TXC CORPORATION

Financial Statements for the Three-Month Periods Ended March 31, 2004 and 2003 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
TXC Corporation:

We have reviewed the accompanying balance sheets of TXC Corporation as of March 31, 2004 and 2003 and the related statements of income, and cash flows for the three-month periods ended March 31, 2004 and 2003 (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

Except for the matter discussed in the following paragraph, we conducted our reviews in accordance with Auditing Standards No. 36, "Review of Financial Statements", a generally accepted auditing standard in the Republic of China. A review of financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 7 to the financial statements, TXC Corporation's long-term investments valued by the equity method of NT$422,121 thousand and NT$215,509 thousand as of March 31, 2004 and 2003 and investment income accounted for by the equity method totaling NT$9,020 thousand and NT$320 thousand, respectively, for the three-month periods ended March 31, 2004 and 2003 were recognized based on the subsidiaries unreviewed financial statements.

Based on our reviews, except for the effects of such adjustments had the investments and investment income mentioned in the preceding paragraph been based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and generally accepted accounting principles in the Republic of China.

Deloitte & Touche
Taipei, Taiwan
Republic of China

April 22, 2004

The above accountants' review report and the following financial statements are English translations of the Chinese accountants' review report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to review such financial statements are those generally accepted and applied in the Republic of China
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TXC CORPORATION

BALANCE SHEETS
MARCH 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents (Notes 2 and 3)	$ 102,604	$ 91,735
Short-term investments, net (Notes 2 and 4)	210,000	22,315
Notes receivable, net (Notes 2, 5 and 18)	20,682	29,946
Accounts receivable, net (Notes 2, 5 and 18)	759,268	487,055
Inventories, net (Notes 2 and 6)	602,452	446,657
Other current assets	115,370	119,864
Total current assets	1,810,376	1,197,572
LONG-TERM INVESTMENTS (Notes 2 and 7):		
Long-term investments in stock:		
Equity method	422,121	215,509
Cost method	3,000	3,000
Total long-term investments	425,121	218,509
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8 and 19):		
Cost:		
Land	157,040	157,040
Land - revaluation increment	8,954	8,954
Land improvements	377	377
Buildings	243,009	258,328
Machinery equipment	1,307,712	1,191,823
Transportation equipment	1,528	-
Miscellaneous equipment	46,940	51,167
Subtotal	1,765,560	1,667,689
Less accumulated depreciation	(550,261)	(533,587)
Prepayments on purchase of equipment	12,581	150,769
Property, plant and equipment, net	1,227,880	1,284,871
OTHER ASSETS	69,028	32,194
TOTAL	$ 3,532,405	$ 2,733,146

LIABILITIES AND STOCKHOLDERS' EQUITY	2004	2003
CURRENT LIABILITIES:		
Short-term loans (Notes 9 and 19)	$ 405,786	$ 307,215
Current portion of long-term loans (Notes 12 and 19)	43,127	54,412
Commercial paper (Note 10)	59,907	69,909
Notes payable	37,903	17,578
Accounts payable (Note 18)	374,353	215,071
Accrued expenses	44,671	36,017
Other current liabilities	17,374	27,361
Total current liabilities	983,121	727,563
LONG-TERM LIABILITIES:		
Bonds payable (Notes 2 and 11)	401,749	-
Long-term loans (Notes 12 and 19)	131,345	197,200
Total long-term liabilities	533,094	197,200
OTHER LIABILITIES:		
Land value-increment tax reserve	3,512	3,512
Accrued pension liability (Note 2)	-	2,604
Total other liabilities	3,512	6,116
Total liabilities	1,519,727	930,879
STOCKHOLDERS' EQUITY:		
Capital stock (Note 15) -		
Common stock	1,441,405	1,376,731
Capital surplus:		
Additional paid-in capital	290,248	290,248
Asset revaluation reserve	5,442	5,442
Gain on disposal of property, plant and equipment	-	3,519
Retained earnings (Note 16):		
Legal reserve	65,708	57,047
Special reserve	-	893
Unappropriated earnings	209,579	106,989
Cumulative translation adjustments (Note 2)	296	5,548
Treasury stock	-	(44,150)
Total stockholders' equity	2,012,678	1,802,267
TOTAL	$ 3,532,405	$ 2,733,146

See notes to financial statements.
(See Deloitte & Touche review report dated April 22, 2004.)

