TXC Corporation and SUBSIDIARIES

Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

REPRESENTATION LETTER

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

Very truly yours,

TXC CORPORATION

By

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Paul Lin

Chairman

March 5, 2007

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying consolidated balance sheets of TXC Corporation and subsidiaries (the "Corporation") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers , requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

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

March 5, 2007

Notice to Readers

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

(Continued)

TXC CORPORATION AND SUBSIDIARIES

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

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

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

(Concluded)

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

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

TXC CORPORATION AND SUBSIDIARIES

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

			Retained Earnings			Others			
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Asset Revaluation Reserve	Unrealized Gains on Financial Instruments	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2005	$ 1,607,847	$ 363,804	$ 79,959	$ 409	$ 260,217	$ 5,442	$ -	$ (34,087)	$ 2,283,591
Appropriation of 2004 net income									
Legal reserve	-	-	25,815	-	(25,815)	-	-	-	-
Special reserve	-	-	-	33,678	(33,678)	-	-	-	-
Stock dividend	82,405	-	-	-	(82,405)	-	-	-	-
Cash dividends	-	-	-	-	(82,404)	-	-	-	(82,404)
Bonuses to employees - capital stock	18,728	-	-	-	(18,728)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(3,746)	-	-	-	(3,746)
Convertible bonds converted to common stock	133,887	114,113	-	-	-	-	-	-	248,000
Employee stock option converted to common stock	19,120	13,483	-	-	-	-	-	-	32,603
Net income in 2005	-	-	-	-	480,468	-	-	-	480,468
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	42,783	42,783
BALANCE, DECEMBER 31, 2005	1,861,987	491,400	105,774	34,087	493,909	5,442	-	8,696	3,001,295
Effect of adopting the newly released statement of Financial Accounting Standards No. 34	-	-	-	-	(17,267)	-	-	-	(17,267)
Appropriation of 2005 net income									
Legal reserve	-	-	48,047	-	(48,047)	-	-	-	-
Special reserve	-	-	-	(34,087)	34,087	-	-	-	-
Stock dividend	113,345	-	-	-	(113,345)	-	-	-	-
Cash dividends	-	-	-	-	(188,909)	-	-	-	(188,909)
Bonuses to employees - capital stock	34,347	-	-	-	(34,347)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(6,869)	-	-	-	(6,869)
Convertible bonds converted to common stock	11,234	8,566	-	-	-	-	-	-	19,800
Employee stock option converted to common stock	36,070	33,510	-	-	-	-	-	-	69,580
Equity component of compound financial instrument	-	39,680	-	-	-	-	-	-	39,680
Net income in 2006	-	-	-	-	859,508	-	-	-	859,508
Changes in valuation gain or loss on available-for-sale financial assets	-	-	-	-	-	-	183	-	183
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	27,692	27,692
BALANCE, DECEMBER 31, 2006	$ 2,056,983	$ 573,156	$ 153,821	$ -	$ 978,720	$ 5,442	$ 183	$ 36,388	$ 3,804,693

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

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

TXC CORPORATION AND SUBSIDIARIES

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

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

(Continued)

TXC CORPORATION AND SUBSIDIARIES

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

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

(Concluded)

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

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

1. ORGANIZATION AND OPERATIONS

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

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

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

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

As of December 31, 2006 and 2005, The Corporation had 1,656 and 1,367 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guideline Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. In conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of the allowance for doubtful accounts, allowance for inventory devaluation, depreciation, and pension, etc. Actual results could differ from these estimates.

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

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

Principles of Consolidation

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

The consolidated entities were as follows:

Name of Investor	Name of Investee	Business Nature	Percentage of Ownership at December 31, 2006	Percentage of Ownership at December 31, 2005
TXC Corporation	Taiwan Crystal Technology International Limited ("TCTI")	Investment holding	100%	100%
	TXC Technology, Inc.	Marketing activities	100%	100%
	TXC Japan Corporation	Marketing activities	100%	100%
TCTI	Growing Profits Trading Ltd. ("GPT")	National trading	100%	100%
	TXC (NGB) Corporation ("NGB")	Manufacture and sales of electronics products	100%	100%

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

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

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value through Profit or Loss

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

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

Available-for-Sale Financial Assets

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

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

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

Revenue Recognition and Allowance for Doubtful Accounts

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

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

Inventories

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

Financial Assets Carried at Cost

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

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

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

Investments Accounted for Using Equity Method

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

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

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

Property, Plant and Equipment

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

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

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

Asset Impairment

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

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

Employee Stock Options

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

Pension Plan

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

Convertible Bonds

Convertible bonds that were issued before December 31, 2005 are classified as current or noncurrent according to the redemption dates. When the Corporation converts bonds to shares of stock, it writes off the sum of the balances of the carrying value of the bonds, redemption premium and issuance costs. The common stock exchange certificate (capital stock) is then valued at its carrying amount net of the amounts written off, and the difference between the net amount and the par value of the certificate is recognized as capital surplus.

