TXC Corporation and Subsidiaries

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

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
TXC Corporation

We have reviewed the accompanying consolidated balance sheets of TXC Corporation and subsidiaries (collectively, the "Corporation") as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

As discussed in Note 3 to the 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.

August 18, 2006

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

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

For the convenience of readers, the accountants' review 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 accountants' review report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amount)
(Reviewed, Not Audited)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 311,146	6	$ 285,780	7
Available-for-sale financial assets (Notes 2, 3 and 6)	110,419	2	60,000	1
Notes receivable, net (Notes 2 and 7)	151,014	3	75,638	2
Accounts receivable, net (Notes 2, 7 and 21)	1,334,797	25	1,092,095	26
Inventories, net (Notes 2 and 8)	794,254	15	669,290	16
Other current assets (Notes 2 and 17)	130,645	3	81,086	2
Total current assets	2,832,275	54	2,263,889	54
LONG-TERM INVESTMENTS (Notes 2 and 9)				
Financial assets carried at cost (Note 9)	3,000	-	3,000	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 22)				
Cost				
Land	157,040	3	157,040	4
Land improvements	442	-	377	-
Buildings	449,742	8	412,576	10
Machinery and equipment	2,447,447	47	1,935,382	46
Transportation equipment	7,780	-	6,033	-
Miscellaneous equipment	100,058	2	74,861	2
Land - revaluation increment	8,954	-	8,954	-
	3,171,463	60	2,595,223	62
Less accumulated depreciation	(975,005)	(18)	(750,286)	(18)
Less accumulated impairment	-	-	(2,139)	-
Unfinished construction and prepayments for purchase of equipment	87,184	2	5,758	-
Property, plant and equipment, net	2,283,642	44	1,848,556	44
INTANGIBLE ASSETS				
Pension prepayment (Notes 2 and 15)	7,947	-	7,160	-
Land right	15,499	-	14,844	-
Total intangible assets	23,446	-	22,004	-
OTHER ASSETS				
Idle assets (Notes 2, 3 and 11)	3,549	-	5,171	-
Refundable deposits	1,921	-	1,336	-
Deferred charges, net	19,457	-	14,281	-
Deferred income tax assets (Notes 2 and 17)	82,935	2	58,401	2
Total other assets	107,862	2	79,189	2
TOTAL	$ 5,250,225	100	$ 4,216,638	100

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Note 12)	$ 428,853	8	$ 292,120	7
Notes payable (Note 21)	46,655	1	45,276	1
Accounts payable (Note 21)	653,173	12	567,948	13
Accrued expenses (Note 21)	120,272	2	125,071	3
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	34	-	3,581	-
Dividend payable (Note 16)	188,909	4	82,405	2
Current portion of long-term loans (Notes 14 and 22)	135,000	3	73,564	2
Other current liabilities	54,149	1	31,269	1
Total current liabilities	1,627,045	31	1,221,234	29
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	18,375	1	-	-
Bonds payable (Notes 2 and 13)	2,634	-	166,913	4
Long-term loans, net of current portion (Note 14)	425,372	8	316,464	8
Total long-term liabilities	446,381	9	483,377	12
OTHER LIABILITIES				
Land value increment tax reserve (Notes 2 and 10)	3,512	-	3,512	-
Guarantee deposits received	279	-	-	-
Total other liabilities	3,791	-	3,512	-
Total liabilities	2,077,217	40	1,708,123	41
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	36	1,680,681	40
Stock dividend to be distributed	147,692	3	101,132	2
Capital surplus				
Additional paid-in capital	290,248	5	290,248	7
Employee stock option	31,504	1	19,323	-
Convertible bonds	187,794	4	116,016	3
Retained earnings (Note 16)				
Legal reserve	153,821	3	105,774	2
Special reserve	-	-	34,087	1
Unappropriated earnings	460,376	8	194,610	5
Cumulative translation adjustments (Note 2)	6,286	-	(38,798)	(1)
Unrealized gains on financial instruments (Notes 2 and 3)	419	-	-	-
Asset revaluation reserve	5,442	-	5,442	-
Total stockholders' equity	3,173,008	60	2,508,515	59
TOTAL	$ 5,250,225	100	$ 4,216,638	100