TXC CORPORATION

STATEMENTS OF INCOME
THREE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2004	2003
OPERATING REVENUE	$ 586,494	$ 390,584
SALES DISCOUNTS AND RETURNS	(5,493)	(7,589)
NET OPERATING REVENUE	581,001	382,995
COST OF SALES	472,565	323,245
GROSS PROFIT	108,436	59,750
OPERATING EXPENSES:		
Sales and marketing expenses	29,640	19,640
General and administration expenses	18,597	16,284
Research and development expenses	20,986	15,862
Total operating expenses	69,223	51,786
INCOME FROM OPERATIONS	39,213	7,964
NON-OPERATING INCOME:		
Interest income	82	43
Investment income accounted for under equity method	9,020	320
Gain on disposal of assets	13	-
Gain on disposal of investments	249	483
Foreign exchange gains	18,277	1,086
Other	1,654	2,114
Total non-operating income	29,295	4,046
NON-OPERATING EXPENSES:		
Interest expense	5,047	4,680
Foreign exchange losses	12,606	4,335
Other	129	141
Total non-operating expenses	17,782	9,156

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
THREE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2004		2003	
INCOME BEFORE INCOME TAX		50,726		2,854
INCOME TAX BENEFIT (Notes 2 and 14)		4,142		7,639
NET INCOME		$ 54,868		$ 10,493
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17):				
Basic	$0.35	$0.38	$0.02	$0.07
Diluted	$0.31	$0.33	$0.02	$0.07

(Concluded)

See notes to financial statements.
(See Deloitte & Touche review report dated April 22, 2004.)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
THREE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2004	2003
OPERATING ACTIVITIES:		
Net income	$ 54,868	$ 10,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest expense	1,749	-
Amortization of premium of commercial paper	107	15
Bad debt expense	1,432	-
Depreciation and amortization	50,114	44,340
Gain on market price recovery of short-term investments	-	(1,235)
Gain on disposal of short-term investment	(249)	(483)
Investment income accounted for under equity method	(9,020)	(320)
Gain on disposal of assets	(13)	-
Changes in assets and liabilities provided (used) cash:		
Notes receivable and accounts receivable	24,372	78,147
Inventories	(74,856)	(27,878)
Deferred income tax assets	(4,142)	(7,784)
Other current assets	(15,044)	(33,250)
Notes payable	388	(13,510)
Accounts payable	(23,908)	(24,876)
Accrued expenses	(17,968)	1,678
Other current liabilities	(4,644)	11,426
Other liability	-	666
Net cash (used in) provided by operating activities	(16,814)	37,429
INVESTING ACTIVITIES:		
Increase in deferred assets	(7,587)	(6,993)
Acquisitions of short-term investments	(270,000)	(70,000)
Proceeds from sale of short-term investments	63,649	160,483
Acquisitions of property, plant and equipment	(84,878)	(75,389)
Acquisitions of long-term equity investments	(653)	(34,645)
Increase in refundable deposits paid	(162)	(18)
Net cash used in investing activities	(299,631)	(26,502)

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
THREE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2004	2003
FINANCING ACTIVITIES:		
(Decrease) increase in short-term loans	(40,912)	18,237
(Decrease) increase in commercial paper	(10,119)	20,000
Decrease in long-term loans	(82,782)	(13,603)
Purchase of treasury stock	-	(44,150)
Net cash used in financing activities	(133,813)	(19,516)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(450,258)	(8,589)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	552,862	100,324
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 102,604	$ 91,735
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -		
Cash paid during the period for:		
Interest (excluding interest capitalized)	$ 2,820	$ 4,680
Income tax	$ 1,674	$ -
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES -		
Transfer of current portion of long-term loans to current liabilities	$ 43,127	$ 54,412

(Concluded)

See notes to financial statements.
(See Deloitte & Touche review report dated April 22, 2004.)

