEES	-	-	141	-
REALIZED GAIN ON TRANSACTIONS WITH INVESTEES	141	-	-	-
REALIZED PROFIT	571,224	20	383,872	18
OPERATING EXPENSES				
Sales and marketing expenses	120,066	4	96,465	5
General and administration expenses	80,435	3	71,492	3
Research and development expenses	102,201	4	80,900	4
Total operating expenses	302,702	11	248,857	12
INCOME FROM OPERATIONS	268,522	9	135,015	6
NON-OPERATING INCOME				
Interest income	1,258	-	213	-
Investment income accounted for under equity method	17,912	1	18,351	1
Dividend income	-	-	600	-
Gain on disposal of assets	23	-	65	-
Gain on disposal of investments	1,781	-	626	-
Gain on physical inventory	6	-	20	-
Foreign exchange gains	66,679	3	24,190	1
Gain on market price recovery of short-term investment	-	-	2,320	-
Gain on recovery in value of inventory	1,856	-	-	-
Other	7,765	-	9,412	1
Total non-operating income	97,280	4	55,797	3

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2004		2003	
	Amount	**%**	**Amount**	**%**
NON-OPERATING EXPENSES				
Interest expense	$ 15,593	1	$ 15,661	1
Investment losses	2,408	-	-	-
Loss on disposal of assets	827	-	14	-
Loss on disposal of investments	1,049	-	-	-
Loss on physical inventory	318	-	224	-
Foreign exchange losses	80,483	3	41,864	2
Loss on inventory valuation loss and obsolescence	10,289	-	3,325	-
Loss on idle assets' depreciation	503	-	516	-
Other	87	-	64	-
Total non-operating expenses	111,557	4	61,668	3
INCOME BEFORE INCOME TAX	254,245	9	129,144	6
INCOME TAX BENEFIT (Notes 2 and 16)	3,910	-	13,362	1
NET INCOME	$ 258,155	9	$ 142,506	7

	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 18)				
Basic	$ 1.61	$ 1.63	$ 0.85	$ 0.93
Diluted	$ 1.49	$ 1.50	$ 0.83	$ 0.91

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

TXC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

			Retained Earnings					
	Capital Stock	**Capital Surplus**	**Legal Reserve**	**Special Reserve**	**Unappropriated Earnings**	**Cumulative Translation Adjustments**	**Treasury Stock**	**Total**
BALANCE, JANUARY 1, 2003	$ 1,376,731	$ 299,209	$ 57,047	$ 893	$ 96,496	$ 5,485	$ -	$1,835,861
Appropriation and distribution of 2002 net income								
Legal reserve	-	-	8,309	-	(8,309)	-	-	-
Special reserve	-	-	-	(893)	893	-	-	-
Stock dividend	55,069	-	-	-	(55,069)	-	-	-
Cash dividends			-	-	(13,767)	-	-	(13,767)
Transfer of bonuses to employees to capital stock	9,605	-	-	-	(9,605)	-	-	-
Director and supervisor remuneration	-	-	-		(1,601)	-	-	(1,601)
Transfer of gain on disposal of property, plant and equipment to unappropriated earnings	-	(3,518)	352	-	3,166	-	-	-
Net income for 2003	-	-	-		142,506	-	-	142,506
Changes in cumulative translation adjustments	-	-	-			(5,894)		(5,894)
Purchase of treasury stock	-	-	-			-	(44,150)	(44,150)
Disposal of treasury stock	-	-	-			-	44,150	44,150
BALANCE, DECEMBER 31, 2003	1,441,405	295,691	65,708	-	154,710	(409)	-	1,957,105
Appropriation and distribution of 2003 net income								
Legal reserve			14,251		(14,251)			-
Special reserve				409	(409)			-
Stock dividend	75,893				(75,893)			-
Cash dividends					(45,536)			(45,536)
Transfer of bonuses to employees to capital stock	13,799				(13,799)			-
Director and supervisor remuneration					(2,760)			(2,760)
Convertible bonds be converted to common stock	66,100	66,100						132,200
Employee stock option be converted to common stock	10,650	7,455						18,105
Net income for 2004					258,155			258,155
Changes in cumulative translation adjustments						(33,678)		(33,678)
BALANCE, DECEMBER 31, 2004	$ 1,607,847	$ 369,246	$ 79,959	$ 409	$ 260,217	$(34,087)	$ -	$ 2,283,591

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

TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 258,155	$ 142,506
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Bad debt	5,743	705
Depreciation and amortization	218,054	194,133
Interest compensation	4,018	-
Amortization of premium of commercial paper	-	634
Non-operating income	-	(5,176)
Gain on market price recovery of short-term investments	-	(2,320)
Gain on disposal of short-term investments	(1,781)	(626)
Loss on disposal of short-term investments	1,049	-
Loss on inventory valuation loss and obsolescence	10,289	3,325
Gain on recovery in value of inventory	(1,856)	-
Gain on physical inventory	(6)	(20)
Loss on physical inventory	318	224
Gain on disposal of assets	(23)	(65)
Loss on disposal of assets	827	14
Investment gain recognized by equity method	(15,504)	(18,351)
Net changes in operating assets and liabilities		
Notes receivable	30,288	17,749
Accounts receivable	(326,489)	(229,060)
Inventories	(26,003)	(112,142)
Deferred income tax assets	(34,498)	(28,456)
Other current assets	29,596	(185,226)
Prepaid pension expense	546	(4,704)
Notes payable	(9,767)	6,427
Accounts payable	(14,004)	158,311
Accrued expenses	18,435	28,300
Other current liabilities	14,141	6,083
Net cash (used in) provided by operating activities	161,528	(27,939)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in deferred charges	(24,750)	(17,693)
Acquisitions of short-term investment	(330,000)	(90,000)
Proceeds from sale of short-term investments	334,132	200,626
Proceeds from disposal of property, plant and equipment	5,339	1,082
Acquisitions of property, plant and equipment	(277,465)	(98,841)
Acquisitions of long-term equity investments	(124,244)	(69,119)
Decrease (increase) in guarantee deposits paid	(154)	640
Other financial assets	(9,591)	-
Net cash used in investing activities	(426,733)	(73,305)

