TXC Corporation

Financial Statements for the Six Months Ended June 30, 2006 and 2005 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying balance sheets of TXC Corporation (the "Corporation") as of June 30, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These 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 financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months 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 financial statements, the Corporation 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 financial statements, on January 1, 2006, the Corporation 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.

We have also reviewed the consolidated financial statements of TXC Corporation and subsidiaries as of and for the six months ended June 30, 2006 and 2005 on which we have issued a report dated August 18, 2006.

August 18, 2006

Notice to Readers

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

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

TXC CORPORATION

BALANCE SHEETS
JUNE 30, 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)	$ 259,310	5	$ 234,824	6
Available-for-sale financial assets	110,419	2	60,000	2
Notes receivable, net (Notes 2 and 6)	151,014	3	69,388	2
Accounts receivable, net (Notes 2, 6 and 21)	1,241,716	25	1,001,301	25
Inventories, net (Notes 2 and 7)	658,889	13	569,770	14
Other current assets	90,363	2	58,357	2
Total current assets	2,511,711	50	1,993,640	51
LONG-TERM INVESTMENTS (Notes 2 and 8)				
Investments accounted for using equity method (Note 10)	963,768	20	660,922	17
Financial assets carried at cost (Note 9)	3,000	-	3,000	-
Total long-term investments	966,768	20	663,922	17
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 22)				
Cost				
Land	157,040	3	157,040	4
Land improvements	442	-	377	-
Buildings	274,768	6	265,930	7
Machinery and equipment	1,621,887	32	1,354,450	35
Transportation equipment	2,557	-	2,557	-
Miscellaneous equipment	74,870	2	55,300	1
Land - revaluation increment	8,954	-	8,954	-
	2,140,518	43	1,844,608	47
Less accumulated depreciation	(804,887)	(16)	(651,437)	(17)
Unfinished construction and prepayments for purchase of equipment	79,759	1	2,213	-
Property, plant and equipment, net	1,415,390	28	1,195,384	30
INTANGIBLE ASSETS				
Pension prepayment (Notes 2 and 13)	7,947	-	7,160	-
OTHER ASSETS				
Idle assets	3,549	-	5,171	-
Refundable deposits	1,869	-	1,286	-
Deferred charges, net	9,482	-	9,891	-
Deferred income tax assets	82,935	2	58,401	2
Total other assets	97,835	2	74,749	2
TOTAL	$ 4,999,651	100	$ 3,934,855	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 Amount	2006 %	2005 Amount	2005 %
CURRENT LIABILITIES				
Short-term loans (Note 11)	$ 284,590	6	$ 175,946	4
Notes payable	46,656	1	45,252	1
Accounts payable to third parties (Note 21)	427,330	8	431,657	11
Accounts payable to related parties	204,588	4	82,266	2
Accrued expenses	97,964	2	84,837	2
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	34	-	3,581	-
Dividend payable	188,909	4	82,405	2
Current portion of long-term loans (Note 14)	135,000	3	73,564	2
Other current liabilities	48,504	1	24,981	1
Total current liabilities	1,433,575	29	1,004,489	25
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss	18,375	1	-	-
Bonds payable (Note 13)	2,634	-	166,913	4
Long-term loans, net of current portion (Note 14)	367,500	7	251,000	7
Total long-term liabilities	388,509	8	417,913	11
OTHER LIABILITIES				
Land value increment tax reserve	3,512	-	3,512	-
Deferred credits	1,047	-	426	-
Total other liabilities	4,559	-	3,938	-
Total liabilities	1,826,643	37	1,426,340	36
STOCKHOLDERS' EQUITY				
Capital stock (Note 16)				
Common stock, $10 par value; Authorized - 260,000 thousand shares in 2006 and 2005; Issued - 188,943 thousand shares in 2006 and 168,068 thousand shares in 2005	1,889,426	38	1,680,681	43
Stock dividend to be distributed	147,692	3	101,132	2
Capital surplus				
Additional paid-in capital	290,248	6	290,248	7
Employee stock option	31,504	-	19,323	1
Convertible bonds	187,794	4	116,016	3
Retained earnings (Note 16)				
Legal reserve	153,821	3	105,774	3
Special reserve	-	-	34,087	1
Unappropriated earnings	460,376	9	194,610	5
Cumulative translation adjustments (Note 2)	6,286	-	(38,798)	(1)
Unrealized gains on financial instruments	419	-	-	-
Asset revaluation reserve	5,442	-	5,442	-
Total stockholders' equity	3,173,008	63	2,508,515	64
TOTAL	$ 4,999,651	100	$ 3,934,855	100