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

Income Tax

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

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

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

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

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Reclassifications

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

3. CHANGES IN ACCOUNTING PRINCIPLES

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

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

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

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

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

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

b. Reclassifications

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

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

1) Short-term investments

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

2) Long-term investments

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

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

3) Derivative financial instruments

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

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

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

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

4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash on hand	$ 2,038	$ 1,046
Checking accounts and demand deposits	286,677	241,729
Time deposits	116,711	16,557
Cash equivalents		
Bonds with repurchase rights	495,000	-
	$900,426	$259,332

5. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

8. INVENTORIES

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

9. FINANCIAL ASSETS CARRIED AT COST

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

10. PROPERTY, PLANT AND EQUIPMENT

	December 31			
	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	$ 157,040	$ -	$ 157,040	$ 157,040
Land - revaluation increment	8,954	-	8,954	8,954
Land improvements	442	343	99	169
Buildings	457,775	156,191	301,584	319,479
Machinery equipment	2,703,090	937,706	1,765,384	1,535,270
Transportation equipment	9,698	4,210	5,488	3,216
Miscellaneous equipment	114,407	63,644	50,763	44,148
Prepayments on purchase of equipment	49,137	-	49,137	46,731
Unfinished construction	242,063	-	242,063	2,416
	$3,742,606	$1,162,094	$2,580,512	$2,117,423

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

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

11. IDLE ASSETS

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

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

Impairment loss was as follows:

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

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

12. SHORT-TERM LOANS

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

See Note 22 for details of pledged assets.

13. BONDS PAYABLE

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

First Domestic Unsecured Convertible Corporate Bonds

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

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

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

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

Second Domestic Unsecured Convertible Corporate Bonds

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

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

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

(c) During the period between one month after issuance and the 10th day before maturity, except for the period between the ex-dividend date and the date of record, holders can request for conversion of the bonds to the Corporation's common stock.

(d) The original conversion price per share is NT$52.00. The conversion price is subject to adjustment based on a certain formula if there are changes in outstanding shares or execution of conversion below market price.

14. LONG-TERM LOANS

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

See Note 22 for collateral on long-term loans.

As of December 31, 2006, the Corporation has issued to various banks promissory notes amounting to $1,875,500 thousand to secure short-term and long-term loans.

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

	Credit Lines	Credit Amount	Credit Period	Interest Rate	Repayment Agreements
First	$300,000	$300,000	Three years after the first drawdown date including additional one year.	2.9611%	Six semiannual installments starting from one year after the first drawdown date.
Second	200,000	50,000	Three years after the first drawdown date.	3.0579%	Lump sum on due date.
	$500,000	$350,000			

15. PENSION PLAN

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

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

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

Information of Pension

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

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

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

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

Actuarial Assumptions

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

Summary of changes in the pension fund is as follows:

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

16. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital is $3,000,000 thousand and $2,600,000 thousand at December 31, 2006 and 2005 ($10.00 par value per share). As of December 31, 2006, the Corporation's outstanding capital stock was $2,056,983 thousand divided into 205,698 thousand shares at $10.00 par value each. Capital stock consists of the following:

Initial cash subscription	$ 3,100
Additional cash subscription	540,080
Stock dividends from earnings	1,109,049
Stock dividends from capital surplus	127,693
Employee stock option	65,840
Convertible bonds	211,221
	$ 2,056,983

Employee Stock Options

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

Information about outstanding stock options for the years ended December 31, 2006 and 2005 was as follows:

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

As of December 31, 2006, information about outstanding and exercisable options was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price (NT$)	Number of Options (In Thousands)	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted Average Exercise Price (NT$)
$17.00~$13.1	-	-	$16.2	-	$13.1
$34.10~$28.9	144	0.25	28.9	144	28.9
$17.60~$14.4	186	0.82	16.4	186	14.4
	330			330	

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

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

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

Capital Surplus

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

Capital

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

Earnings Distribution and Dividend Policy

Based on the Company Law and the Corporation's Articles of Incorporation, from annual net income less any prior years' deficit, 10% should be appropriated as legal reserve. The remaining amount may be fully or partially distributed for dividends, with the stockholders' approval, according to the following percentages:

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

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

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

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

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

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

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

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

The amounts of the above appropriations of earnings for 2005 and 2004 are consistent with the resolutions of the meetings of the Board of Directors. However, the Company Law prescribes that TXC Corporation, as a holder of treasury stock, shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolutions. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged against earnings for 2004 and 2003, the after income tax basic earnings per share for the years ended

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

As of March 5, 2007, the board of directors of TXC Corporation has not resolved the appropriation of 2005 earnings. The information on the earnings appropriation can be accessed online through the Market Observation Post system (MOPS) on the Web site of the Taiwan Stock Exchange (http://emops. tse.com.tw).

17. INCOME TAX

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

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

Income tax expense consisted of the following:

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

Changes of income tax payable:

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

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

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

The Corporation's investment tax credits as of December 31, 2006 for income tax purposes were as follows:

Regulatory Basis of Tax Credits	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 77,341	$ 48,523	2010
	Research and development expenditures	119,890	74,606	2010
	Personnel training	1,721	$ 1,367	2010
		$198,952	$124,496	
Purchase of machinery and equipment	Purchase of machinery and equipment	$ 10,303	$ -	2010

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

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

The TXC Corporation's income tax returns up to 2002 have been examined and approved by the tax authorities.

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

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

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

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

18. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

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

19. EARNINGS PER SHARE

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

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

20. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair values of assets and liabilities were as follows:

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

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

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

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

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

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

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

Fair value of assets and liabilities based on:

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

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

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

Information about financial risks was as follows:

(a) Market risk: The Corporation's market risk refers to the uncertainties due to exchange rate fluctuations. Gains or losses on forward exchange contracts are likely to offset the gains or losses on foreign-currency assets or liabilities. Interest rate risk refers to the risk arising from interest rate fluctuations in the market. The Corporation does not have significant price risk.

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

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

21. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

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

Major transactions with related parties were summarized below:

Sales

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

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

Other Expenses

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

Receivable from and Payable to Related Parties

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

22. PLEDGED ASSETS

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

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

23. COMMITMENT AND CONTINGENCIES

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

Unit: In Thousands

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

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

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

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

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

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

Segment Information

No segment information.

Geographic Area Information

	China and Others	Taiwan	Adjustments and Elimination	Consolidated
2006				
Sales to other than consolidated entities	$ 400,730	$ 4,805,474	$ -	$ 5,206,204
Sales among consolidated entities	1,336,789	34,219	(1,371,008)	-
Total sales	$ 1,737,519	$ 4,839,693	$ (1,371,008)	$ 5,206,204
Operating income	$ 151,266	$ 845,335	$ (449)	$ 996,152
Non-operating income and gains				147,995
Non-operating expenses and losses				(184,280)
Income before income tax				$ 959,867
Identifiable assets	$ 1,630,910	$ 5,100,615	$ (288,408)	6,443,117
Long-term investments				3,000
Total assets				$ 6,446,117
2005				
Sales to other than consolidated entities	$ 330,842	$ 3,399,339	$ -	$ 3,730,181
Sales among consolidated entities	866,638	39,396	(906,034)	-
Total sales	$ 1,197,480	$ 3,438,735	$ (906,034)	$ 3,730,181
Operating income	$ 56,231	$ 513,557	$ (689)	$ 569,102
Non-operating income and gains				140,881
Non-operating expenses and losses				(179,893)
Income before income tax				$ 530,090
Identifiable assets	$ 1,515,392	$ 3,582,465	$ (349,852)	4,748,005
Long-term investments				3,000
Total assets				$ 4,751,005

Export Sales

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

Major Customer Information

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

25. ADDITIONAL DISCLOSURES

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

a. Financing provided: None.

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

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

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

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

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

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

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

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

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

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

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

TABLE 1

TXC CORPORATION AND SUBSIDIARIES

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

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

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

TABLE 2

TXC CORPORATION AND SUBSIDIARIES

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

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

(Continued)

TXC CORPORATION AND SUBSIDIARIES

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

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

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

TABLE 4

TXC CORPORATION AND SUBSIDIARIES

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

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

TABLE 5

TXC CORPORATION AND SUBSIDIARIES

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

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

TABLE 6

Derivative Transactions

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

Outstanding forward contracts as of December 31, 2006:

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

TXC CORPORATION AND SUBSIDIARIES

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

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

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

2. The limitation on investment:

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

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

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

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

TABLE 8

TXC CORPORATION AND SUBSIDIARIES

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

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

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

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