# TXC CORPORATION

**Financial Statements for the Nine Months Ended September 30, 2005 and 2004 and Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders
TXC Corporation:

We have reviewed the accompanying balance sheets of TXC Corporation (the "Company") as of September 30, 2005 and 2004 and the related statements of income, and cash flows for the nine months then ended. 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 stated in the following paragraph, we conducted our reviews in accordance with Auditing Standards No. 36, "Review of Financial Statements", of 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 8 to the financial statements, the carrying values of TXC Corporation's equity-method investments of NT$754,176 thousand and NT$531,831 thousand as of September 30, 2005 and 2004, respectively, and related investment income of NT$37,412 thousand and NT$12,163 thousand for the nine months ended September 30, 2005 and 2004, respectively, were recognized on the basis of the subsidiaries' unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary 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 the Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

October 21, 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 review such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants' 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 accountants' 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**
**SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited, Except Par Value)**

| ASSETS | 2005 Amount | 2005 % | 2004 Amount | 2004 % |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | $ 204,215 | 5 | $ 129,970 | 3 |
| Short-term investments, net (Notes 2 and 5) | 90,000 | 2 | 60,000 | 1 |
| Notes receivable, net (Notes 2 and 6) | 63,538 | 2 | 49,441 | 1 |
| Accounts receivable, net (Notes 2, 6 and 20) | 1,113,795 | 27 | 986,598 | 26 |
| Inventories, net (Notes 2 and 7) | 571,516 | 14 | 645,988 | 17 |
| Other current assets | 102,708 | 2 | 67,057 | 2 |
| Total current assets | 2,145,772 | 52 | 1,939,054 | 50 |
| LONG-TERM EQUITY INVESTMENTS (Notes 2 and 8) | | | | |
| Equity method | 754,166 | 18 | 531,831 | 14 |
| Cost method | 3,000 | - | 3,000 | - |
| Total long-term equity investments | 757,176 | 18 | 534,831 | 14 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 21) | | | | |
| Cost | | | | |
| Land | 157,040 | 4 | 157,040 | 4 |
| Land - revaluation increment | 8,954 | - | 8,954 | - |
| Land improvements | 442 | - | 377 | - |
| Buildings | 272,792 | 7 | 261,869 | 7 |
| Machinery and equipment | 1,333,626 | 32 | 1,363,358 | 36 |
| Transportation equipment | 2,557 | - | 1,528 | - |
| Miscellaneous equipment | 57,223 | 1 | 49,442 | 1 |
| | 1,832,634 | 44 | 1,842,568 | 48 |
| Less accumulated depreciation | (671,261) | (16) | (578,517) | (15) |
| Prepayments for purchase of equipment | 4,839 | - | 8,662 | - |
| Property, plant and equipment, net | 1,166,212 | 28 | 1,272,713 | 33 |
| INTANGIBLE ASSETS | | | | |
| Pension prepayments (Notes 2 and 14) | 7,396 | - | 7,941 | - |
| OTHER ASSETS (Notes 2 and 3) | 67,061 | 2 | 97,783 | 3 |
| TOTAL | $4,143,617 | 100 | $3,852,322 | 100 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | 2005 Amount | 2005 % | 2004 Amount | 2004 % |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Short-term loans (Notes 11 and 21) | $ 162,815 | 4 | $ 441,541 | 11 |
| Current portion of long-term loans (Notes 13 and 21) | 97,782 | 2 | 43,127 | 1 |
| Notes payable (Note 20) | 41,636 | 1 | 33,834 | 1 |
| Accounts payable to third parties | 485,303 | 12 | 360,412 | 9 |
| Accounts payable to related parties (Note 20) | 96,691 | 2 | 98,665 | 3 |
| Accrued expenses (Note 20) | 87,440 | 2 | 73,541 | 2 |
| Dividend payable | 82,405 | 2 | - | - |
| Other current liabilities | 20,570 | 1 | 84,052 | 2 |
| Total current liabilities | 1,074,642 | 26 | 1,135,172 | 29 |
| LONG-TERM LIABILITIES | | | | |
| Bonds payable (Note 12) | 104,607 | 3 | 270,813 | 7 |
| Long-term loans, net of current portion (Note 13) | 225,000 | 5 | 177,782 | 5 |
| Total long-term liabilities | 329,607 | 8 | 448,595 | 12 |
| OTHER LIABILITIES | | | | |
| Land value increment tax reserve | 3,513 | - | 3,513 | - |
| Deferred credits | 890 | - | - | - |
| Total other liabilities | 4,403 | - | 3,513 | - |
| Total liabilities | 1,408,652 | 34 | 1,587,280 | 41 |
| STOCKHOLDERS' EQUITY | | | | |
| Capital stock (Note 15) | | | | |
| Common stock, $10 par value authorized-260,000 thousand shares in 2005 and 2004; issued - 181,558 thousand shares in 2005 and 160,785 thousand shares in 2004 | 1,815,579 | 44 | 1,607,847 | 42 |
| Capital surplus | | | | |
| Additional paid-in capital | 455,283 | 11 | 363,804 | 10 |
| Asset revaluation reserve | 5,441 | - | 5,441 | - |
| Retained earnings (Note 15) | | | | |
| Legal reserve | 105,774 | 3 | 79,959 | 2 |
| Special reserve | 34,087 | 1 | 409 | - |
| Unappropriated earnings | 298,153 | 7 | 205,292 | 5 |
| Cumulative translation adjustments (Note 2) | 20,648 | - | 2,290 | - |
| Total stockholders' equity | 2,734,965 | 66 | 2,265,042 | 59 |
| TOTAL | $4,143,617 | 100 | $3,852,322 | 100 |