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

(With Deloitte & Touche audit report dated August 18, 2006)

TXC CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$2,214,848	100	$1,575,899	100
LESS SALES DISCOUNTS AND RETURNS	(26,139)	(1)	(17,499)	(1)
NET OPERATING REVENUE	2,188,709	99	1,558,400	99
COST OF SALES	1,654,737	75	1,180,355	75
GROSS PROFIT	533,972	24	378,045	24
UNREALIZED GAIN ON TRANSACTIONS WITH INVESTEES	(1,047)	-	(426)	-
REALIZED GAIN ON TRANSACTIONS WITH INVESTEES	689	-	-	-
REALIZED GROSS PROFIT	533,614	24	377,619	24
OPERATING EXPENSES				
Sales and marketing	92,851	4	64,860	4
General and administration	52,937	2	48,024	3
Research and development	55,631	3	59,831	4
Total operating expenses	201,419	9	172,715	11
OPERATING INCOME	332,195	15	204,904	13
NONOPERATING INCOME AND GAINS				
Interest income	1,041	-	783	-
Investment income accounted for by the equity method, net	43,480	2	25,645	2
Gain on disposal of assets	-	-	4	-
Gain on disposal of investments	368	-	115	-
Foreign exchange gains	40,498	2	46,564	3
Valuation gain on financial instruments	4,614	-	-	-
Other	20,142	1	13,424	1
Total nonoperating income and gains	110,143	5	86,535	6
NONOPERATING EXPENSES AND LOSSES				
Interest expense	10,517	-	6,689	-
Loss on disposal of assets	889	-	624	-
Loss on physical inventories	592	-	70	-

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
Foreign exchange losses	47,190	2	30,276	2
Loss on decline in value of inventories	11,891	1	12,520	1
Impairment loss	-	-	10,063	1
Valuation loss on financial instruments	-	-	3,581	-
Other	972	-	1,728	-
Total nonoperating expenses and losses	72,051	3	65,551	4
INCOME BEFORE INCOME TAX	370,287	17	225,888	15
INCOME TAX EXPENSE (Notes 2 and 17)	(29,123)	(1)	(44,719)	(3)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	341,164	16	181,169	12
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT$5,756 THOUSAND	(17,267)	(1)	-	-
NET INCOME	$ 323,897	15	$ 181,169	12

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 19)				
Basic	$ 1.85	$ 1.72	$ 1.27	$ 1.02
Diluted	$ 1.83	$ 1.70	$ 1.21	$ 0.97

(Concluded)

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

(With Deloitte & Touche audit report dated August 18, 2006)

TXC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

				Retained Earnings			Others			
	Capital Stock	Stock Dividends	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gains on Financial Instruments	Asset Revaluation Reserve	Total
BALANCE, JANUARY 1, 2006	$ 1,861,987	$ -	$ 491,400	$ 105,774	$ 34,087	$ 493,909	$ 8,696	$ -	$ 5,442	$ 3,001,295
Effect of adopting the newly released Statement of Financial Accounting Standards No. 34	-	-	-	-	-	(17,267)	-	-	-	(17,267)
Appropriation of 2005 earnings										
Legal reserve	-	-	-	48,047	-	(48,047)	-	-	-	-
Special reserve	-	-	-	-	(34,087)	34,087	-	-	-	-
Stock dividends	-	113,345	-	-	-	(113,345)	-	-	-	-
Cash dividends	-	-	-	-	-	(188,909)	-	-	-	(188,909)
Transfer of bonuses to employees to capital stock	-	34,347	-	-	-	(34,347)	-	-	-	-
Directors and supervisors remuneration	-	-	-	-	-	(6,869)	-	-	-	(6,869)
Convertible bonds for conversion to common stock	9,719	-	7,581	-	-	-	-	-	-	17,300
Employee stock option be converted to common stock	17,720	-	10,565	-	-	-	-	-	-	28,285
Net income for the six months ended June 30, 2006	-	-	-	-	-	341,164	-	-	-	341,164
Unrealized gains on available-for-sale financial assets	-	-	-	-	-	-	-	419	-	419
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(2,410)	-	-	(2,410)
BALANCE, JUNE 30, 2006	$ 1,889,426	$ 147,692	$ 509,546	$ 153,821	$ -	$ 460,376	$ 6,286	$ 419	$ 5,442	$ 3,173,008
BALANCE, JANUARY 1, 2005	$ 1,607,847	$ -	$ 363,804	$ 79,959	$ 409	$ 260,217	$ (34,087)	$ -	$ 5,442	$ 2,283,591
Appropriation of 2004 earnings										
Legal reserve	-	-	-	25,815	-	(25,815)	-	-	-	-
Special reserve	-	-	-	-	33,678	(33,678)	-	-	-	-
Stock dividends	-	82,404	-	-	-	(82,404)	-	-	-	-
Cash dividends	-	-	-	-	-	(82,405)	-	-	-	(82,405)
Transfer of bonuses to employees to capital stock	-	18,728	-	-	-	(18,728)	-	-	-	-
Directors and supervisors remuneration	-	-	-	-	-	(3,746)	-	-	-	(3,746)
Convertible bonds for conversion to common stock	56,084	-	49,916	-	-	-	-	-	-	106,000
Employee stock option be converted to common stock	16,750	-	11,867	-	-	-	-	-	-	28,617
Net income for the six months ended June 30, 2005	-	-	-	-	-	181,169	-	-	-	181,169
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(4,711)	-	-	(4,711)
BALANCE, JUNE 30, 2005	$ 1,680,681	$ 101,132	$ 425,587	$ 105,774	$ 34,087	$ 194,610	$ (38,798)	$ -	$ 5,442	$ 2,508,515