TXC CORPORATION

NOTES TO FINANCIAL STATEMENTS
THREE-MONTH PERIODS ENDED MARCH 31, 2004 AND 2003
(Amounts are Expressed in Thousands of New Taiwan Dollars or
Other Specified Currency, Except Per Share Data)
(Reviewed, Not Audited)

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 March 31, 2004 and 2003, the Company had 590 and 598 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 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 three-month period ended March 31, 2003 financial statements have been reclassified to conform to the three-month period ended March 31, 2004 presentation.

3. CASH AND CASH EQUIVALENTS

	March 31	
	2004	2003
Cash on hand	$ 394	$ 271
Checking and saving accounts	102,210	91,464
Total	$102,604	$ 91,735

4. SHORT-TERM INVESTMENTS

	March 31 2004	March 31 2003
Securities investment trust funds	$210,000	$25,000
Less allowance for loss on decline in market value	-	(2,685)
Net	$210,000	$22,315

5. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	March 31 2004	March 31 2003
Notes receivable, nonrelated parties	$ 17,573	$ 29,565
Notes receivable, related parties	3,213	794
Total	20,786	30,359
Less allowance for doubtful accounts	(104)	(413)
Net	$ 20,682	$ 29,946
Accounts receivable, nonrelated parties	$706,088	$479,982
Accounts receivable, related parties	63,415	14,863
Total	709,503	494,845
Less allowance for doubtful accounts	(10,235)	(7,790)
Net	$759,268	$487,055

6. INVENTORIES

	March 31 2004	March 31 2003
Raw materials	$106,196	$ 96,801
Supplies and spare parts	10,468	8,761
Work in-process	139,588	97,439
Finished goods	155,882	129,203
Merchandise inventories	198,330	124,165
Total	610,464	456,369
Less allowance for loss on decline in market value and obsolescence	(8,012)	(9,712)
Inventories, net	$602,452	$446,657

Insurance coverage for inventories at March 31, 2004 and 2003 amounted to $370,000 thousand and $320,000 thousand , respectively.

7. **LONG-TERM INVESTMENTS**

Investee	March 31 2004 Carrying Value	2004 Ownership Percentage	March 31 2003 Carrying Value	2003 Ownership Percentage
Investments accounted for by equity method:				
Taiwan Crystal Technology International Ltd. ("TCTI")	$421,503	100	$214,990	100
TXC Technology Inc.	618	100	519	100
Investments accounted for by the cost method -				
Marson Technology Co., Ltd.	3,000	5	3,000	5
Total	$425,121		$218,509	

The above equity investments are determined based on unreviewed financial statement of the investees for the same periods.

Equity in earnings (loss) of investees for the three-month periods ended March 31, 2004 and 2003 are as follows:

	Equity Gain (Loss) 2004	Equity Gain (Loss) 2003	Original Cost 2004
TCTI	$ 8,541	$ (142)	US$ 12,000
TXC Technology Inc.	479	462	US$ 80
Total	$ 9,020	$ 320	

8. **PROPERTY, PLANT AND EQUIPMENT**

	March 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	181	196	243
Buildings	243,009	84,054	158,955	165,054
Machinery equipment	1,307,712	445,834	861,878	775,681
Transportation equipment	1,528	127	1,401	-
Miscellaneous equipment	46,940	20,065	26,875	27,130
Prepayments on purchase of equipment	12,581	-	12,581	150,769
Total	$1,778,141	$550,261	$1,227,880	$1,284,871

See Note 19 for the details on property, plant and equipment pledged as collaterals.

Insurance coverage for property, plant and equipment at March 31, 2004 and 2003 amounted to $778,500 thousand and $721,000 thousand , respectively. No interest for the three-month periods ended March 31, 2004 and 2003 were capitalized.

9. SHORT-TERM LOANS

	March 31			
	2004		2003	
	Amount	Interest Rate (%)	Amount	Interest Rate (%)
Material procurements loans	$345,786	0.90~1.75	$159,888	1.09~3.25
Secured bank loans	-	-	130,000	2.30~2.50
Unsecured bank loans	60,000	1.45~1.60	17,627	1.50
Total	$405,786		$307,215	

See Note 19 for details of pledged assets.