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

(With Deloitte & Touche review report dated October 21, 2005)

# TXC CORPORATION

**STATEMENTS OF INCOME**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE | $2,466,205 | 101 | $2,076,504 | 101 |
| SALES DISCOUNTS AND RETURNS | 29,337 | 1 | 30,951 | 1 |
| NET OPERATING REVENUE | 2,436,868 | 100 | 2,045,553 | 100 |
| COST OF SALES | 1,835,854 | 75 | 1,641,466 | 80 |
| GROSS PROFIT | 601,014 | 25 | 404,087 | 20 |
| UNREALIZED GAIN ON TRANSACTIONS WITH INVESTEES | (890) | - | - | - |
| REALIZED GAIN ON TRANSACTIONS WITH INVESTEES | - | - | 141 | - |
| REALIZED GROSS PROFIT | 600,124 | 25 | 404,228 | 20 |
| OPERATING EXPENSES | | | | |
| Sales and marketing | 102,606 | 4 | 90,513 | 4 |
| General and administrative | 70,028 | 3 | 59,680 | 3 |
| Research and development | 87,873 | 4 | 71,155 | 4 |
| Total operating expenses | 260,507 | 11 | 221,348 | 11 |
| OPERATING INCOME | 339,617 | 14 | 182,880 | 9 |
| NONOPERATING INCOME AND GAINS | | | | |
| Interest income | 471 | - | 140 | - |
| Investment income accounted for by the equity method | 37,412 | 1 | 12,163 | 1 |
| Gain on disposal of property, plant and equipment | 4 | - | 22 | - |
| Gain on disposal of investments | 500 | - | 1,546 | - |
| Foreign exchange gains | 90,307 | 4 | 51,113 | 2 |
| Other | 13,612 | 1 | 4,357 | - |
| Total nonoperating income and gains | 142,306 | 6 | 69,341 | 3 |
| NONOPERATING EXPENSES AND LOSSES | | | | |
| Interest expense | 40,858 | 2 | 11,219 | 1 |
| Loss on disposal of property, plant and equipment | 1,812 | - | 827 | - |
| Loss on disposal of investments | - | - | 1,049 | - |
| Loss on physical inventories | 70 | - | 252 | - |
| Foreign exchange losses | 58,605 | 2 | 26,652 | 1 |
| Loss on decline in value of inventories | 19,917 | 1 | 7,034 | - |
| Impairment loss | 7,319 | - | - | - |
| Other | 1,043 | - | 467 | - |
| Total nonoperating expenses and losses | 129,624 | 5 | 47,500 | 2 |

(Continued)

## TXC CORPORATION

**STATEMENTS OF INCOME**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**
**(Reviewed, Not Audited)**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| INCOME BEFORE INCOME TAX | $ 352,299 | 15 | $ 204,721 | 10 |
| INCOME TAX EXPENSE (Notes 2 and 16) | (67,588) | (3) | (1,492) | - |
| NET INCOME | $ 284,711 | 12 | $ 203,229 | 10 |

| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
|---|---|---|---|---|
| EARNINGS PER SHARE (Note 18) | | | | |
| Basic | $ 2.02 | $ 1.64 | $ 1.25 | $ 1.25 |
| Diluted | $ 1.91 | $ 1.54 | $ 1.17 | $ 1.15 |

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

(With Deloitte & Touche review report dated October 21, 2005) (Concluded)

## TXC CORPORATION

**STATEMENTS OF CASH FLOWS**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | 2005 | 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 284,711 | $ 203,229 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Interest payable on bonds | (911) | 3,013 |
| (Gain on receivables) bad-debt expense | (269) | 3,922 |
| Depreciation and amortization | 174,479 | 160,037 |
| Nonoperating loss-idle assets | 1,043 | 377 |
| Impairment loss | 7,319 | - |
| Loss on decline in value of inventories | 19,917 | 7,034 |
| Loss on physical inventories | 70 | 252 |
| Gain on disposal of short-term investments | (500) | (497) |
| Investment income accounted for by the equity method | (37,412) | (12,163) |
| Loss on disposal of assets | 1,808 | 805 |
| Deferred income tax assets | 37,482 | (18,543) |
| Net changes in operating assets and liabilities | | |
| Notes receivable | (29,335) | 14,467 |
| Accounts receivable | (51,517) | (248,675) |
| Inventories | (46,649) | (125,677) |
| Other current assets | (43,385) | 15,511 |
| Notes payable | 13,888 | (3,680) |
| Accounts payable | 200,370 | 60,818 |
| Accrued expenses | 6,367 | 10,901 |
| Other current liabilities | (18,221) | 16,497 |
| Other liabilities | 890 | - |
| Net cash provided by operating activities | 520,145 | 87,628 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Increase in deferred assets | (21,881) | (21,649) |
| Acquisition of short-term investments | (210,000) | (330,000) |
| Proceeds from sale of short-term investments | 120,500 | 273,898 |
| Proceeds from disposal of property, plant and equipment | 29,860 | 4,143 |
| Acquisition of property, plant and equipment | (89,154) | (230,826) |
| Acquisitions of long-term equity investments | (142,147) | (108,642) |
| Increase in refundable deposits paid | (333) | (1,369) |
| Net cash used in investing activities | (313,155) | (414,445) |