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TXC CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bonds payable	$ -	$ 400,000
Increase (decrease) in short-term loans	(86,702)	146,435
Increase (decrease) in commercial paper	(69,919)	19,391
Increase in long-term loans	103,873	3,324
Bonus to directors and supervisors	(2,760)	(1,601)
Cash dividends	(45,536)	(13,767)
Purchase of treasury stock	-	(44,150)
Proceeds from sale of treasury stock	-	44,150
Proceeds from transferred employee stock option	18,105	-
Net cash (used in) provided by financing activities	(82,939)	553,782
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(348,144)	452,538
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	552,862	100,324
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 204,718	$ 552,862
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	$ 15,813	$ 15,462
Income tax	$ 14,827	$ 2
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 55,127	$ 25,127
Capital from stock dividends and employee bonus	$ 89,692	$ 64,674
Convertible bonds	$ 132,200	$ -
Acquisitions of long-term equity investment by machinery	$ 56,422	$ 1,641

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

TXC CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

TXC Corporation (the "Company") 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 Company 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 Company's shares are traded in the Taiwan Stock Exchange Corporation.

The core business of the Company is to produce and sell Crystal, SMD CXO and SAW Filter.

As of December 31, 2004 and 2003, the Company had 588 and 569 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies, which conform to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC, are summarized below:

Current / Noncurrent Distinction

An asset should be classified as a current asset when:

(a) it is expected to be realized in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or
(b) it is held primarily for trading purposes or for the short-term, and is expected to be realized within 12 months of the balance sheet date; or
(c) it is cash or a cash equivalent asset which is not restricted in its use.

A liability should be classified as a current liability when:

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

All assets (liabilities), other than those defined as current, should be classified as non-current assets (liabilities).

Cash Equivalents

Government bonds acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash and cash equivalents.

Short-Term Investment

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 invested. The cost of stocks and mutual fund certificates sold is determined on the weighted-average method. At the year-end, all short-term investments held are evaluated at the lower of cost or market value. Gain on value recovery or loss on value decline at the year-end is recorded currently. When employing the lower of cost or market value method, both equity and non-equity securities are treated as in the same portfolio and the cost or market value are aggregately compared. The market value for investments in listed closed-end funds, listed stocks, and OTC stocks is their respective average closing price of the last month of the year. The market value for investments in open-end funds is the year-end net asset value of the funds.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for notes and accounts receivable based on management's evaluation of the collectibility of individual accounts, past loss experience and other pertinent factors.

Inventories

Inventories are stated at the lower of cost or market ("LCM"). Cost is determined on the weighted average method, and market value is based on net realizable values, except for materials which are valued at replacement cost. The LCM method is applied to all inventory categories.

Long-Term Investments

Long-term investments by the Company in which the Company exercise 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 Company'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. The difference between investment cost and the underlying equity in net assets of the investee, when a stock is acquired, is amortized over 20 years and charged to current income or loss.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of the property, plant, equipment, are capitalized. Interest is capitalized in connection with the construction of major facilities.

Depreciation is provided on the straight-line method over the estimated useful lives.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any related loss is included in non-operating expenses. Gain on sale of property, plant and equipment is included in non-operating income.

Convertible Bonds

The sum of the balances of the carrying value of the bonds, redemption premium and issuance cost are debited with corresponding credit made to capital stock equal to the par value of the shares of stock issued and the excess credited to capital surplus when the bonds are converted into shares of stock.

Retirement Plan

The Company's accounting for pensions is in accordance with the accounting standards for pension and related regulations. Net pension cost and related asset or liabilities are determined based on actuarial calculations.

Revenue Recognition

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

Foreign Currency Transactions

Transactions negotiated in foreign currencies are recorded at the exchange rates prevailing on the transaction dates. Gains or losses, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited to or charged against 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 to or charged against 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 are translated at the current rate as at the balance sheet date.

- Stockholders' equity accounts are translated 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 are translated at the weighted-average rate of the current period.

- Exchange gains or losses resulting from the translation process as described above are recorded as "translation adjustments" which are included as a separate component of stockholders' equity.

Income Tax

The Company adopted interperiod and intraperiod 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. Those which cannot be related to the assets or liabilities in the financial statement are classified as current or noncurrent based on the expected length of anticipated reversal.

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

The Company adopts the flow-through method for the income tax credits resulting from the purchase of equipment for automation of production or production technology, research and development expenditures, and personnel training etc.

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.

Non-Trading Purpose Derivative Financial Instruments

For derivative financial instruments designated as hedges of existing assets or liabilities' risk exposures, any resulting gains or losses may either credit to or charge against current income or report as adjustments to the carrying amount of the hedged assets or liabilities. If the derivative financial instruments are designated as hedges of the Company's identifiable commitments or expected transactions' risk exposures, any resulting gains or loses are deferred until settlements of the hedged transactions, at which time, the Company may either credit to or charge against current income or report as adjustments to the carrying amounts of the hedged items. Any gains or losses resulting from disposition of derivative financial instruments before maturity are deferred and amortized over the remaining lives of the hedged assets or liabilities.

Non-Derivative Financial Instruments

The Company applies the above-described accounting policies and generally accepted accounting principles to account for assets and liabilities derived from non-derivative financial instruments and to recognize related revenues and expenses.