10. COMMERCIAL PAPER

	March 31			
	2004		2003	
	Amount	Interest Rate (%)	Amount	Interest Rate (%)
Commercial paper	$ 60,000	0.77~1.05	$ 70,000	1.02~1.21
Less discount	(93)		(91)	
Net	$ 59,907		$ 69,909	

11. BONDS PAYABLE

	March 31	
	2004	2003
Domestic:		
1st Domestic unsecured convertible corporate bonds	$400,000	$ -
Add accrued interest compensation	1,749	-
	$401,749	$ -

On March 31, 2004, the Company issued first domestic unsecured convertible bonds with an aggregate face value of NT$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 NT$20 (dollars). 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	March 31 2004	March 31 2003
Secured bank loans	Repayable in quarterly installments, maturing on September 9, 2008	$150,000	$137,262
Unsecured bank loans	Repayable in quarterly installments, maturing on July 23, 2004	12,000	100,000
Industrial Development Bureau Ministry of Economic Affairs Secured loan	Repayable in quarterly installments, maturing on September 9, 2008	12,472	14,350
Total		174,472	251,612
Less current portion		(43,127)	(54,412)
Long-term loans, net		$131,345	$197,200
Interest rate (%)		0.00~5.00	5.09~6.05

See Notes 19 and 20 for collateral on long-term loans.

As of March 31, 2004, the Company has issued promissory notes amounted to $627,220 thousand, to various banks as commitments for short-term loans, long-term loans and commercial papers.

13. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Company's personnel, depreciation, and amortization expenses for the three-month periods ended March 31, 2004 and 2003 are summarized as follows:

	2004			2003		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense:						
Salaries	$ 33,472	$ 28,087	$ 61,559	$ 35,820	$ 20,586	$ 56,406
Labor and health insurance	2,934	1,541	4,475	3,199	1,442	4641
Pension	782	405	1,187	597	651	1,248
Others	9,112	704	9,816	7,069	889	7,958
Depreciation	37,963	7,197	45,160	34,000	7,066	41,066
Amortization	242	4,586	4,828	424	2,715	3,139

14. INCOME TAX

Provision for income tax was calculated as follows:

	For the Three-Month Periods Ended March 31	
	2004	2003
Income before income tax	$ 50,726	$ 2,854
Permanent differences:		
Tax-exempt income	-	(405)
Others	(249)	(1,485)
Temporary differences:		
Equity-method investment income	(9,020)	(320)
Unrealized foreign exchange gain	(8,216)	4,697
Others	(84)	377
Taxable income	33,157	5,718
Tax rate	25%	25%
Subtotal	8,279	1,429
Less investment tax credit	(8,279)	(1,284)
Add undistributed earnings 10% tax	-	-
Current tax expense	-	145
Deferred tax benefits	(4,142)	(7,784)
Income tax benefits	$ (4,142)	$ (7,639)

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	$ 2,505	$ -
Others	893	1,037
Investment tax credit	42,970	54,572
Subtotal	46,368	55,609
Deferred income tax liabilities, current - Unrealized foreign exchange gain	(3,087)	(3,905)
Deferred income tax assets, current, net	$43,281	$51,704
Deferred income tax assets, non-current:		
Investment losses	-	3,347
Investment tax credit	40,000	-
Subtotal	40,000	3,347
Deferred income tax liabilities, non-current:		
Unrealized pension cost	(205)	(205)
Cumulative translation adjustments	(99)	(1,849)

	2004	2003
Investment income	(3,415)	-
Subtotal	(3,719)	(2,054)
Deferred income tax assets, non-current, net	$36,281	$ 1,293

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

Year Expired	Investment Tax Credit
2005	$ 7,788
2006	21,797
2007	28,854
2008	24,531
Total	$82,970

Integrated income tax system related information:

	March 31	
	2004	2003
Stockholders' creditable income tax	$15,253	$ 140

	2004 (Estimate)	2003 (Actual)
Earnings distribution tax credit rate	7.28%	9.86%

	March 31	
	2004	2003
Undistributed earnings information:		
Earnings in 1997 and prior years	$ -	$ -
Earnings in 1998 and thereafter	209,579	106,989
Total	$209,579	$106,989

15. CAPITAL STOCK

The Company's authorized capital is $2,600,000 thousand ($10 par value per share). As of March 31, 2004, the Company's outstanding capital stock was $1,441,405 thousand divided into 144,141 thousand shares at $10 par value each. Capital stock consists of the following:

Item	Amount
Initial cash subscription	$ 3,100
Additional cash subscription	540,080
Stock dividends from earnings	770,532
Stock dividends from capital surplus	127,693
Total	$ 1,441,405

16 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.

Employee bonus - 3%~15%
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 stockholders 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 motion for distribution of 2003 earnings is not yet approved by the board of directors till 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 2002:

Transfer of bonuses to employees to capital stock	961,000 shares (0.70% of the total shares of common stocks issued by the Company)
Director and supervisor remuneration	$1,601

The Company's basic EPS was $0.60 in 2002. If employees' bonus and directors' remunerations were regarded as operating expenses, then the Company's basic EPS was $0.52 in 2002.

17. EARNINGS PER SHARE

	For the Three-Month Period Ended March 31, 2004					For the Three-Month Period Ended March 31, 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	$ 50,726	$ 54,868				$ 2,854	$ 10,493			
Basic income per share	$ 50,726	$ 54,868	144,141	$ 0.35	$ 0.38	$ 2,854	$ 10,493	143,097	$ 0.02	$ 0.07
Convertible bonds	1,749	1,312	20,000			-	-	-	-	
Employee stock option	-	-	5,299			-	-	-	-	
Diluted income per share	$ 52,475	$ 56,180	169,440	$ 0.31	$ 0.33	$ 2,854	$ 10,493	143,097	$ 0.02	$ 0.07

18. 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
TXC Technology Inc.	The Company's wholly owned subsidiary
Growing Profits Trading Ltd. ("GPT")	Investee under equity method by subsidiary
TXC ("NGB") Electronic Co., Ltd.	Investee under equity method by subsidiary

Major transactions with related parties are summarized below:

Purchases of Inventory and Processing Costs from Related Parties

	For the Three-month Periods Ended March 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$124,568	27	$ 30,829	3

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

Sales to Related Parties

	For the Three-month Periods Ended March 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$ 36,221	1	$ 7,594	1
Tai-Shing	4,583	6	3,006	2
Total	$ 40,804	7	$ 10,600	3

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

Consulting Fee

	For the Three-month Periods Ended March 31			
	2004		2003	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
TXC Technology Inc.	$ 4,045	69	$ 2,607	44
GPT	1,796	31	2,084	56
Total	$ 5,841	100	$ 4,691	100

Receivable from and Payable to Related Parties

		March 31			
		2004		2003	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Notes receivable	Tai-Shing	$ 3,213	15	$ 794	3
Accounts receivable	Tai-Shing	2,303	-	2,859	1
	GPT	61,112	9	12,004	2
Notes payable	Tai-Shing	1,908	5	-	-
Accounts payable	Tai-Shing	448	2	-	-
	GPT	99,020	26	16,786	8

For the three-month period ended March 31, 2004, the Company sold its equipments to NGB, at their net book value of $4,235 thousand, price of $4,235 thousand.

As of March 31, 2004, the Company's chairman (Lin Chin-Pao), vice-chairman (Hsu, Te-Jun) and manager (Lin, Wan-Shing) were guarantors for bank loans.

As of March 31, 2003, the Company's chairman (Lin Chin-Pao), vice-chairman (Hsu, Te-Jun) and manager (Lin, Wan-Shing) were guarantors for bank loans.