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

(With Deloitte & Touche audit report dated August 18, 2006)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 323,897	$ 181,169
Cumulative effect of changes in accounting principles	17,267	-
Net income before cumulative effect of changes in accounting principles	341,164	181,169
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	121,540	99,565
Nonoperating loss - idle assets	972	1,728
Amortization	19,906	14,365
Bad-debt expense (gain on receivables)	2,624	(375)
Loss on decline in value of inventories	11,891	12,520
Loss on physical inventories	592	70
Gain on disposal of investments	(368)	(115)
Investment income accounted for by the equity method, net	(43,480)	(25,645)
Loss on disposal of assets	889	620
Unrealized gain on financial instruments, net	(4,614)	3,581
Impairment loss	-	10,063
Unrealized gain on transactions with investees	1,047	426
Realized gain on transactions with investees	(689)	-
Accrued interest compensation	(565)	1,095
Deferred income tax	(8,767)	24,189
Net changes in operating assets and liabilities		
Notes receivable	(66,015)	(35,215)
Accounts receivable	(55,036)	61,113
Inventories	(83,738)	(37,505)
Other current assets	(5,631)	8,493
Prepaid pension cost	-	237
Notes payable	(5,766)	17,504
Accounts payable	75,650	129,668
Accrued expenses	(30,580)	3,763
Other current liabilities	1,525	(14,924)
Net cash provided by operating activities	272,551	456,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(220,000)	(120,000)
Proceeds from sale of available-for-sale financial assets	170,368	60,115
Acquisition of long-term equity investments	(59,893)	(61,800)
Acquisition of property, plant and equipment	(273,280)	(101,708)
Proceeds from sale of property, plant and equipment	600	3,970
Decrease in refundable deposits paid	461	490
Increase in deferred assets	(24,650)	(15,355)
Net cash used in investing activities	(406,394)	(234,288)

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	**2005**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$ 119,382	$(202,050)
Increase (decrease) in long-term loans	32,500	(18,563)
Proceeds from the exercise of employee stock option	28,285	28,617
Net cash provided by (used in) financing activities	180,167	(191,996)
NET INCREASE IN CASH AND CASH EQUIVALENTS	46,324	30,106
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	212,986	204,718
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 259,310	$ 234,824
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	$ 10,321	$ 6,915
Income tax	$ 31,653	$ 30,693
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ 135,000	$ 73,564
Declaration of cash dividends from earnings	$ 188,909	$ 82,405
Convertible bonds	$ 17,300	$ 106,000
Acquisition of long-term equity investments through payment in the form of machinery	$ 9,723	$ 63,792

(Concluded)

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

(With Deloitte & Touche audit report dated August 18, 2006)

1. ORGANIZATION AND OPERATIONS

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

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

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

As of June 30, 2006 and 2005, the Corporation had 794 and 630 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In 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, pension. 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 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 and 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 Corporation's significant accounting policies are summarized as follows:

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 held for trading and those 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. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value with fair value changes recognized in profit or loss. A regular way purchase or sale of financial investments 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 initially 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 initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' 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 assets 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 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.