(Continued)

## TXC CORPORATION

**STATEMENTS OF CASH FLOWS**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | 2005 | 2004 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in commercial paper issuance | $ - | $ (69,919) |
| Decrease in short-term loans | (215,181) | (23,156) |
| Decrease in long-term loans | (20,345) | (18,345) |
| Remuneration to directors and supervisors | (3,746) | (2,760) |
| Proceeds from the exercise of employee stock options | 31,779 | 18,105 |
| Net cash used in financing activities | (207,493) | (96,075) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (503) | (422,892) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 204,718 | 552,862 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 204,215 | $ 129,970 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period | | |
| Interest (excluding interest capitalized) | $ 12,544 | $ 13,448 |
| Income tax | $ 50,927 | $ 14,827 |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Transfer of current portion of long-term loans to current liabilities | $ 97,782 | $ 43,127 |
| Convertible bonds | $ 166,300 | $ 132,200 |

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

(With Deloitte & Touche review report dated October 21, 2005) (Concluded)

# TXC CORPORATION

**NOTES TO FINANCIAL STATEMENTS**
**NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**
**(Reviewed, Not Audited)**

## 1. ORGANIZATION AND OPERATIONS

TXC Corporation (the "Company") was incorporated on December 28, 1983 under the Company Law and 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 publicly listed company. On August 26, 2002, the Company's shares began to be traded on the Taiwan Stock Exchange.

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

As of September 30, 2005 and 2004, the Company had 668 and 600 employees, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**

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

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

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

**Current/Noncurrent Assets and Liabilities**

An asset should be classified as current when:

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

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

A liability should be classified as current when:

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

All other assets and liabilities are classified as noncurrent.

**Cash Equivalents**

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

**Short-Term Investments**

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

**Allowance for Doubtful Accounts**

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

**Inventories**

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

**Long-Term Investments**

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

Other long-term investments in which the 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. Repairs and maintenance are expensed currently.

Interest incurred for the construction of major facilities is capitalized.

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

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

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

**Asset Impairment**

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

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

**Employee Stock Options**

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

**Convertible Bonds**

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

**Pension Plan**

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

**Revenue Recognition**

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

**Capital and Operating Expenditure**

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

**Income Tax**

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

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

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

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

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

**Foreign-currency Transactions**

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

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

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

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

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

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

**Derivative Financial Instruments**

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

**Nonderivative Financial Instruments**

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

**Reclassifications**

Certain accounts for the nine months ended September 30, 2004 have been reclassified to be consistent with the presentation of the financial statements for the nine months ended September 30, 2005.

## 3. CHANGE IN ACCOUNTING PRINCIPLE

The Company adopted the Statement of Financial Accounting Standards No. 35, "Accounting for Impairment of Assets," on January 1, 2005. As a result, the carrying value of idle assets decreased by $7,319 thousand. The impairment loss was $7,319 thousand for the nine months ended September 30, 2005.

## 4. CASH AND CASH EQUIVALENTS

| | September 30 2005 | September 30 2004 |
|---|---|---|
| Cash on hand | $ 756 | $ 571 |
| Checking and saving accounts | 203,459 | 129,399 |
| | $204,215 | $129,970 |

## 5. SHORT-TERM INVESTMENTS

| | September 30 2005 | September 30 2004 |
|---|---|---|
| Mutual funds | $90,000 | $60,000 |
| Less allowance for loss on decline in market value | - | - |
| | $90,000 | $60,000 |

## 6. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

| | September 30 2005 | September 30 2004 |
|---|---|---|
| Notes receivable | $ 63,857 | $ 47,440 |
| Notes receivable from related parties | - | 2,249 |
| | 63,857 | 49,689 |
| Less allowance for doubtful accounts | (319) | (248) |
| | $ 63,538 | $ 49,441 |
| Accounts receivable | $1,103,392 | $ 935,361 |
| Accounts receivable from related parties | 18,776 | 58,811 |
| | 1,122,168 | 994,172 |
| Less allowance for doubtful accounts | (8,373) | (7,574) |
| | $1,113,795 | $ 986,598 |

## 7. INVENTORIES

| | September 30 | |
|---|---|---|
| | 2005 | 2004 |
| Raw materials | $107,583 | $134,656 |
| Supplies and spare parts | 7,359 | 11,077 |
| Work in-process | 113,529 | 121,757 |
| Finished goods | 151,456 | 171,879 |
| Merchandise | 204,349 | 199,665 |
| Materials in transit | 2,630 | 16,648 |
| | 586,906 | 655,682 |
| Less allowance for loss on decline in market value and obsolescence | (15,390) | (9,694) |
| | $571,516 | $645,988 |

Inventory insurance as of September 30, 2005 and 2004 amounted to $450,000 thousand and $370,000 thousand, respectively.