Reclassifications

Certain accounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2004	**2003**
Cash on hand	$ 958	$ 288
Checking accounts	56,950	73,662
Demand deposits	146,810	478,912
	$204,718	$552,862

4. SHORT-TERM INVESTMENTS

	December 31 2004	December 31 2003
Securities investment trust funds	$ -	$ 5,000
Less allowance for decline in market value	-	(1,600)
	$ -	$ 3,400

5. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31 2004	December 31 2003
Notes receivable, nonrelated parties	$ 33,318	$ 63,164
Notes receivable, related parties	1,203	1,645
	34,521	64,809
Less allowance for doubtful receivable	(172)	(901)
	$ 34,349	$ 63,908
Accounts receivable, nonrelated parties	$ 1,043,028	$ 695,983
Accounts receivable, related parties	27,024	53,869
Overdue receivable	1,283	
	1,071,335	749,852
Less allowance for doubtful receivable	(9,472)	(8,006)
	$ 1,061,863	$ 741,846

6. INVENTORIES

	December 31 2004	December 31 2003
Raw materials	$ 107,579	$ 88,748
Supplies and spare parts	8,332	10,866
Work in-process	115,031	122,503
Finished goods	151,228	117,587
Merchandise inventories	145,771	172,213
Materials in transit	24,337	24,959
	552,278	536,876
Less allowance for value decline in market value and obsolescence	7,424	(9,280)
	$ 544,854	$ 527,596

Insurance coverage for inventories at December 31, 2004 and 2003 amounted to $450,000 thousand and $370,000 thousand, respectively.

7. LONG-TERM INVESTMENTS

Investee	December 31 2004 Carrying Value	2004 Ownership Percentage	2003 Carrying Value	2003 Ownership Percentage
Investments accounted for by the equity method				
Taiwan Crystal Technology International Ltd. ("TCTI")	$512,777	100	$408,042	100
TXC Technology Inc.	1,620	100	149	100
Investments accounted for by the cost method				
Marson Technology Co., Ltd.	3,000	4	3,000	5
	$517,397		$411,191	

Equity in earnings (loss) of investees for the years ended December 31, 2004 and 2003 are as follows:

	Equity Gain (Loss) 2004	Equity Gain (Loss) 2003	Original Cost 2004
TCTI	$17,912	$18,255	US$ 15,470
TXC Technology Inc.	(2,408)	96	US$ 200
	$15,504	$18,351	

8. PROPERTY, PLANT AND EQUIPMENT

	December 31 2004 Cost	2004 Accumulated Depreciation	2004 Carrying Value	2003 Carrying Value
Land	$ 157,040	$ -	$ 157,040	$ 157,040
Land - revaluation increment	8,954	-	8,954	8,954
Land improvements	377	218	159	208
Buildings	262,903	96,673	166,230	162,101
Machinery equipment	1,400,981	498,806	902,175	789,160
Transportation equipment	2,128	518	1,610	1,528
Miscellaneous equipment	50,600	25,093	25,507	23,260
Prepayments on purchase of equipment	7,038	-	7,038	46,771
	$1,890,021	$621,308	$1,268,713	$1,189,022

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

Insurance coverage for property, plant and equipment at December 31, 2004 and 2003 amounted to $899,000 thousand and $778,500 thousand, respectively. No interest for the years ended December 31, 2004 and 2003 were capitalized.

9. SHORT-TERM LOANS

	December 31			
	2004		2003	
	Amount	Interest Rate (%)	Amount	Interest Rate (%)
Material procurements loans	$277,996	0.77~1.80	$344,698	0.90~1.75
Unsecured bank loans	100,000	1.60	120,000	1.50~1.60
	$377,996		$464,698	

See Note 21 for details of pledged assets.

10. COMMERCIAL PAPER

	December 31			
	2004		2003	
	Amount	Interest Rate (%)	Amount	Interest Rate (%)
Commercial paper	$ -	-	$ 70,000	0.77~1.05
Less discount	-		(81)	
	$ -		$ 69,919	

11. BONDS PAYABLE

	December 31	
	2004	2003
Domestic		
1st Domestic unsecured convertible corporate bonds	$267,800	$400,000
Add accrued interest compensation	4,018	-
	$271,818	$400,000

On December 31, 2004, the Company issued first domestic unsecured convertible bonds with an aggregate face value of $400,000 thousand that will mature on December 31, 2008. The Bonds' nominal interest is 0%. Details of the Bonds issuance are summarized as follows:

(a) On the redemption date, the 3rd and 4th anniversary of the issuance date, bonds are redeemable at a redemption price determined based on 103.02% and 105.34% of face value plus accrued interest, respectively. At the Bonds maturity date, bonds will be redeemed at face value.
(b) During the period between three months after issuance and ten days 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 common stock of the Company.

(c) The original conversion price per share is $20. The conversion price is subject to adjustment based on certain formula if there are changes in outstanding shares, execution of conversion below market price, additional issuance of common stocks subscription rights, issuance of any securities with subscription rights, or any subscription rights except capital increase by cash subscription.

12. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31 2004	December 31 2003
Secured bank loans	Repayable in quarterly installments, maturing on September 9, 2008	$ 96,000	$ 150,000
Unsecured bank loans	Repayable in quarterly installments, maturing on February 2, 2007	80,000	75,000
Industrial Development Bureau Ministry of Economic Affairs Secured loan	Repayable in quarterly installments, maturing on October 1, 2008	7,127	14,254
Chintrust Commercial Bank Syndicated loans		160,000	-
		343,127	239,254
Long-term loans, net		(55,127)	(25,127)
		$ 288,000	$ 214,127
Interest rate (%)		0~3.20	0~5.00

See Note 21 for collateral on long-term loans.

As of December 31, 2004, the Company has issued promissory notes amounted to $706,000 thousand, to various banks as commitments for short-term loans, long-term loans and commercial papers.

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

Credit Lines	Credit Amount	Credit Period	Interest Rate	Repayment Agreements
$ 300,000	$ 60,000	Three years after the first drandown date including additional one year.	2.5305	Six semiannual installments starting from one year after the first drawdown date.
200,000	100,000	Three years after the frist drawdown date.	2.5170	Lump sum on due date.
$ 500,000	$ 160,000			

13. PENSION PLAN

The Company has a pension plan for all regular employees, which provides benefits based on length of service and average basic pay for the six months before retirement.