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.

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 re-calculated 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 investees are accounted for by the equity method.

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

Gains or losses on sales from investees to the Corporation are deferred in proportion to the Corporation's ownership percentages 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; buildings - 5 to 60 years; machinery and equipment - 3 to 9 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.

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, 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.

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 six months ended June 30, 2005 have been reclassified to be consistent with the presentation of the financial statements for the six months ended June 30, 2006.

3. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2006, the Corporation adopted the newly released Statements 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$0.09 dollar, for the six months ended June 30, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform with the financial statements as of and for the six months ended June 30, 2006. The previously issued financial statements as of and for the six months ended June 30, 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 six months ended June 30, 2005 have been reclassified to conform to the 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	-
Other current liabilities	3,581	-
Available-for-sale financial assets	-	60,000
Financial assets carried at cost	-	3,000
Financial liabilities at fair value through profit or loss, current	-	3,581
	$ 66,581	$ 66,581
Statement of income		
Foreign exchange loss	$ 3,581	$ -
Valuation loss on financial instruments	-	3,581
	$ 3,581	$ 3,581

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 investment accounted for using equity method decreased by $2,139 thousand and idle assets decreased by $10,063 thousand. The investment loss accounted for by the equity method was $2,139 thousand and impairment loss was $10,063 thousand for the six months ended June 30, 2005.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2006	2005
Cash on hand	$ 969	$ 565
Checking accounts and demand deposits	116,072	234,259
Time deposits	42,119	-
Cash equivalents		
Government bond and bank debentures	100,150	-
	$259,310	$234,824

5. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30	
	2006	2005
Derivatives - financial liabilities		
Forward contracts	$ 34	$ -

	June 30	
	2006	2005
Interest rate swap contracts	$ 18,375	$ -
Currency option	$ -	$ 3,581

The Corporation entered into derivative transactions during the six months ended June 30, 2006 and 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations.

Outstanding forward contracts as of June 30, 2006 and 2005:

	Currency	Maturity	Contract Amount (In Thousands)
June 30, 2006			
Sell	USD/NTD	July 28, 2006	US$250/NT$8,142
Sell	USD/JPY	July 3, 2006	US$250/JP¥28,075
Sell	USD/JPY	July 3, 2006	US$250/JP¥28,048
Sell	USD/JPY	July 4, 2006	US$250/JP¥28,843
Sell	USD/JPY	July 3, 2006	US$250/JP¥28,773
Sell	USD/JPY	July 12, 2006	US$250/JP¥28,750
Sell	USD/JPY	July 21, 2006	US$250/JP¥28,843
Sell	USD/JPY	July 31, 2006	US$250/JP¥28,928
June 30, 2005			
Sell	USD/JPY	August 12, 2005	US$250/JP¥27,253
Sell	USD/JPY	August 31, 2005	US$250/JP¥27,325
Sell	USD/JPY	September 13, 2005	US$250/JP¥27,450

Outstanding Interest rate swap contracts as of June 30, 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 and losses arising from derivative financial instruments for the six months ended June 30, 2006 and 2005 were $4,614 thousand and $3,581 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30	
	2006	2005
Mutual funds	$110,419	$ 60,000

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	June 30	
	2006	2005
Notes receivable, third parties	$ 151,773	$ 69,736
Notes receivable, related parties	-	-
	151,773	69,736
Less allowance for doubtful accounts	(759)	(348)
	$ 151,014	$ 69,388
Accounts receivable, third parties	$ 1,235,917	$ 992,024
Accounts receivable, related parties	17,426	16,490
Overdue receivable	-	1,707
	1,253,343	1,010,221
Less allowance for doubtful accounts	(11,627)	(8,920)
	$ 1,241,716	$ 1,001,301

8. INVENTORIES

	June 30	
	2006	2005
Raw materials	$ 127,094	$ 106,762
Supplies and spare parts	10,153	9,943
Work in-process	108,186	109,050
Finished goods	206,849	155,094
Merchandise	199,269	180,953
Merchandise in transit	26,594	20,417
	678,145	582,219
Less allowance for loss on decline in market value and obsolescence	(19,256)	(12,449)
	$ 658,889	$ 569,770