## 8. LONG-TERM INVESTMENTS

| | September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| Investee | Carrying Value | Ownership Percentage | Carrying Value | Ownership Percentage |
| Equity method | | | | |
| Taiwan Crystal Technology International Ltd. (TCTI) | $743,301 | 100 | $527,521 | 100 |
| TXC Technology Inc. | 7,902 | 100 | 4,310 | 100 |
| TXC Japan Corporation | 2,973 | 100 | - | - |
| Cost method | | | | |
| Marson Technology Co., Ltd. | 3,000 | 5 | 3,000 | 5 |
| | $757,176 | | $534,831 | |

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

Equity in earnings of investees in the nine months ended September 30, 2005 and 2004 was as follows:

| | Equity in Investees Gain | | Original Cost |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| TCTI | $34,547 | $11,982 | US$ 20,000 |
| TXC Technology Inc. | 2,865 | 181 | US$ 300 |
| TXC Japan Corporation | - | - | JP¥ 10,000 |
| | $37,412 | $12,163 | |

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

## 9. PROPERTY, PLANT AND EQUIPMENT

| | September 30 | | | |
|---|---|---|---|---|
| | 2005 | | | 2004 |
| | Cost | Accumulated Depreciation | Carrying Value | Carrying Value |
| Land | $ 157,040 | $ - | $ 157,040 | $ 157,040 |
| Land - revaluation increment | 8,954 | - | 8,954 | 8,954 |
| Land improvements | 442 | 255 | 187 | 171 |
| Buildings | 272,792 | 109,468 | 163,324 | 169,339 |
| Machinery and equipment | 1,333,626 | 527,318 | 806,308 | 900,464 |
| Transportation equipment | 2,557 | 1,005 | 1,552 | 1,146 |
| Miscellaneous equipment | 57,223 | 33,215 | 24,008 | 26,937 |
| Prepayments on purchase of equipment | 4,839 | - | 4,839 | 8,662 |
| | $ 1,837,473 | $ 671,261 | $ 1,166,212 | $ 1,272,713 |

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

Property, plant and equipment insurance as of September 30, 2005 and 2004 amounted to $609,200 thousand and $778,500 thousand, respectively. No interest was capitalized in the nine months ended September 30, 2005 and 2004.

## 10. IDLE ASSETS

| | September 30, 2005 | | | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Carrying Value |
| Land | $ 2,252 | $ - | $ - | $ 2,252 |
| Buildings | 15,444 | 8,191 | 4,874 | 2,379 |
| Machinery and equipment | 8,291 | 5,846 | 2,445 | - |
| | $25,987 | $14,037 | $ 7,319 | $ 4,631 |

| | September 30, 2004 | | | |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Accumulated Impairment | Carrying Value |
| Land | $ 2,252 | $ - | $ - | $ 2,252 |
| Buildings | 15,444 | 7,698 | - | 7,746 |
| | $17,696 | $ 7,698 | $ - | $ 9,998 |

Impairment loss was as follows:

| | September 30, 2005 | |
|---|---|---|
| | **Recognized in Income Statement** | **Recognized in Stockholders' Equity** |
| Impairment loss | | |
| Buildings | $ 4,874 | $ - |
| Machinery and equipment | 2,445 | - |
| | $ 7,319 | $ - |

## 11. SHORT-TERM LOANS

| | September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | **Amount** | **Interest Rate (%)** | **Amount** | **Interest Rate (%)** |
| Material procurements loans | $142,815 | 0.694~6.40 | $287,888 | 0.83~1.17 |
| Secured bank loans | - | - | 13,653 | 1.38 |
| Unsecured bank loans | 20,000 | 1.68 | 140,000 | 1.48~1.50 |
| | $162,815 | | $441,541 | |

See Note 21 for details of pledged assets.

## 12. BONDS PAYABLE

| | September 30 | |
|---|---|---|
| | **2005** | **2004** |
| Domestic | | |
| First domestic unsecured convertible corporate bonds | $101,500 | $267,800 |
| Add accrued interest compensation | 3,107 | 3,013 |
| | $104,607 | $270,813 |

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

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

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

(c) The original conversion price per share is NT$18.90. The conversion price is subject to adjustment based on a certain formula if there are changes in outstanding shares execution of conversion below market price.

