TXC CORPORATION AND SUBSIDIARIES

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

REPRESENTATION LETTER

The entities included in the combined financial statements of TXC Corporation as of and for the year ended December 31, 2005, which were prepared in conformity with the Regulations Governing the Preparation of Combined Business Report and Combined Financial Statements of a Public Company and its Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements." The information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, TXC Corporation and subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

TXC CORPORATION

By

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Paul Lin

Chairman

March 13, 2006

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

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

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

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

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

March 13, 2006

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

(Continued)

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

(Continued)

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

1. ORGANIZATION AND OPERATIONS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

The significant accounting policies are summarized as follows:

Principles of Consolidation

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

The consolidated entities were as follows:

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

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

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

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

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

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

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

Current/Noncurrent Assets and Liabilities

An asset should be classified as current when:

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

A liability should be classified as current when:

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

All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Short-Term Investments

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

Allowance for Doubtful Accounts

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

Inventories

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

Long-Term Investments

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

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

Property, Plant and Equipment

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

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

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

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

Asset Impairment

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

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

Employee Stock Options

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

Convertible Bonds

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

Pension Plan

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

Revenue Recognition

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

Capital and Operating Expenditure

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

Income Tax

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

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

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

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

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

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

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

Foreign-currency Transactions

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

Translation of Foreign Subsidiary Financial Statements

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

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

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

Derivative Financial Instruments

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

Reclassifications

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

3. CHANGE IN ACCOUNTING PRINCIPLE

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

4. CASH AND CASH EQUIVALENTS

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

5. SHORT-TERM INVESTMENTS

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

6. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

7. INVENTORIES

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

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

8. LONG-TERM INVESTMENTS

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

10. IDLE ASSETS

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

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

Impairment loss was as follows:

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

11. SHORT-TERM LOANS

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

See Note 21 for details of pledged assets.

12. BONDS PAYABLE

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

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

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

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

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

13. LONG-TERM LOANS

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

See Note 21 for collateral on long-term loans.

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

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

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

14. PENSION PLAN

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

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

Pension information is summarized as follows:

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

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

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

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

Actuarial Assumptions

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

Summary of changes in the pension fund is as follows:

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

15. STOCKHOLDERS' EQUITY

Capital Stock

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

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

Employee Stock Options

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

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

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

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

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

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

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

Earnings Distribution and Dividend Policy

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

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

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

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

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

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

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

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

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

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

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

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

16. INCOME TAX

Provision for income tax was calculated as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

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

18. EARNINGS PER SHARE

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

19. FINANCIAL INSTRUMENTS

Forward Forex Transaction - Hedge

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

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

Risks on Forward Transactions

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

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

Interest Rate Swap Agreements

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

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

Transaction Risks

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

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

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

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

Currency Options

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

European Option

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

Credit, Market and Liquidity Risks

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

20. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

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

Major transactions with related parties are summarized below:

Sales

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

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

Other Expenses

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

Receivable from and Payable to Related Parties

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

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

21. PLEDGED ASSETS

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

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

22. COMMITMENT AND CONTINGENCIES

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

Unit: In Thousands

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

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

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

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

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

Segment Information

No segment information.

Geographic Area Information

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

Export Sales

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

Major Customer Information

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

24. OTHER

Intercompany relationships and significant intercompany transactions:

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

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