19. PLEDGED ASSETS

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

	2004	2003
Property, plant and equipment:		
Land	$165,994	$165,994
Buildings	81,860	84,120
Machinery and equipment	251,707	271,193
Total pledged assets	$499,561	$521,307

20. COMMITMENT AND CONTINGENCIES

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

Commitment	Contract Price	Paid-up	Not Yet Paid
Machinery contracts	JPY 452,543	-	JPY 452,543
	USD 93,953	USD 11,000	USD 82,953
Construction contracts	USD 19,203	USD 14,397	USD 4,806

Guarantee for short-term loan, long-term loan and commercial paper, please refer to Note 12. Guarantee for custom tax amount to about $15,000 thousand.

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

Unused letters of credit of about ￥520,938 thousand and US$20 thousand.

As of March 31, 2004, the Company had derivative financial instruments. Please refer to Note 22.

As of March 31, 2004, guarantee for GPT'S loans of $25,410 thousand.

21. 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 March 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, 2002. As of October 8, 2001 and January 10, 2002, 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 March 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 March 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, 2002 and October 29, 2002.

Exercised Option

As of March 31, 2004, 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
2002.04.01 granted = ($43.2 − $43.2)×1,500,000 shares= $0
2002.10.29 granted = ($19.5 − $19.5)×4,000,000 shares= $0

The exercise price of stock has been adjusted from $20.4, $43.2 and $19.5 to $17.0, $36.1 and $18.6, respectively.

22. 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 March 31, 2003, the Company had forward contracts amounted to US$500 thousand, maturity date is on May 20, 2004.

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

Item	2004	2003
Forward exchange contracts receivable - foreign currencies	$ 17,000	$ -
Premium on forward exchange contract	25	-
Payable on forward exchange purchased	(17,025)	-
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.

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 March 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	USD/NTD	US$ 5,000	NT$ 34.20	April 23, 2004	1
Sell	USD/JPY	US$ 1,000	¥ 109.50	April 8, 2004	2
Buy	USD/NTD	US$ 500	NT$ 33.95	April 6, 2004	3
		US$ 500 &			4
Sell	USD/JPY	US$ 750	Note 4	July 21, 2004	
Buy	USD/NTD	US$ 1,000	NT$ 32.85	July 8, 2004	5
Sell	USD/NTD	US$ 2,000	NT$ 32.65	August 6, 2004	6
Sell	USD/JPY	US$ 1,000	¥ 107.50	April 8, 2004	7
Sell	USD/JPY	US$ 1,500	¥ 109.00	June 23, 2004	8
Sell	USD/NTD	US$ 500	NT$ 32.60	August 23, 2004	9
Sell	USD/JPY	US$ 1,000	¥ 109.00	June 16, 2004	10

Note 1: There is one transaction on April 23, 2004

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

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

Note 2: There is one transactions on April 12, 2004.

(1) If USD/JPY spot rate triggers 102, during the life of the contract, the contract will not be activated.

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

(3) 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 thousand at against JPY113.
   (ii) If reference rate < 113
   There is no transaction between bank and company on April 12, 2004.

Note 3: There is one transaction on April 6, 2004.

(1) If reference rate >= 33.95
There is no transaction between bank and company.

(2) If reference rate <33.95
Company can sell US$500 thousand at NT$34.2.

Note 4: There are four transactions on April 21, May 20, June 21 and July 21, 2004.

(1) If USD/JPY spot rate never triggers 111, during the life of the contract, on expiry date:
- (i) If FXexp is lower than 103, company will have the right to sell US$500 thousand to bank at (FXexp +0.25)
- (ii) If FXexp is between 103 and 107.5, company will have the right to sell US$500 thousand to bank against JPY at 109.
- (iii) If FXexp is between 107.5 and 109, company will have the right to sell US$500 thousand to bank at (FXexp +0.25)
- (iv) If FXexp is lower than 109, there is no transaction between company and bank.

(2) If USD/JPY spot rate triggers 111, during the life of the contract, on expiry date:
- (i) If FXexp is lower than 103, company will have the right to sell US$500 thousand to bank at (FXexp +0.25)
- (ii) If FXexp is between 103 and 107.5, company will have the right to sell US$500 thousand to bank against JPY at 109.
- (iii) If FXexp is between 107.5 and 109, company will have the right to sell US$750 thousand to bank against JPY at 109.17.
- (iv) If FXexp is lower than 109, company will have the right to sell US$750 thousand to bank against JPY at 109.