## 13. LONG-TERM LOANS

| Nature of Loans | Repayment Period | September 30 2005 | September 30 2004 |
|---|---|---|---|
| Secured bank loans | Repayable in quarterly installments; maturing on September 9, 2008 | $ 81,000 | $132,000 |
| Unsecured bank loans | Repayable in quarterly installments; maturing on February 2, 2007 | 40,000 | 80,000 |
| Secured loan from the Industrial Development Bureau Ministry of Economic Affairs | Repayable in quarterly installments; maturing on October 1, 2005 | 1,782 | 8,909 |
| Chinatrust's loan | | 200,000 | - |
| | | 322,782 | 220,909 |
| Less current portion | | (97,782) | (43,127) |
| | | $225,000 | $177,782 |
| Interest rate (%) | | 0~2.78 | 0~3.20 |

See Note 21 for collateral on long-term loans.

As of September 30, 2005, the Company had issued to various banks promissory notes amounting to $706,000 thousand to secure short-term and long-term loans.

## 14. PENSION PLAN

The Company has established a retirement plan covering its regular employees. Under the Plan, retirement benefit calculation is based on the employee's years of service and average salary. The Company contributes monthly to a retirement fund an amount based on 2% of employee salary. The fund is deposited in the Central Trust Bureau under the name of the Employee Retirement Fund Committee. As of September 30, 2005 and 2004, fund balance was $50,789 thousand and $46,926 thousand.

The Labor Pension Act (the "Act") took effect on July 1, 2005, and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law before the enforcement of this Act may choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law before prior to July 1, 2005, still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their service years as of July 1, 2005 will be retained. Under the Act, the rate of an employer's monthly contribution to employees' pension accounts should be at least 6% of each employee's monthly salary or wage.

Net periodic pension costs in the nine months ended September 30, 2005 and 2004 were as follows:

| | 2005 | 2004 |
|---|---|---|
| Beginning balance | $(7,396) | $(7,942) |
| Net periodic pension cost | 6,616 | 3,990 |
| Employee retirement fund | (4,719) | (3,618) |
| | $(5,499) | $(7,570) |

## 15. CAPITAL STOCK

The Company's authorized capital is $2,600,000 thousand (NT$10.00 par value). As of September 30, 2005, the Company's paid-in capital was $1,815,579 thousand divided into 181,558 thousand shares at NT$10.00 par value. Capital stock consisted of the following:

| | |
|---|---|
| Initial paid-in capital | $ 3,100 |
| Additional cash subscription | 540,080 |
| Stock dividends appropriated from earnings | 961,357 |
| Stock dividends from capital surplus | 127,693 |
| Employee stock options | 29,260 |
| Convertible bonds | 154,089 |
| | $ 1,815,579 |

**Employee Stock Options**

As of September 30, 2005, the Company had granted 9,000 units of the employee stock options, with each unit representing 1,000 common shares. The options are valid for five years and exercisable at certain percentages after the second anniversary of the grant date. Based on the option plans, the number of outstanding options and exercise prices had been adjusted to reflect the distribution of stock dividends.

The exercise of rights on employee stock options in the nine months ended September 30, 2005 and 2004 is summarized as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| **Employee Stock Options** | **Units** | **Weighted Average Exercise Price** | **Units** | **Weighted Average Exercise Price** |
| Outstanding, beginning | 7,935 | $ 17.0 | 9,000 | $ - |
| Current issuance | - | - | - | - |
| Current exercise | (1,861) | 17.0 | (1,065) | 17.0 |
| Outstanding, ending | 6,074 | | 7,935 | |
| Exercisable options, ending | 6,074 | | 7,935 | |

As of September 30, 2005, the Company's employees had exercised rights on 1,861 stock options amounting to $31,779 thousand.

The outstanding employee stock options as of September 30, 2005 is summarized as follows:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Exercise Price** | **Number Outstanding (In thousands)** | **Weighted Average Remining Life (In years)** | **Weighted Average Exercise Price (NT$)** | **Number Exercisable (In thousands)** | **Weighted Average Exercise Price (NT$)** |
| $16.1 | 1,793 | 1.0 | $ 16.1 | 1,793 | $ 15.2 |
| $34.1 | 1,500 | 1.5 | - | 1,500 | - |
| $17.6 | 2,781 | 2.0 | 17.6 | 2,781 | 16.6 |

**Earnings Distribution and Dividend Policy**

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

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

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

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

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

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

The appropriation of the 2004 earnings had been approved by the Board of Directors as of August 9, 2005 the date of the auditors' report accompanying the Company's audited financial statements as of and for the years ended December 31, 2005 and 2004. Information on the earnings appropriation can be accessed online through the Market Observation Post system (MOPS) on the Web site of the Taiwan Stock Exchange (http://emops. tse.com.tw).