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

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE	$ 2,370,403	100	$ 1,695,612	100
LESS SALES DISCOUNTS AND RETURNS	(26,139)	(1)	(17,929)	(1)
NET OPERATING REVENUE	2,344,264	99	1,677,683	99
COST OF SALES	1,718,607	72	1,248,753	74
GROSS PROFIT	625,657	27	428,930	25
OPERATING EXPENSES				
Sales and marketing	117,711	5	76,610	4
General and administration	57,504	3	61,557	4
Research and development	55,631	2	59,831	3
Total operating expenses	230,846	10	197,998	11
OPERATING INCOME	394,811	17	230,932	14
NONOPERATING INCOME AND GAINS				
Interest income	1,274	-	858	-
Gain on disposal of assets	-	-	4	-
Gain on disposal of investments	368	-	115	-
Foreign exchange gains	39,837	2	47,743	3
Valuation gain on financial instruments	4,614	-	-	-
Other	22,063	1	21,040	1
Total nonoperating income and gains	68,156	3	69,760	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense	17,681	1	11,477	-
Loss on disposal of assets	5,097	-	630	-
Loss on physical inventories	592	-	70	-
Foreign exchange losses	48,189	2	31,036	2
Loss on decline in value of inventories	12,839	1	12,520	1
Impairment loss	848	-	12,202	1
Valuation loss on financial instruments	-	-	3,581	-
Other	4,338	-	2,053	-
Total nonoperating expenses and losses	89,584	4	73,569	4

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 373,383	16	$ 227,123	14
INCOME TAX EXPENSE (Notes 2 and 17)	(32,219)	(1)	(45,954)	(3)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	341,164	15	181,169	11
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT$5,756 THOUSAND	(17,267)	(1)	-	-
NET INCOME	$ 323,897	14	$ 181,169	11

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED 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 consolidated financial statements.

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

				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 consolidated financial statements.

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated 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	161,606	124,935
Nonoperating loss - idle assets	1,279	248
Amortization	21,410	15,399
Bad-debt expense	3,401	21
Loss on decline in value of inventories	12,839	12,520
Loss on physical inventories	592	70
Gain on disposal of investments	(368)	(115)
Loss on disposal of assets	5,097	626
Unrealized gain on financial instruments, net	(4,614)	3,581
Impairment loss	848	12,202
Accrued interest compensation	(565)	1,095
Deferred income tax	(8,767)	24,190
Net changes in operating assets and liabilities		
Notes receivable	(66,015)	(38,521)
Accounts receivable	(35,375)	13,372
Inventories	(102,112)	(36,707)
Other current assets	(24,932)	5,089
Prepaid pension cost	-	237
Notes payable	(5,766)	17,374
Accounts payable	71,612	168,088
Accrued expenses	(27,252)	2,421
Other current liabilities	(2,605)	(45,354)
Net cash provided by operating activities	341,477	461,940
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 property, plant and equipment	(337,282)	(143,779)
Proceeds from sale of property, plant and equipment	859	4,064
Decrease in refundable deposits paid	461	441
Increase in deferred assets	(29,156)	(15,465)
Net cash used in investing activities	(414,750)	(214,624)

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	**2005**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$ 75,115	$(203,597)
Increase (decrease) in long-term loans	20,052	(18,563)
Increase in guarantee deposits received	29	-
Proceeds from the exercise of employee stock option	28,285	28,617
Net cash provided by (used in) financing activities	123,481	(193,543)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,606	(1,238)
NET INCREASE IN CASH AND CASH EQUIVALENTS	51,814	52,535
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	259,332	233,245
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 311,146	$ 285,780
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	$ 16,779	$ 10,961
Income tax	$ 34,749	$ 35,517
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