The Company contributes monthly an amount equal to 2% of salaries and wages to a pension fund, which is administered by the employee's pension fund committee and deposited in the committee's name in trust company.

Pension information are summarized as follows:

	2004	2003
Service cost	$ 4,889	$ 5,023
Interest cost	1,282	1,740
Expected return on plan assets	(1,306)	(1,979)
Amortization of unrecognized losses	508	(9,960)
Net periodic pension cost	$ 5,373	$(5,176)

	2004	2003
Reconciliation of fund status of the plan and accrual pension cost		
Benefit obligations		
Vested benefit obligation	$ (6,179)	$ -
Nonvested benefits	(35,480)	(35,714)
Accumulated benefit obligation	(41,659)	(35,714)
Effect of future salary increase	(8,583)	(7,788)
Projected benefit obligation	(50,242)	(43,502)
Plan assets at fair value	46,926	41,936
Plan assets in excess of projected benefit obligation (Projected benefit obligation in excess of plan assets)	(3,316)	(1,566)
Unrecognized net transition obligation	1,269	1,566
Unrecognized net losses (gain)	9,443	7,942
Accrued pension cost	$ 7,396	$ 7,942
Vested benefits	$ (7,300)	$ -

Actuarial assumptions

	2004	2003
Discount rate used in determining present values	3.75%	3.75%
Future salary increase rate	1.75%	1.75%
Expected rate of return on plan assets	3.25%	3.25%

Summary of changes in the pension fund

	2004	2003
Contribution	$4,827	$4,703
Payment of benefits	$ 357	$8,439

14. STOCKHOLDERS' EQUITY

Capital Stock

The Company's authorized capital is $2,600,000 thousand ($10 par value per share). As of December 31, 2004, the Company's outstanding capital stock was $1,607,847 thousand divided into 160,785 thousand shares at $10 par value each. Capital stock consists of the following:

	Amount
Initial cash subscription	$ 3,100
Additional cash subscription	540,080
Stock dividends from earnings	860,224
Stock dividends from capital surplus	127,693
Employee stock option	10,650
Convertible bonds	66,100
	$1,607,847

Employee Stock Options

With approval of the Taiwan Securities and Futures Commission ("SFC"), the Company's Board of Directors authorized the issuance of the stock options within one year. As of December 31, 2004, the outstanding options were 9,000,000 shares.

The Company issued employee stock options as approved by Ministry of Finance, ROC, according to SFC No. 160056 and No. 180587 that was issued October 8, 2001 and January 10, 2003. As of October 8, 2001 and January 10, 2003, the authorized options of the Company were 5,000 units and 4,000 units; per unit is 1,000 shares, which amount to 9,000,000 shares. As of December 31, 2003, the outstanding options were 9,000,000 shares.

Exercise of Stock Options

Exercise Price

The exercise price is equal to market price of stock on grant date.

Expired Life of the Option

All the options shall be exercisable within five years. Any unused stock options after five years shall be considered as forfeited.

Stock options can not be pledged, given free to others or disposed.

Since two-fifth of the service period has expired, the employees can exercise stock options as follows:

Granted Period	Exercise Proportion
Expired 2 years	50%
Expired 3 years	75%
Expired 4 years	100%

The Kind of Shares

Common stock.

The Settlement of Unused Stock Options

The Company will callback unused stock options which will be unregistered.

Approach of Performing

The Company will issue new common stock for stock options.

Right and Obligation

Employees who have stock options shall have the right which is equal to stockholders' right, but can not receive dividends and subscribe new common stocks.

Outstanding Shares

As of December 31, 2004, the outstanding stock options amount to 9,000 units, per unit is 1,000 shares.

Exercise Price

Exercise price is $20.4, $43.2 and $19.5 on the granted date. The granted date is on October 25, 2001, April 1, 2003 and October 29, 2003.

Exercised Option

As of December 31, 2003, there was no exercised stock option.

Compensation Cost

(Market price of stock on the measurement date - exercise price) × exercise shares
2001.10.25 granted = ($20.4－$20.4)×3,500,000 shares= $0
2003.04.01 granted = ($43.2－$43.2)×1,500,000 shares= $0
2003.10.29 granted = ($19.5－$19.5)×3,500,000 shares= $0

The exercise price of stock has been adjusted from $20.4, $43.2 and $19.5 to $17.00, $36.69 and $18.60, respectively.

Earnings Distribution and Dividend Policy

According to the Company Law and the Company's Articles of Incorporation, after tax income for the year shall be distributed first to make up for prior years' deficit, if any, then allocate 10% of the remaining amount to legal reserve until the amount of legal reserve equals capital stock amount. The remaining amount, with the approval of the stockholders, may be fully or partially retained and partially distributed for dividend according to the following percentages.

Stockholders' bonus to be recommended by the Board of Directors according to the Company's dividend policy.

a. Employee bonus - 3%~15%
b. Directors and supervisors compensation - 2%

The stock bonuses are provided to employees including subsidiary employees who meet established term that are determined by the board of directors.

Under the Company's dividend 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. Also, according to the Company's future capital budget plan measuring future's capital need, first transfer retained earnings to capital. In accordance with the policy, the cash dividend should not be more than 50% of the total dividend to be appropriated. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Company in a particular year.

Appropriation to legal reserve shall be discontinued when its amount equals capital stock. Legal reserve can be used to make up for deficit and when its amount reaches one-half of capital, up to one half of such legal reserve amount may be transferred to capital stock.

The board of directors and stockholders resolved to distribute bonuses to employees of $13,799 thousand in cash and remunerations to directors and supervisors of $2,760 thousand on June 24, 2004. The basic earnings per share of 2003 was $1.01 which would have been $0.88 in case the bonuses to employees and remunerations to directors and supervisors were treated as current expense.