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

| | **Appropriation of Earnings** | | **Dividends Per share (NT$)** | |
|---|---|---|---|---|
| | **For Fiscal Year 2004** | **For Fiscal Year 2003** | **For Fiscal Year 2004** | **For Fiscal Year 2003** |
| Cash dividends | $82,405 | $45,536 | $0.5 | $0.3 |
| Stock dividends | 82,404 | 75,893 | 0.5 | 0.5 |
| Employees' bonus - stock | 18,728 | 13,798 | - | - |
| Remuneration to directors and supervisors - cash | 3,746 | 2,760 | - | - |

## 16. INCOME TAX

Provision for income tax was calculated as follows:

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2005 | 2004 |
| Tax on pretax income at 25% statutory rate | $ 88,065 | $ 51,180 |
| Add (deduct) tax effects of | | |
| Permanent differences | (123) | (123) |
| Temporary differences | (19,139) | (7,217) |
| Tax-exempt income for five years | (8,265) | (3,234) |
| Current payable | 60,538 | 40,606 |
| Less investment tax credit | (30,269) | (20,303) |
| Current tax expense | 30,269 | 20,303 |
| Deferred tax expense (benefit) | 37,482 | (18,543) |
| Adjustment of prior years' tax expense | (163) | (268) |
| Income tax expense | $ 67,588 | $ 1,492 |

The Company's income tax returns through 1999 had been examined and cleared by the tax authorities.

| | 2005 | 2004 |
|---|---|---|
| Deferred income tax assets, current | | |
| Loss on decline in value of inventories | $ 4,032 | $ 2,608 |
| Investment tax credit | 21,984 | 24,973 |
| Others | 3,300 | 850 |
| | 29,316 | 28,431 |
| Deferred income tax liabilities, current | | |
| Unrealized foreign exchange gain | (9,416) | (5,290) |
| Net deferred income tax assets, current | $ 19,900 | $ 23,141 |
| Deferred income tax assets, noncurrent | | |
| Investment tax credit | $ 65,952 | $ 74,917 |
| Others | 1,020 | 205 |
| | 66,972 | 75,122 |
| Deferred income tax liabilities, noncurrent | | |
| Investment income | (14,338) | (4,201) |
| Net deferred income tax assets, noncurrent | $ 52,634 | $ 70,921 |

The Company's investment tax credits as of September 30, 2005 for income tax purposes were as follows:

| Regulatory Basis of Tax Credits | Item | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|---|---|---|---|---|
| Statute for Upgrading Industries | Purchase of machinery and equipment | $68,984 | $41,363 | 2009 |
| | Research and development expenditures | $48,095 | $45,650 | 2009 |
| | Personnel trading | $ 1,126 | $ 923 | 2009 |

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

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

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

| | September 30 | |
|---|---|---|
| | 2005 | 2004 |
| Balance of ICA | $ 32,225 | $ 197 |

| | 2005 (Estimate) | 2004 (Actual) |
|---|---|---|
| Estimated imputation tax credit rate | 12.38% | 9.65% |

| | September 30 | |
|---|---|---|
| | 2005 | 2004 |
| Undistributed earnings | | |
| Until 1997 | $ - | $ - |
| From 1998 | 298,153 | 205,292 |
| | $298,153 | $205,292 |

## 17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

The Company's personnel, depreciation, and amortization expenses in the nine months ended September 30, 2005 and 2004 are summarized as follows:

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | **Operating Cost** | **Operating Expense** | **Total** | **Operating Cost** | **Operating Expense** | **Total** |
| Personnel expense | | | | | | |
| Salaries | $132,140 | $ 84,284 | $216,424 | $100,848 | $ 92,814 | $193,662 |
| Labor and health insurance | 10,031 | 5,633 | 15,664 | 8,955 | 4,942 | 13,897 |
| Pension | 4,320 | 2,296 | 6,616 | 2,349 | 1,641 | 3,990 |
| Others | 33,566 | 2,575 | 36,141 | 28,341 | 2,331 | 30,672 |
| Depreciation | 123,976 | 27,406 | 151,382 | 119,144 | 23,045 | 142,189 |
| Amortization | 1,299 | 21,798 | 23,097 | 4,855 | 12,993 | 17,848 |

## 18. EARNINGS PER SHARE

| | Nine Months Ended September 30 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | | 2004 | | | | |
| | Amount | | Weighted Average Outstanding | EPS | | Amount | | Weighted Average Outstanding | EPS | |
| | Before Tax | After Tax | Common Stock | Before Tax | After Tax | Before Tax | After Tax | Common Stock | Before Tax | After Tax |
| Net income | $ 352,299 | $ 284,711 | | | | $ 204,721 | $ 203,229 | | | |
| Basic income per share | $ 352,299 | $ 284,711 | 174,109 | $ 2.02 | $ 1.64 | $ 204,721 | $ 203,229 | 163,174 | $ 1.25 | $ 1.25 |
| Employee stock option | - | - | 1,045 | | | - | - | 1,828 | | |
| Convertible bonds | 4,631 | 3,473 | 11,517 | | | 3,513 | 2,635 | 13,390 | | |
| Net diluted income per share | $ 356,930 | $ 288,184 | 186,671 | $ 1.91 | $ 1.54 | $ 208,234 | $ 205,864 | 178,392 | $ 1.17 | $ 1.15 |