(Concluded)

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

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

TXC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

TXC Corporation (TXC) was incorporated on December 28, 1983 under the Company Law and 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 the 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, 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 June 30, 2006 and 2005, the Corporation had 1,550 and 1,241 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In 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:

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 June 30, 2006	Percentage of Ownership at June 30, 2005	Remark
TXC Corporation	Taiwan Crystal Technology International Limited ("TCTI")	Investment holding	100%	100%	-
	TXC Technology, Inc.	Marketing activities	100%	100%	-
	TXC Japan Corporation	Marketing activities	100%	-	-
TCTI	Growing Profits Trading Ltd. ("GPT")	National trading	100%	100%	-
	TXC (NGB) Electronic Co., Ltd. ("NGB")	Manufacture and sales of electronics products	100%	100%	-

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

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

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

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

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

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 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 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 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.

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.

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 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	$ 1,347	$ 3,201
Checking accounts and demand deposits	167,530	282,579
Time deposits	42,119	-
Cash equivalents		
Government bond and bank debentures	100,150	-
	$311,146	$285,780

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
Sell	USD/RMB	July 31, 2006	US$500/RMB3,971
Sell	USD/RMB	August 30, 2006	US$500/RMB3,961
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
Sell	USD/RMB	August 25, 2005	US$500/RMB4,127
Sell	USD/RMB	September 25, 2005	US$500/RMB4,127
Sell	USD/RMB	October 25, 2005	US$500/RMB4,123
Sell	USD/RMB	November 25, 2005	US$500/RMB4,123

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 from third parties	$ 151,854	$ 75,986
Notes receivable from related parties	-	-
	151,854	75,986
Less allowance for doubtful accounts	(840)	(348)
	$ 151,014	$ 75,638
Accounts receivable from third parties	$1,341,427	$1,094,082
Accounts receivable from related parties	7,671	6,183
Overdue receivable	-	1,707
	1,349,098	1,010,972
Less allowance for doubtful accounts	(14,301)	(9,877)
	$1,334,797	$1,092,095

8. INVENTORIES

	June 30	
	2006	2005
Raw materials	$186,440	$139,597
Supplies and spare parts	10,153	9,943
Work in-process	158,234	147,750
Finished goods	231,912	175,966
Merchandise	204,496	191,385
Merchandise in transit	26,782	20,417
	818,017	685,058
Less allowance for loss on decline in market value and obsolescence	(23,763)	(15,768)
	$794,254	$669,290

Inventory insurance as of June 30, 2006 and 2005 amounted to $521,618 thousand and $544,735 thousand, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

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

10. PROPERTY, PLANT AND EQUIPMENT

	June 30			
	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	308	134	135
Buildings	449,742	142,077	307,665	297,167
Machinery and equipment	2,447,447	773,643	1,673,804	1,342,069
Transportation equipment	7,780	3,787	3,993	3,737
Miscellaneous equipment	100,058	55,190	44,868	33,696
Unfinished construction and prepayments on purchase of equipment	87,184	-	87,184	5,758
	$3,258,647	$ 975,005	$2,283,642	$1,848,556

See Note 22 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 $1,537,310 thousand and $1,038,544 thousand, respectively. No interest for the six months ended June 30, 2006 and 2005 was capitalized.

11. 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	6,602	6,602	-
	$15,799	$12,250	$ 3,549

	June 30, 2005		
	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, 2006	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Machinery and equipment	$ 848	$ -

	June 30, 2005	
	Recognized in Income Statement	Recognized in Stockholders' Equity
Impairment loss		
Buildings	$ 4,874	$ -
Machinery and equipment	7,318	-
Other equipment	10	-
	$12,202	$ -

12. 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	214,263	1.745~6.46	136,174	1.68~5.22
	$428,853		$292,120	

See Note 22 for details of pledged assets.

13. 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 dollars. 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.