Note 5: There is one transaction on July 8, 2004.

(1) If reference rate < 32.85
There is no transaction between bank and company.

(2) If reference rate < 32.85
Company must buy US$1,000 thousand at NT$32.85.

Note 6: There is one transaction on August 6, 2004.

(1) If reference rate > 32.65
There is no transaction between bank and company.

(2) If reference rate < 32.85
Company must buy US$2,000 thousand at NT$32.65.

Note 7: There is one transaction between bank and company.

Note 8: There is one transaction on June 21, 2004.

(1) If USD/JPY spot rate never triggers 112 during the life of the contract, the contract will not be activated.

(2) If USD/JPY spot rate triggers 112 during the life of the contract, on expiry date:
- (i) If reference rate > 109
Company must sell US$1,500 thousand against JPY at 109.
- (ii) If reference rate < 109
There is no transaction between bank and company.

Note 9 There is one transaction on August 23, 2004.

(1) If reference rate > 32.6
There is no transaction between bank and company.

(2) If reference rate < 32.6
Company must buy US$500 thousand at NT$32.6.

Note 10 There are two transaction on May 14 and June 16, 2004.

(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 during the life of the contract, on expiry date:
   (i) If reference rate > 109.5
   Company must sell US$1,000 thousand against JPY at 109.5.
   (ii) If reference rate < 109.5
   There is no transaction between bank and company.

2003

Buy/Sell	Call/Put	Contract Value	Strike Rate	The Final Mature Date	Note
Sell	USD/JPY	Note 1	¥ 121.5	June 19, 2003	1
Sell	USD/JPY	Note 2	Note 2	May 29, 2003	2
Sell	USD/JPY	Note 2	Note 2	June 27, 2003	2
Sell	USD/JPY	Note 2	Note 2	July 30, 2003	2
Sell	USD/JPY	Note 2	Note 2	August 29, 2003	2
Sell	USD/JPY	US$ 1,000	NT$ 35.0	May 5, 2003	3
Sell	USD/NTD	US$ 750	NT$ 34.9	July 16, 2003	4
Buy	USD/NTD	US$ 500	NT$ 34.8	May 15, 2003	5

Note 1: There are three transactions on April 17, May 19 and June 19, 2003.

(1) If reference rate > 121.5
Company must sell US$450 thousand against JPY at 121.5.

(2) If reference rate < 121.5
Company must sell US$300 thousand against JPY at 121.5.

Note 2:

(1) If USD/JPY spot rate is never higher than 126 during the life of the contract, on expiry date:
   (i) If FXexp is between 115 and 121.5, company will have right to sell US$300 thousand to bank against JPY at 122.5.
   (ii) If FXexp is between 121.5 and 126, company will have right to sell US$300 thousand to bank at (FXexp +0.1).

(2) If USD/JPY spot rate is ever higher than 126 during the life of the contract, on expiry date:
   (i) If FXexp is between 115 and 121.5, company will have right to sell US$300 thousand to bank against JPY at 121.5.
   (ii) If FXexp is lower than 121.5, company will have right to sell US$450 thousand to bank against JPY at 121.5.

Note 3: There are two transaction on April 13 and May 5, 2003.

(1) If reference rate > 35
Company must sell US$1,000 thousand at NT$35.

(2) If reference rate < 35
There is no transaction between bank and company.

Note 4: There are two transaction on June 16 and July 16, 2003.

(1) If reference rate > 34.9
Company must sell US$750 thousand at NT$34.9.

(2) If reference rate < 34.9
There is no transaction between bank and company.

Note 5: There are two transaction on April 16 and May 15, 2003.

(1) If reference rate =< 34.8
Company must buy US$500 thousand at NT$34.8.

(2) If reference rate > 34.8
There is no transaction between bank and company.

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 March 31, 2004 and 2003.

	March 31			
	2004		2003	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Short-term investment	$210,000	$210,224	$ 22,315	$ 22,315

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 equity investments are estimated from their carrying value.

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