## 19. FINANCIAL INSTRUMENTS

### Forward Exchange Contracts - Hedge

The Company used forward contracts primarily to hedge the risk on exchange rate fluctuations of foreign-currency assets and liabilities. As of June 30, 2005, the Company's forward contracts amounted to US$1,500 thousand, with maturity on November 10, 2005.

| | Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| **Derivative Financial Instruments** | **Nominal Amount** | **Credit Risk** | **Nominal Amount** | **Credit Risk** |
| Forward contracts | US$ 1,500 | - | US$ 1,250 | - |

***Risks on Forward Transactions***

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

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

***Interest Rate Swap Agreements***

As of September 30, 2005, interest expense from interest rate swap agreements was $28,533 thousand. The contracts as of September 30, 2005 are summarized as follows:

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

***Transaction Risks***

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

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

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

The interest rate swap contract involves the exchange of fixed rate payments for obligations without the exchange of contract (notional) amounts. No gain (loss) from the contract is for nine months ended September 30, 2004. Since the cash required for contract settlement is insignificant, there is no cash flow risk.

**Currency Options**

As of September 30, 2005 and 2004, the Company had the following currency options. These instruments were used to hedge the risk on exchange rate fluctuations of net foreign-currency assets and liabilities.

***European Option***

| | | 2005 | | |
|---|---|---|---|---|
| **Buy/Sell** | **Call/Put** | **Contract Value** | **Strike Rate** | **Final Mature Date** |
| Sell | USD/JPY | US$ 250 | JP¥ 108.00 | October 31, 2005 |
| Sell | USD/JPY | US$ 250 | JP¥ 108.20 | October 20, 2005 |
| Sell | USD/JPY | US$ 300 | JP¥ 107.00 | October 27, 2005 |
| Sell | USD/JPY | US$ 250 | JP¥ 114.25 | October 11, 2005 |
| Sell | USD/JPY | US$ 250 | JP¥ 114.25 | November 10, 2005 |
| Sell | USD/NTD | US$ 500 | NT$ 32.10 | October 13, 2005 |
| Sell | USD/NTD | US$ 500 | NT$ 32.10 | November 11, 2005 |

| 2004 | | | | |
|---|---|---|---|---|
| **Buy/Sell** | **Call/Put** | **Contract Value** | **Strike Rate** | **Final Mature Date** |
| Sell | USD/JPY | US$ 500 | JP¥ 114.00 | December 17, 2004 |
| Sell | JPY/USD | US$ 500 | - | February 25, 2005 |
| Sell | USD/NTD | US$ 500 | NT$ 33.80 | November 5,2004 |
| Sell | NET/USD | US$ 500 | NT$ 32.80 | November 5, 2004 |
| Buy | JPY/USD | US$ 500 | JP¥ 107.50 | December 29, 2004 |
| Sell | JPY/USD | US$ 750 | JP¥ 111.00 | December 20, 2004 |
| Sell | NTD/USD | US$ 1,000 | NT$ 33.20 | December 29,2004 |
| Sell | NTD/USD | US$ 1,000 | NT$ 33.25 | January 17, 2005 |
| Sell | NTD/USD | US$ 1,000 | NT$ 33.25 | February 18, 2005 |
| Sell | USD/NTD | US$ 1,000 | NT$ 33.90 | December 30, 2004 |
| Sell | NTD/USD | US$ 1,000 | NT$ 33.50 | December 30, 2004 |
| Buy | NTD/USD | US$ 500 | NT$ 34.00 | October 1, 2004 |
| Sell | USD/NTD | US$ 750 | NT$ 34.25 | November 3, 2004 |
| Sell | USD/NTD | US$ 750 | NT$ 34.25 | December 2,2004 |
| Sell | JPY/USD | US$ 500 | JP¥ 108.00 | October 19, 2004 |
| Sell | JPY/USD | US$ 500 | JP¥ 108.00 | December 17, 2004 |
| Sell | JPY/USD | US$ 750 VS US$ 500 | - | November 15, 2004 |
| Sell | JPY/USD | US$ 250 VS US$ 500 | - | October 1, 2004 |
| Sell | JPY/USD | US$ 250 VS US$ 500 | - | December 1, 2004 |
| Sell | USD/NTD | US$ 1,000 | NT$ 34.00 | December 8, 2004 |
| Sell | JPY/USD | US$ 500 VS US$ 500 | - | December 9, 2004 |
| Sell | JPY/USD | US$ 1,500 | - | December 16, 2004 |
| Buy | NTD/USD | US$ 250 | NT$ 33.95 | November 26, 2004 |
| Buy | NTD/USD | US$ 250 | NT$ 33.95 | December 29, 2004 |
| Sell | USD/NTD | US$ 500 | NT$ 34.15 | February 23, 2005 |
| Sell | USD/NTD | US$ 500 | NT$ 34.15 | March 29, 2005 |