The appropriation of 2004 earnings has been approved by the Board of Directors at the date of independent accountants' review report. The information regarding the resolved 2004 earnings appropriation can be obtained later from the SEC Market Observation Post System ("MOPS") website when the resolution is made.

The Company distributed employees' bonuses and directors' remuneration in 2003:

Transfer of bonuses to employees to capital stock	1,380,000 shares (0.95% of the total shares of common stocks issued by the Company)
Director and supervisor remuneration	$2,760

The Company's basic EPS was $0.93 in 2003. If employees' bonus and directors' remunerations were regarded as operating expenses, then the Company's basic EPS was $0.82 in 2003.

15. TREASURY STOCK

Common Stock

	2004			
	Number of Shares			
Reason for Acquisition	**Beginning**	**Additions**	**Reductions**	**Ending**
Transfer to employees	-	-	-	-

	2003			
	Number of Shares			
Reason for Acquisition	**Beginning**	**Additions**	**Reductions**	**Ending**
Transfer to employees	-	2,999	-	2,999

According to the ROC Securities Exchange Act, the number of outstanding treasury shares shall not exceed 10% of the total shares of common stocks issued by the Company. The cost of the outstanding treasury stocks shall not exceed the total of retained earnings, paid-in capital in excess of par value and capital reserve arising from realized gains. In addition, treasury stocks shall not be used as collateral and shall not have the stockholders' rights until transferred.

16. INCOME TAX

Provision for income tax was calculated as follows:

	Years Ended December 31	
	2004	**2003**
Income before income tax	$254,245	$129,144
Permanent differences	3,024	(13,839)
Temporary differences		
Equity-method investment income	(15,504)	(18,351)
Inventory value decline loss	(1,856)	(736)
Unrealized foreign exchange gain loss	21,620	16,078
Realized foreign exchange gain	4,045	-
Others	365	-
Taxable income	265,939	112,296
Tax rate	25%	25%
	61,712	28,074
Less investment tax credit	(30,856)	(14,654)
Add undistributed earnings 10% tax	-	-
Adjustment of prior years' tax expense	(268)	1,674
Current tax expense	30,588	15,094
Deferred tax benefits	(34,498)	(28,456)
Income tax benefits	$ (3,910)	$ (13,362)

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

	2004	2003
Deferred income tax assets, current		
Loss on decline in value of inventories	$ 2,040	$ 2,505
Allowance for doubtful accounts over tax rule	893	893
Investment tax credit	26,596	74,497
Others	8,493	-
	38,022	77,895
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(3,088)	(1,011)
Deferred income tax assets, current, net	$ (3,088)	$76,884
Deferred income tax assets, non-current		
Investment losses tax credit	$79,788	$ -
Cumulative translation adjustments	-	136
Others	331	-
	80,119	136
Deferred income tax liabilities, non-current		
Unrealized pension cost	-	(205)
Cumulative translation adjustments		-
Investment income	(5,037)	(1,161)
	(5,037)	(1,366)
Net deferred income tax (liabilities) assets, non-current	$75,082	$ (1,230)

The Company's investment tax credit at December 31, 2004 for income tax purposes are as follows:

Year Expired	Investment Tax Credit
2006	$ 2,320
2007	37,315
2008	66,749
	$106,384

Integrated income tax system related information:

	December 31	
	2004	2003
Stockholders' creditable income tax	$196	$15,253

	2004 (Estimate)	2003 (Actual)
Earnings distribution tax credit rate	9.65%	9.86%

	December 31	
	2004	2003
Undistributed earnings information		
Earnings in 1997 and prior years	$ -	$ -
Earnings in 1998 and thereafter	260,217	154,710
	$260,217	$154,710

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Company's personnel, depreciation, and amortization expenses for the years ended December 31, 2004 and 2003 are summarized as follows:

	2004			2003		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salaries	$148,808	$108,415	$257,223	$169,459	$ 99,701	$269,160
Labor and health insurance	12,048	6,722	18,770	12,254	6,109	18,363
Pension	3,125	2,209	5,334	-	-	-
Others	37,666	3,161	40,827	33,867	3,026	36,893
Depreciation	160,792	30,839	191,631	141,289	30,484	171,773
Amortization	8,851	17,069	25,920	5,274	16,570	21,844

18. EARNINGS PER SHARE

	2004					2003				
	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	$ 254,245	$ 258,155				$ 129,144	$ 142,506			
Net Income (basic per share)	$ 254,245	$ 258,155	158,093	$ 1.61	$ 1.63	$ 129,144	$ 142,506	152,727	$ 0.85	$ 0.93
Employee stock option	-	-	968			-	-	3,300		
Convertible bonds	5,461	4,096	15,610			-	-	-		
Net income (diluted per share)	$ 259,706	$ 262,251	174,671	$ 1.49	$ 1.50	$ 129,144	$ 142,506	156,027	$ 0.83	$ 0.91

19. FINANCIAL INSTRUMENTS

Forward Forex Transaction - Hedge

The Company entered into forward contracts primarily to hedge the exchange risk resulting from foreign currency - denominated assets and liabilities. As of December 31, 2003, the Company had forward contracts amounted to US$5,000 thousand and JP¥50,000 thousand maturity date February 25, 2004.

As of December 31, 2004 and 2003, the Company had the following receivables and payables of outstanding forward contract:

	2004	2003
Forward exchange contracts receivable - foreign currencies	$ 31,614	$ 101,657
Premium on forward exchange contract	253	460
Payable on forward exchange purchased	(31,867)	(102,117)
Forward exchange contract receivable, net	$ -	$ -

Risk of Forward Transactions

Credit risk: Credit risk refers to the uncertainties that may arise if the other party to the forward contract cannot perform its obligation upon contract maturity. Since the parties engaged by the Company to effect forward transactions are all reputable banks, the Company does not expect any significant loss.