Inventory insurance as of June 30, 2006 and 2005 amounted to $400,000 thousand and $450,000 thousand, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	June 30	
	2006	2005
Non-publicly traded stocks	$ 3,000	$ 3,000

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investee	June 30 2006 Carrying Value	June 30 2006 Ownership Percentage	June 30 2005 Carrying Value	June 30 2005 Ownership Percentage
Taiwan Crystal Technology International Ltd. (TCTI)	$958,484	100	$657,799	100
TXC Technology Inc.	2,800	100	3,123	100
TXC Japan Corporation	2,484	100	-	-
	$963,768		$660,922	

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

Equity in earnings (loss) of the equity-method investees for the six months ended June 30, 2006 and 2005 was as follows:

	Equity in Investees' Gain (Loss) 2006	Equity in Investees' Gain (Loss) 2005	Original Cost 2006
TCTI	$45,313	$24,122	US$ 25,162
TXC Technology Inc.	(2,217)	1,523	US$ 300
TXC Japan Corporation	384	-	JP¥ 10,000
	$43,480	$25,645	

The financial statements used as basis for calculating the above equity-method investments had all been audited, except TXC Technology Inc. and TXC Japan Corporation.

11. PROPERTY, PLANT AND EQUIPMENT

	June 30 2006 Cost	June 30 2006 Accumulated Depreciation	June 30 2006 Carrying Value	June 30 2005 Carrying Value
Land	$ 157,040	$ -	$ 157,040	$ 157,040
Land - revaluation increment	8,954	-	8,954	8,954
Land improvements	442	308	134	135
Buildings	274,768	123,232	151,536	160,903
Machinery and equipment	1,621,887	636,771	985,116	839,487
Transportation equipment	2,557	1,515	1,042	1,723
Miscellaneous equipment	74,870	43,061	31,809	24,929
Unfinished construction and prepayments on purchase of equipment	79,759	-	79,759	2,213
	$2,220,277	$ 804,887	$1,415,390	$1,195,384

See Note 23 for the details on property, plant and equipment pledged as collaterals.

Property, plant and equipment insurance as of June 30, 2006 and 2005 amounted to $717,600 thousand and $609,200 thousand, respectively. No interest for the six months ended June 30, 2006 and 2005 was capitalized.

12. IDLE ASSETS

	June 30, 2006		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	6,944	5,648	1,296
Machinery and equipment	3,039	3,039	-
	$12,236	$ 8,687	$ 3,549

	June 30, 2006		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	7,371	4,874	2,497
Machinery and equipment	5,600	5,179	421
Other equipment	10	10	-
	$15,234	$10,063	$ 5,171

Impairment loss was as follows:

	June 30, 2005	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Buildings	$ 4,874	$ -
Machinery and equipment	5,179	-
Other equipment	10	-
	$10,063	$ -

13. SHORT-TERM LOANS

	June 30			
	2006		2005	
	Amount	Interest Rate %	Amount	Interest Rate %
Material procurements loans	$214,590	0.72~1.485	$155,946	0.77~1.50
Unsecured bank loans	70,000	1.745~1.98	20,000	1.68
	$284,590		$175,946	

See Note 23 for details of pledged assets.

14. BONDS PAYABLE

	June 30	
	2006	2005
First domestic unsecured convertible corporate bonds	$ 2,500	$161,800
Add accrued interest compensation	134	5,113
	$ 2,634	$166,913

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

(b) During the period between after three months of 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.

(c) The original conversion price per share is NT$20. The conversion price is subject to adjustment based on a certain formula if there are changes in outstanding shares execution of conversion below market price.

15. LONG-TERM LOANS

		June 30	
Nature of Loans	**Repayment Period**	**2006**	**2005**
Secured bank loans	Repayable in quarterly installments; maturing on September 9, 2008	$ -	$ 81,000
Unsecured bank loans	Repayable in quarterly installments; maturing on February 2, 2007	-	80,000
Unsecured bank loans	Repayable 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	-	3,564
Chinatrust's loan		302,500	160,000
		502,500	324,564
Less current portion		(135,000)	(73,564)
		$367,500	$251,000
Interest rate (%)		2.15~ 2.9211	0~2.75

See Note 23 for collateral on long-term loans.