**Credit, Market and Liquidity Risks**

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

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

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

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

**Fair Value of Financial Instruments**

The fair values of nonderivative financial instruments (except short-term investments) were equal to their carrying values as of September 30, 2005 and 2004.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Book Value** | **Estimated Fair Value** | **Book Value** | **Estimated Fair Value** |
| Assets | | | | |
| Cash and cash equivalents | $ 204,215 | $ 204,215 | $ 129,970 | $ 129,970 |
| Short-term investments, net | 90,025 | 90,025 | 60,050 | 60,050 |
| Notes receivable, net | 63,538 | 63,538 | 49,441 | 49,441 |
| Accounts receivable, net | 1,113,795 | 1,113,795 | 986,598 | 986,598 |
| Long-term equity investments | 757,176 | 757,176 | 534,831 | 534,831 |
| Liabilities | | | | |
| Short-term loans | 162,815 | 162,815 | 441,541 | 441,541 |
| Notes payable | 41,636 | 41,636 | 33,834 | 33,834 |
| Accounts payable, third parties | 485,303 | 485,303 | 360,412 | 360,412 |
| Accounts payable, related parties | 96,691 | 96,691 | 98,665 | 98,665 |
| Accrued expense | 87,440 | 87,440 | 73,541 | 73,541 |
| Current portion of long-term loan | 97,782 | 97,782 | 43,127 | 43,127 |
| Bonds payable | 104,607 | 104,607 | 270,813 | 270,813 |
| Long-term loans, net of current portion | 225,000 | 225,000 | 177,782 | 177,782 |

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

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

## 20. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

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

Major transactions with related parties are summarized below:

**Purchases of inventory and processing costs**

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % to Total Account Balances | Amount | % to Total Account Balances |
| GPT | $253,740 | 16 | $322,321 | 22 |

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

**Sales**

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % to Total Account Balances | Amount | % to Total Account Balances |
| GPT | $ 23,878 | 1 | $108,175 | 5 |
| Tai-Shing | 15,633 | 1 | 18,695 | 1 |
| TXC Technology Inc. | 43 | - | 805 | - |
| | $ 39,554 | 2 | $127,675 | 6 |

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

**Consulting Fee**

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % to Total Account Balances | Amount | % to Total Account Balances |
| TXC Technology Inc. | $ 20,707 | 71 | $ 14,104 | 72 |
| GPT | 8,584 | 29 | 5,445 | 28 |
| | $ 29,291 | 100 | $ 19,549 | 100 |

**Other Expense**

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Amount | % to Total Account Balances | Amount | % to Total Account Balances |
| Tai-Shing | $ 3,544 | 10 | $ 5,142 | 20 |

**Receivables and Payables**

| | | September 30 | | | |
|---|---|---|---|---|---|
| | | 2005 | | 2004 | |
| Item | Related Party | Amount | % to Total Account Balances | Amount | % to Total Account Balances |
| Notes receivable | Tai-Shing | $ - | - | $ 2,249 | 5 |
| Accounts receivable | GPT | 11,909 | 1 | 55,111 | 6 |
| | Tai-Shing | 6,867 | - | 3,595 | - |
| | TXC Technology Inc. | - | - | 105 | - |
| Notes payable | Tai-Shing | 463 | 1 | 815 | 2 |
| Accounts payable | GPT | 96,282 | 18 | 98,270 | 21 |
| | Tai-Shing | 409 | - | 395 | - |
| Accrued expenses | GPT | 1,117 | 1 | 1,835 | 4 |
| | Tai-Shing | 68 | - | 50 | - |

In the nine months ended September 30, 2005 and 2004, the Company sold its equipments to NGB through GPT, at their net book values of $25,570 thousand and $3,836 thousand, respectively, and prices of $25,576 thousand and $3,845 thousand, respectively, for gains of assets of $4 thousand and $9 thousand, respectively.

In the nine months ended September 30, 2005 and 2004, the Company made on investment in NGB through TCTI in the form of machinery and equipment at their net book value of $63,792 thousand and $53,783 thousand, respectively, and have no disposal gain or loss.

TXC were guarantors of bank loans of NGB and GPT. As of September 30, 2005, the Company's guarantees for NGB's and GPT's loans amounted to $118,560 thousand and $0 thousand, respectively.

## 21. PLEDGED ASSETS

As of September 30, 2005 and 2004, the following assets had been pledged at their book values to secure short-term loans, long-term debts and commercial paper issued:

| | 2005 | 2004 |
|---|---|---|
| Property, plant and equipment | | |
| Land | $165,994 | $165,994 |
| Buildings, net | 79,891 | 81,384 |
| Machinery and equipment, net | 358,731 | 232,785 |
| | $604,616 | $480,163 |

## 22. COMMITMENT AND CONTINGENCIES

The Company's commitments and contingencies as of September 30, 2005, which were not shown in the financial statements, were as follows:

Unit: In Thousands

| Commitment | Contract Price | Paid Up | Not Yet Paid |
|---|---|---|---|
| Machinery contracts | $5,695 | $1,318 | $4,377 |

For the guarantee for short-term and long-term loan, please refer to Note 13.

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

Unused letters of credit amounted to about JP¥411,546 thousand.

As of September 30, 2005, the Company had derivative financial instruments. Please refer to Note 19.

As of September 30, 2005, the Company's guarantee for NGB's loans amounted to $118,560 thousand.