14. LONG-TERM LOANS

Nature of Loans	Repayment Period	June 30 2006	June 30 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 at maturity on October 26, 2008	200,000	-
Secured bank loans	Repayable in monthly installments, maturing on August 31, 2008	57,872	65,464
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	Repayable in quarterly installments; maturing on December 30, 2007	302,500	160,000
		560,372	390,028
Less current portion		(135,000)	(73,564)
		$425,372	$316,464
Interest rate (%)		2.15~ 5.85	0~5.85

See Note 22 for collateral on long-term loans.

As of June 30, 2006, the Corporation had issued to various banks promissory notes amounting to $1,975,150 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			

15. 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)

16. 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)	17.10
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	$	323,897
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 15, 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

17. 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 statutory rate	$ 101,525	$ 62,643
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	(42,004)	(25,476)
Current tax expense	$ 40,083	$ 21,765

Income tax expense consisted of the following:

	Six Months Ended June 30	
	2006	2005
Current tax expense	$ 40,083	$ 21,765
Prior year's adjustment	903	-
Deferred tax benefits		
Temporary difference	(1,491)	(10,591)
Investment tax credits	(7,276)	34,780
Income tax expense	$ 32,219	$ 45,954

A change of income tax payable:

	June 30	
	2006	2005
Balance, beginning of period	$ 30,437	$ 30,856
Accrued income tax this year	40,083	21,765
Current payment	(34,749)	(31,928)
Adjustment of prior years' tax expense	791	-
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
	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") was 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

18. LABOR COST, DEPRECIATION AND AMORTIZATION

Expense Item \ Function	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	144,765	87,388	232,153	119,558	72,451	192,009
Labor and health insurance	9,305	4,879	14,184	7,374	4,062	11,436
Pension	5,238	3,170	8,408	1,675	1,092	2,767
Meal	5,420	2,760	8,180	4,618	2,413	7,031
Welfare	2,499	3,651	6,150	1,975	1,091	3,066
Others	-	-	-	-	-	-
Depreciation	134,806	26,800	161,606	101,517	23,418	124,935
Amortization	3,913	17,497	21,410	2,180	13,219	15,399

19. 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	$ 1.97	$ 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	112	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

20. 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	$ 311,146	$ 311,146	$ 285,780	$ 285,780
Available-for-sale financial assets, current	110,419	110,419	60,000	60,011
Notes and accounts receivable, net	1,485,811	1,485,811	1,167,733	1,167,733
Financial assets carried at cost	3,000	3,000	3,000	3,000
Liabilities				
Short-term loans	428,853	428,853	292,120	292,120
Notes and accounts payable	699,828	699,828	613,224	613,224
Accrued expense	120,272	120,272	125,071	125,071
Bonds payable	2,634	2,634	166,913	166,913
Long-term loans (including current portion	560,372	560,372	390,028	390,028
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	$ -	$ -	$ 311,146	$ 285,780
Notes and accounts receivable, net	-	-	1,485,811	1,167,733
Available-for-sale financial assets, current	110,419	60,000	-	-
Financial assets carried at cost	-	-	3,000	3,000
Liabilities				
Short-term loans	-	-	428,853	292,120
Notes and accounts payable	-	-	699,828	613,224
Accrued expenses	-	-	120,272	125,071
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	-	-	560,372	390,028
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.

21. 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

Major transactions with related parties are summarized below:

Sales

	Six Months Ended June 30			
	2006		2005	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 11,242	-	$ 9,887	1

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

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	Tai-Shing	$ 7,671	-	$ 6,183	1
Notes payable	Tai-Shing	$ 1,664	4	$ 816	2
Accounts payable	Tai-Shing	$ 503	-	$ 409	-
Accrued expenses	Tai-Shing	$ 5	-	$ 6	-

22. 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	261,642	216,533
Machinery and equipment, net	549,941	579,238
Intangible asset	15,499	14,807
	$993,076	$976,572

23. 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.