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

Interest Swap Agreement

As of December 31, 2004, there are $556 thousand of interest incomes from the interest swap agreements. On December 31, 2004 the contracts are summarized as follows:

Contract Date	Contract Term	Account
September 24, 2004	September 29, 2004~ October 1, 2007	$100,000
September 1, 2004	September 3, 2004~ September 3, 2007	200,000
November 15, 2004	November 15, 2004~ November 19, 2007	100,000

Transaction Risk

Credit risk: The credit risk refers to the risk arising from the inability of counterparties to meet the counter-parties' financial instrument contracts when due.

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

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

The interest rate swap contract involve the exchange of fixed rate payments of obligations without the exchange of notional amounts. No gain (loss) from the contract is for nine-month periods ended December 31, 2004. Since the amount is small, there is no cash flow risk.

Demand for Additional Cash

The cash flow requirements on the forward contracts are limited to the net differences between the spot rates and contracted forward rates at settlement dates. Management believed that the foregoing requirements are not material.

Foreign Currency Option

As of December 31, 2004 and 2003, the Company has the following foreign currency options. Such financial instruments are designated as hedges against foreign exchange rate risk of net assets and net liabilities.

European Option

			2004		
Buy/Sell	**Call/Put**	**Contract Value**	**Strike Rate**	**The Final Mature Date**	**Note**
Sell	NTD/USD	US$ 1,000	NT$ 33.25	February 18, 2005	1
Sell	USD/NTD	US$ 500	NT$ 34.15	February 23, 2005	2
Sell	USD/NTD	US$ 500	NT$ 34.15	March 29, 2005	2
Sell	USD/JPY or JPY/USD	US$ 1,500	¥ 105.00	January 31, 2005	3
Sell	NTD/USD	US$ 750	NT$ 33.00	March 31, 2005	4
Sell	NTD/USD	US$ 750	NT$ 33.00	May 2, 2005	4
Sell	NTD/USD	US$ 750	NT$ 32.50	March 8, 2005	5
Sell	NTD/USD	US$ 750	NT$ 32.50	April 7, 2005	5
Sell	NTD/USD	US$ 750	¥ 105.00	March 24, 2005	6
Sell	NTD/USD	US$ 750	¥ 106.50	February 18, 2005	7
Sell	USD/NTD	US$ 750	NT$ 32.35	May 5, 2005	8
Sell	USD/NTD	US$ 750	NT$ 32.35	June 7, 2005	8
Sell	NTD/USD	US$ 750	NT$ 32.45	May 19, 2005	9
Sell	NTD/USD	US$ 750	NT$ 32.45	June 17, 2005	9
Sell	USD/JPY	US$ 450 or US$ 300	¥ 108.50 or ¥ 104.00	February 9, 2005	10
Sell	USD/JPY	US$ 450 or US$ 300	¥ 108.50 or ¥ 104.00	March 10, 2005	10
Sell	USD/JPY	US$ 450 or US$ 300	¥ 108.50 or ¥ 104.00	April 11, 2005	10
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	¥ 104.75	January 31, 2005	11
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	¥ 104.75	February 25, 2005	11
Sell	USD/JPY or JPY/USD	US$ 250 or US$ 500	¥ 104.75	March 31, 2005	11

Note 1: There is one transaction on February 18, 2005.

(1) If reference rate < 33.25
Company must buy US$1,000 thousand at NT$33.25.

(2) If reference rate > 33.25
There is no transaction between bank and company.

Note 2: There are two transactions on February 23 and March 29, 2005.

(1) If reference rate < 34.15
Company must sell US$500 thousand at NT$34.15.

(2) If reference rate > 34.25
There is no transaction between bank and company.

Note 3: There is one transaction on January 31, 2005.

(1) If USD/JPY spot rate never triggers either 110.50 or 101.50 anytime during the life of the contract, the contract will not activated.

(2) If USD/JPY spot rate triggers 110.50 but never triggers 101.50 anytime during the life of the contract, on expiry date:
(i) If reference > 107.00
Company must sell US$1,500 thousand against JPY$107.00.
(ii) If reference > 107.00
There is no transaction between bank and company.

(3) If USD/JPY spot triggers 101.5 but never triggers 110.50 anytime during the life of the contract, on expiry date:
(i) If reference > 105.00
Company must buy US$1,500 thousand against JPY$105.00.
(ii) If reference > 105.00
There is no transaction between bank and company.

Note 4: There are two transactions on March 31 and May 2, 2005.

(1) If reference rate ≦ 33.00
Company must buy US$750 thousand at NT$33.00.

(2) If reference rate > 33.00
There is no transaction between bank and company.

Note 5: There are two transactions on March 8 and April 7, 2005.

(1) If reference rate ≦ 32.50
Company must buy US$750 thousand at NT$32.50.

(2) If reference rate > 32.50
There is no transaction between bank and company.

Note 6: There is one transaction on March 24, 2005.

(1) If USD/JPY spot rate never triggers 99.00 anytime during the life of the contract will not be activated.
  (i) If reference < 105.00
    Company must buy US$750 thousand against JPY at 105.00.
  (ii) If reference > 105.00
    There is no transaction between bank and company.

Note 7: There is one transaction on February 28, 2005.

(1) If USD/JPY spot rate never triggers 100.50 anytime during the life of the contract will not be activated.
  (i) If reference < 106.50
    Company must buy US$750 thousand against JPY at 106.50.
  (ii) If reference > 106.50
    There is no transaction between bank and company.

Note 8: There are two transactions on May 5 and June 7, 2005.

(1) If reference rate ≦ 32.35
  Company must buy US$750 thousand at NT$32.25.

(2) If reference rate > 32.25
  There is no transaction between bank and company.

Note 9: There are two transactions on May 19 and June 17, 2005.

(1) If reference rate ≦ 32.45
  Company must buy US$750 thousand at NT$32.45.