As of June 30, 2006, the Corporation had issued to various banks promissory notes amounting to $1,875,500 thousand to secure short-term loans 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
$300,000	$202,500	Three years after the first drawdown date including additional one year.	2.8358~ 2.9211	Six semiannual installments starting from one year after the first drawdown date.
200,000	100,000	Three years after the first drawdown date.	2.8716~ 2.9074	Lump sum on due date.
$500,000	$302,500			

16. PENSION PLANS

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 $6,093 thousand for the six months ended June 30, 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.

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

a. Changes in pension fund

	June 30	
	2006	2005
Balance, beginning of period	$ 50,429	$ 46,926
Contribution	2,134	2,531
Interest	373	-
Balance, end of period	$ 52,936	$ 49,457

b. Changes in accrued pension cost

	June 30	
	2006	2005
Balance, beginning of period	$ (7,947)	$ (7,396)
Pension cost	2,134	2,767
Contribution	(2,134)	(2,531)
Balance, end of period	$ (7,947)	$ (7,160)

17. CAPITAL STOCK

The Corporation's authorized capital is $2,600,000 thousand (NT$10 dollar par value). As of June 30, 2006, the Corporation's paid-in capital was $1,889,426 thousand divided into 188,943 thousand shares at NT$10 dollar par value. Capital stock consisted 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 options	47,490
Convertible bonds	209,706
	$ 1,889,426

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 six months ended June 30, 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	$ 17.00	7,935	$ 17.00
Current issuance	-	-	-	-
Current exercise	(1,772)	15.96	(1,675)	17.00
Current cancel	-	-	-	-
Outstanding, ending	2,357		6,260	
Exercisable options, ending	1,357		6,260	

As of June 30, 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~$15.20	93	0.33	$16.20	93	$15.20
$34.10~$32.20	1,214	0.75	-	1,214	32.20
$17.60~$16.60	1,050	1.33	17.10	50	16.60
	2,357			1,357	

No compensation cost was recognized under intrinsic value method for the six months ended June 30, 2006 and 2005. The assumptions and pro forma results of the Corporation for the six months ended June 30, 2006 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	$ 328,897
Pro forma net income	$ 313,417
Earnings per share (EPS) - after income tax (in dollars)	
Basic EPS as reported	$ 1.72
Pro forma basic EPS	$ 1.66
Diluted EPS as reported	$ 1.70
Pro forma diluted EPS	$ 1.65

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.

Earnings Distribution and Dividend Policy

Based on the Corporation 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 retained and partially distributed for dividends, with the stockholders' approval, according to the following percentages.

(a) Employee bonus - 3%-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 earnings for 2005 and 2004 were approved in the stockholders' meeting held 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	82,405	1.00	0.50
Stock dividends	113,345	82,404	0.60	0.50
Employees' bonus - stock	34,347	18,728	-	-
Remuneration to directors and supervisors - cash	6,869	3,746	-	-

The Board of Directors set August 9, 2006 as the ex-dividend date.

Unrealized Gains on Financial Instruments

Summary of changes in the unrealized gains on financial instruments is as follows:

	Six Months Ended June 30, 2006
Available-for-sale financial assets recognized as a separate component of stockholders' equity	$ 419

18. INCOME TAX

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

	Six Months Ended June 30	
	2006	**2005**
Tax on pretax income at 25% statutory rate	$ 92,562	$ 56,462
Add (deduct) tax effects of		
Permanent differences	(12,318)	(17)
Temporary differences	1,492	(10,591)
Tax-exempt income	(17,507)	(4,794)
Income tax (10%) on undistributed earnings	8,895	-
Investment tax credit	(36,562)	(20,530)
Current tax expense	$ 36,562	$ 20,530

Income tax expense consisted of the following:

	Six Months Ended June 30	
	2006	**2005**
Current tax expense	$ 36,562	$ 20,530
Prior year's adjustment	1,328	-
Deferred tax benefits		
Temporary difference	(1,491)	(10,591)
Investment tax credits	(7,276)	34,780
Income tax expense	$ 29,123	$ 44,719

A change of income tax payable:

	June 30	
	2006	**2005**
Balance, beginning of period	$ 30,437	$ 30,856
Accrued income tax this year	36,562	20,530
Current payment	(31,653)	(30,693)
Adjustment of prior years' tax expense	1,216	-
Balance, end of period	$ 36,562	$ 20,693

Deferred income tax assets and liabilities as of June 30, 2006 and 2005 were as follows:

	June 30	
	2006	**2005**
Deferred income tax assets, current		
Investment tax credit	$ 32,524	$ 23,183
Loss on decline in value of inventories	4,998	3,296
Unrealized foreign exchange loss	511	895
Allowance for doubtful accounts	-	894
Impairment loss	-	2,516
Unrealized valuation loss on financial instruments	4,602	-
Others	1,529	325

	June 30	
	2006	2005
	44,164	31,109
Deferred income tax liabilities, current		
Unrealized foreign exchange gain	(1,550)	(3,683)
Net deferred income tax assets, current	$ 42,614	$ 27,426
Deferred income tax assets, noncurrent		
Investment tax credit	$ 97,572	$ 69,550
Impairment loss	2,172	-
Others	331	465
	100,075	70,015
Deferred income tax liabilities, noncurrent		
Investment income	(17,140)	(11,614)
Net deferred income tax assets, noncurrent	$ 82,935	$ 58,401

The Corporation's investment tax credits as of June 30, 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	$ 70,115	$ 52,860	2010
	Research and development expenditures	95,235	76,283	2010
	Personnel training	1,308	953	2010
		$166,658	$130,096	

The sales generated from the following expansion and construction of 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 Corporation's income tax returns through 2000 had 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:

	June 30	
	2006	2005
Balance of ICA	$ 48,255	$ 32,225

	2005 (Estimate)	2004 (Actual)
Estimated imputation	10.88%	12.38%

	June 30 2006	2005
Undistributed earnings		
Until 1997	$ -	$ -
From 1998 and thereafter	460,376	194,610
	$460,376	$194,610

19. LABOR COST, DEPRECIATION AND AMORTIZATION

Function / Expense Item	Six Months Ended June 30 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	121,510	63,132	184,642	105,480	56,237	161,717
Labor and health insurance	7,759	4,225	11,984	6,446	3,609	10,055
Pension	5,111	3,116	8,227	1,675	1,092	2,767
Meal	5,420	1,884	7,304	4,618	1,649	6,267
Welfare	2,217	988	3,205	1,766	627	2,393
Others	-	-	-	-	-	-
Depreciation	99,749	21,791	121,540	81,342	18,223	99,565
Amortization	3,560	16,346	19,906	562	13,803	14,365

20. EARNINGS PER SHARE

	Six Months Ended June 30 2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (dollars)				
Income from continuing operations	$ 197	$ 1.81	$ 1.27	$ 1.02
Cumulative effect of changes in accounting principle	(0.12)	(0.09)	-	-
Net income	$ 1.85	$ 1.72	$ 1.27	$ 1.02
Retroactive adjustment for stock dividends after balance sheet date	$ 1.71	$ 1.59	$ 1.17	$ 0.94
Diluted earnings per share (dollars)				
Income from continuing operations	$ 1.95	$ 1.79	$ 1.21	$ 0.97
Cumulative effect of changes in accounting principle	(0.12)	(0.09)	-	-
Net income	$ 1.83	$ 1.70	$ 1.21	$ 0.97
Retroactive adjustment for stock dividends after balance sheet date	$ 1.70	$ 1.58	$ 1.12	$ 0.90

	Six Months Ended June 30									
	2006					2005				
	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	$ 347,264	$ 323,897				$ 225,888	$ 181,169			
Basic income per share	$ 347,264	$ 323,897	188,366	$ 1.85	$ 1.72	$ 225,888	$ 181,169	178,174	$ 1.27	$ 1.02
Convertible bonds	122	84	398			5,846	4,385	12,995		
Employee stock option	-	-	1,265			-	-	572		
Net Diluted income per share	$ 347,376	$ 323,981	190,029	$ 1.83	$ 1.70	$ 231,734	$ 185,554	191,741	$ 1.21	$ 0.97

21. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair values of assets and liabilities were as follows:

	June 30			
	2006		2005	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 259,310	$ 259,310	$ 234,824	$ 234,824
Available-for-sale financial assets, current	110,419	110,419	60,000	60,000
Notes and accounts receivable, net	1,392,730	1,392,730	1,070,689	1,070,689
Investments accounted for using equity method	963,768	963,768	660,922	660,922
Financial assets carried at cost	3,000	3,000	3,000	3,000
Liabilities				
Short-term loans	284,590	284,590	175,946	175,946
Notes and accounts payable	678,574	678,574	559,175	559,175
Accrued expense	97,964	97,964	84,837	84,837
Bonds payable	2,634	2,634	166,913	166,913
Long-term loans (including current portion	502,500	502,500	324,564	324,564
Derivative financial instruments				
Interest rate swap contract				
Taiwan	$ (18,375)	$ (18,375)	$ (3,581)	$ (3,581)
Forward contract				
Taiwan	(133)	(133)	-	-
Foreign country	99	99	-	-

Methods and assumptions used in the determination of fair values of 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 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	
	June 30		June 30	
	2006	2005	2006	2005
Assets				
Cash and cash equivalents	$ -	$ -	$ 259,310	$ 234,824
Notes and accounts receivable, net	-	-	1,392,730	1,070,689
Available-for-sale financial assets, current	110,419	60,000	-	-
Investments accounted for using equity method	-	-	963,768	660,922
Financial assets carried at cost	-	-	3,000	3,000
Liabilities				
Short-term loans	-	-	284,590	175,946
Notes and accounts payable	-	-	678,574	559,175
Accrued expenses	-	-	97,964	84,837
Financial liabilities at fair value through profit or loss, current	-	-	34	3,581
Bonds payable	-	-	2,634	166,913
Long-term loans (including current portion	-	-	502,500	324,564
Financial liabilities at fair value through profit of loss, noncurrent	-	-	18,375	-

Gain recognized for the changes in fair value of derivatives estimated using valuation techniques were $4,614 thousand for the six months ended June 30, 2006.

As of June 30, 2006, financial liabilities exposed to cash flow interest rate risk were $18,375 thousand.

The Corporation recognized an unrealized loss of $419 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006.

Information about financial risks is 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 swap contract 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.

22. RELATED-PARTY TRANSACTIONS

The related parties are as follows:

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

Major transactions with related parties are summarized below:

Purchases of Inventory and Processing Costs

	Six Months Ended June 30			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$344,276	25	$172,397	19

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

Sales

	Six Months Ended June 30			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
GPT	$ 19,290	1	$ 13,345	1
Tai-Shing	11,242	-	9,887	1
TXC Technology Inc.	21	-	43	-
TXC Japan Corporation	11	-	-	-
	$ 30,564	1	$ 23,275	2

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

Consulting Fee

	Six Months Ended June 30			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
TXC Technology Inc.	$ 14,586	46	$ 13,445	70
GPT	8,718	28	5,660	30
TXC Japan Corporation	8,312	26	-	-
	$ 31,616	100	$ 19,105	100

Other Expense

	Six Months Ended June 30			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 3,821	22	$ 2,719	20

Receivables and Payables

		June 30			
		2006		2005	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Accounts receivable	GPT	$ 9,746	1	$ 10,284	1
	Tai-Shing	7,671	-	6,183	1
	TXC Japan Corporation	9	-	23	-
		$ 17,426	1	$ 16,490	2
Notes payable	Tai-Shing	$ 1,664	4	$ 816	2
Accounts payable	GPT	$203,999	32	$ 81,857	18
	Tai-Shing	503	-	409	-
	TXC Japan Corporation	86	-	-	-
		$204,588	32	$ 82,266	18
Accrued expenses	TXC Japan Corporation	$ 144	-	$ -	-
	Tai-Shing	5	-	6	-
	GPT	-	-	1,937	-
		$ 149	-	$ 1,943	-

In the six months ended June 30, 2005, the Corporation sold to NGB (through GPT) its machinery and computer, with a net book value of $101 thousand, for $105 thousand, and gain of $4 thousand.

In the six months ended June 30, 2006 and 2005, the Corporation invested machinery of $9,723 thousand and $63,792 thousand in NGB through TCTI.

23. PLEDGED ASSETS

As of June 30, 2006 and 2005, the following assets had been pledged at their book values to secure short-term loans, long-term loans and commercial paper issued:

	2006	2005
Property, plant and equipment		
Land	$165,994	$165,994
Buildings, net	77,888	80,269
Machinery and equipment, net	393,812	390,449
	$637,694	$636,712

24. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of June 30, 2006, which were not shown in the financial statements, were as follows:

a.

Commitment	Contract Price	Paid Up	Not Yet Paid
Construction contracts	$135,000	$ 40,232	$ 94,768

b. Guarantee for short-term loan and long-term loan, please refer to Note 15. Guarantee for customs tax amount to about $15,000 thousand.

c. Unused letters of credit of about JP¥ 503,121thousand.

d. As of June 30, 2006, the Corporation's guarantee for NGB's loans amounted to $97,365.