(2) If reference rate > 32.45
  There is no transaction between bank and company.

Note 10: There are three transactions on February 9, March 10 and April 11, 2005.

(1) If USD/JPY spot rate triggers 101.00 anytime during the life of the contract will not be activated.
(2) If USD/JPY spot rate never triggers 101.00 anytime during the life of contract on expiry date:
  (i) If reference < 104.00
    Company must sell US$300 thousand against JPY at 104.00.
  (ii) If reference > 108.50
    Company must sell US$450 thousand against JPY at 108.50.

Note 11: There are three transactions on January 27, February 24 and March 29, 2005.

(1) If USD/JPY spot rate triggers 99.00 anytime during the life of the contract will not be activated.
(2) If USD/JPY spot rate never triggers 99.00 anytime during the life of contract on expiry date:
  (i) If reference < 104.75
    Company can sell US$250 thousand against JPY at 104.75.
  (ii) If reference > 104.75
    Company must sell US$500 thousand against JPY at 104.75.

2003					
Buy/Sell	**Call/Put**	**Contract Value**	**Strike Rate**	**The Final Mature Date**	**Note**
Sell	USD/JPY	Note 1	121.5	February 9, 2004	1
Sell	USD/NTD	US$ 500	34.2	March 18, 2004	2
Sell	USD/NTD	US$ 500	34.2	April 23, 2004	3
Sell	USD/JPY	US$ 1,000	113.0	February 25, 2004	4
Buy	NTD/USD	US$ 1,000	34.0	January 9, 2004	5
Buy	NTD/USD	US$ 1,000	34.0	February 9, 2004	6
Sell	USD/JPY	US$ 1,000	109.5	April 8, 2004	7

Note 1: There are two transactions on January 8 and February 9, 2004.

(1) If FXexp is lower than trigger date
There will be no exchange of payments.

(2) If FXexp is higher than (and including) trigger rate but lower than hurdle rate, (a) Company will have the right to sell US$300 to bank, and bank will buy US$300 , at (FXexp + 0.50); and (b) Company will have the right to by US$300 from bank, and bank will sell US$300, at (FXexp – 0.50).

(3) If FXexp is higher than (and including) hurdle rate:
(i) where USD/JPY spot rate has reached 121.50 or above at anytime from (and including) trade date to (and including) expiration date, company will sell US$450, and bank will buy US$450, at 120.00.
(ii) where USD/JPY spot rate has never reached 121.50 or above at anytime from (and including) trade date to (and including) expiration date, there will be no exchange of payments.

Note 2: There are three transactions on January 16, February 18 and March 18, 2004.

(1) If reference rate > 34.2
Company must sell US$500 at NT$34.2.

(2) If reference rate < 34.2
There is no transaction between bank and company.

Note 3: There are three transactions on February 25, March 25 and April 23, 2004.

(1) If reference rate > 34.2
Company must sell US$500 at NT$34.2.

(2) If reference rate < 34.2
There is no transaction between bank and company.

Note 4: If USD/JPY ever trade 105 anytime during the life of the contract, the option would lapse.

Otherwise,

(1) If USD/JPY spot rate never triggers 115 during the life of the contract, the contract will not be activated.

(2) If USD/JPY spot rate triggers 115 anytime during the life of the contract, on expiry date:
 (i) If reference rate > 113
 Company will sell US$1,000 against JPY at 113.
 (ii) If reference rate < 113
 No transaction between bank and company.

Note 5: Upon expiration:

(1) If reference rate ≦ 34.0
Company can sell US$1,000 at NT$34.0.

(2) If reference rate > 34.0
There is no transaction between company and bank.

Note 6: Upon expiration:

(1) If reference rate ≦ 34.0
Company can sell US$1,000 at NT$34.0.

(2) If reference rate > 34.0
There is no transaction between company and bank.

Note 7: If USD/JPY ever trade 102 anytime during the life of the contract, the option would lapse.

Otherwise,

(1) If USD/JPY spot rate never triggers 113 during the life of the contract, the contract will not be activated.

(2) If USD/JPY spot rate triggers 113 anytime during the life of the contract, on expiry date:
 (i) If reference rate > 109.5
 Company will sell US$1,000 against JPY at 109.5.
 (ii) If reference rate < 109.5
 No transaction between bank and company.

Range Forward

	2003		
Expiry Date	**Notional Amount**	**Premium**	**Pay off Formula**
January 6, 2004	US$200,000 VS US$300,000	Zero Cost Structure	(a) Upon expiry date of USD call, if USD/JPY reference rate>126.00, the Company must sell US$300,000 at JPY 126.00. (b) Upon Expiry Date of USD Put, if USD/JPY reference rate<122.50, the Company can sell US$200,000 at JPY 122.50. (c) If USD/JPY reference rate within the range, 122.50~126.00 on expiry date, the contract will expire without any transaction between Bank and Company.
February 6,2004	US$200,000 VS US$300,000	Zero Cost Structure	
March 6, 2004	US$200,000 VS US$300,000	Zero Cost Structure	
April 6, 2004	US$200,000 VS US$300,000	Zero Cost Structure	

Risks in Terms of Credit, Market and Liquidity Risks

Credit risk is the contract counterpart's inability to perform under the contract. The above amounts were based on the contract fair value at balance sheet date. The Company will incur a loss if the counterpart is unable to fulfill its obligation under the contract. But, because the Company only transacts business with reputable banks, credit risk is not considered significant.

Market price risk: Because the Company's forward exchange contract are for hedging purpose, the effects of changes in exchange rate are offset between the hedging instrument and hedged item. Therefore, market price risk is not significant.

Liquidity risk: The Company engages in option contracts. There is no funding or cash flow risk.

Type of derivative financial instrument, purpose, and strategy to achieve objective: The Company's transactions are mainly in United States dollars and Japanese Yen. Foreign currency borrowings are settled in United States dollars and Japanese Yen. Therefore, there is a matching of foreign exchange fluctuation. To avoid foreign exchange fluctuation risk, the Company uses forward foreign exchange contract and option contract with average period of one year.

Fair Value of Financial Instruments

Fair value of non-derivative financial instruments is equal (beside short-term investment) to the balances of the Company at December 31, 2004 and 2003.

	December 31			
	2004		2003	
	Book Value	**Estimated Fair Value**	**Book Value**	**Estimated Fair Value**
Assets				
Cash and cash equivalents	$ 204,718	$ 204,718	$ 552,862	$ 552,862
Short-term investment	-	-	5,000	5,000
Notes receivable	34,349	34,349	63,908	63,908
Accounts receivable	1,061,863	1,061,863	741,846	741,846
Long-term investments in stock	517,397	517,397	411,191	411,191
Liabilities				
Short-term loans	377,996	377,996	464,698	464,698
Current portion of long-term loans	55,127	55,127	25,127	25,127
Commercial paper	-	-	69,919	69,919
Notes payable	27,748	27,748	37,515	37,515
Accounts payable	384,254	384,254	398,258	398,258
Accrued expenses	81,074	81,074	62,639	62,639
Bonds payable	271,818	271,818	400,000	400,000
Long-term loans	288,000	288,000	214,127	214,127

The Company's market assumptions and estimation methodologies of the above financial instruments are as follows:

(a) Short-term financial instruments such as cash and cash equivalents, receivables, payables and short-term debts are reasonably estimated from their carrying amounts due to their short-term nature.
(b) Short-term investments are reasonably estimated from their quoted market prices as at balance sheet date.
(c) Long-term loans are reasonably estimated from expected cash flows discounted at long-term interest rate available to the company for issuance of debts with similar terms and remaining maturities.

20. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Name of Related Parties	**Relationships with the Company**
Tai-Shing Electronic Components Corporation ("Tai-Shing")	Chairman is the Company's general manager
Growing Profits Trading Ltd. ("GPT")	TCTI's 100%-owned subsidiary
Taiwan Crystal Technology International Ltd. ("TCTI")	The Company's 100%-owned subsidiary
TXC ("NGB") Electronic Co., Ltd.	TCTI's 100%-owned subsidiary
TXC Technology Inc.	The Company's 100%-owned subsidiary
K & H Mfg. Co., Ltd.	Chairman is the Company's vice-chairman

Major transactions with related parties are summarized below:

Purchases of Inventory and Processing Costs from Related Parties

	Years Ended December 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$413,773	22	$241,398	18

Payment terms for purchases from related parties do not have significant differences with non-related parties.

Sales to Related Parties

	Years Ended December 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$116,226	4	$ 83,491	4
Tai-Shing	22,384	1	17,005	1
TXC Technology Inc.	810	-	3,283	-
K&H Mfg. Co., Ltd.	-	-	33	-
	$139,420	5	$103,812	5

Sales prices to related parties do not have significant differences with non-related parties.

Consulting Fee

	Years Ended December 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
TXC Technology Inc.	$ 17,402	71	$ 10,317	55
GPT	7,204	29	8,339	45
	$ 24,606	100	$ 18,656	100

Other Expense

	Years Ended December 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 5,998	20	$ 613	3

Receivable from and Payable to Related Parties

		December 31			
		2004		2003	
Item	**Related Party**	**Amount**	**% to Total Account Balances**	**Amount**	**% to Total Account Balances**
Notes receivable	Tai-Shing	$ 1,203	4	$ 1,618	2
	K&H Mfg. Co., Ltd.	-	-	27	-
Accounts receivable	Tai-Shing	2,874	-	4,521	1
	GPT	24,047	3	46,884	6
	TXC Technology Inc.	103	-	2,456	-
	K&H Mfg. Co., Ltd.	-	-	8	-
Notes payable	Tai-Shing	626	2	491	1
Accounts payable	Tai-Shing	155	-	80	-
	GPT	97,591	25	101,425	25
Accrued expense	Tai-Shing	118	-	-	-
	GPT	774	1	347	1

On December 31, 2004, the company sold its equipment to NGB, at their net book value of $3,836 thousand, price of $3,845 thousand and gain on disposal of assets of $9 thousand. The company sold its miscellaneous equipment to Tai-Shing, at their net book value of $32 thousand and price of $32 thousand.

On December 31, 2004, the company sold its machinery equipment to NGB and to increase the long-term investment, at their net book value of $86,700 thousand and price of $86,700 thousand.

21. PLEDGED ASSETS

At December 31, 2004 and 2003, the following assets at their book values are pledged to secure short-term loans, long-term debts and short-term commercial paper:

	2004	2003
Property, plant and equipment		
Land	$165,994	$165,995
Buildings	80,785	82,340
Machinery and equipment	432,663	257,241
	$679,442	$505,576

22. COMMITMENT AND CONTINGENCIES

The Company's commitments and contingencies, not recorded in the financial statements, as of December 31, 2004 were as follows:

Commitment	Contract Price	Paid-up	Not Yet Paid
Machinery contracts	$7,000	$2,100	$4,900

Guarantee for short-term loan and long-term loan, please refer to Note 12. Guarantee for custom tax amount to about $17,220 thousand.

Guarantee for hiring foreign employees of about $2,580 thousand.

Unused letters of credit of about ¥168,249.

As of December 31, 2004, the Company had derivative financial instruments. Please refer to Note 19.

As of December 31, 2004, guarantee for GPT's loan of about $21,084 thousand and for NGB's loan of about $87,440 thousand.

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

Segment Information

No segment information.

Geographic Area Information

No geographic area information.

Export Sales

Area	2004	2003
Americas	$ 160,883	$ 123,299
Europe	16,506	96,721
Asia	1,814,354	1,044,595
	$ 1,991,743	$ 1,264,615

Major Customer Information

As of December 31, 2004 and 2003, no customer that account for at least 10% of the Company's total sales.