TXC Corporation

Financial Statements for the
Nine Months Ended September 30, 2007 and 2006 and
Independent Accountants’ Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
TXC Corporation

We have reviewed the accompanying balance sheets of TXC Corporation (the "Corporation") as of September 30, 2007 and 2006, and the related statements of income, and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

Except for the matter discussed in the following paragraph, 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.

As discussed in Note 10 to the financial statements, TXC Corporation's long-term investments accounted for by the equity method with carrying values of NT$1,327,149 thousand and NT$1,104,566 thousand as of September 30, 2007 and 2006, respectively, and related investment income of NT$113,243 thousand and NT$72,877 thousand for the nine months ended September 30, 2007 and 2006, respectively, were recognized on the basis of the subsidiaries' unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the investments and investment income mentioned in the preceding paragraph been based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standard, and accounting principles generally accepted in the Republic of China.

As discussed 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 SFAS.

October 22, 2007

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

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

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

TXC CORPORATION

BALANCE SHEETS
SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2007		2006	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 874,188	13	$ 461,407	8
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	4,692	-	-	-
Available-for-sale financial assets - current (Notes 2, 3 and 6)	180,118	3	-	-
Notes receivable, net (Notes 2 and 7)	11,365	-	43,344	1
Accounts receivable, net (Notes 2, 7 and 23)	1,917,182	28	1,410,929	26
Inventories, net (Notes 2 and 8)	581,924	9	683,645	13
Other current assets (Notes 2 and 19)	90,850	1	97,171	2
Total current assets	3,660,319	54	2,696,496	50
LONG-TERM INVESTMENTS (Note 2)				
Investments accounted for the equity method (Note 10)	1,327,149	20	1,104,566	21
Financial assets carried at cost - noncurrent (Note 9)	3,000	-	3,000	-
Total long-term investments	1,330,149	20	1,107,566	21
PROPERTY, PLANT AND EQUIPMENT(Notes 2, 11 and 24)				
Cost				
Land	157,040	2	157,040	3
Land improvements	442	-	442	-
Buildings	581,825	9	275,793	5
Machinery and equipment	2,031,589	30	1,651,207	31
Transportation equipment	2,557	-	2,557	-
Miscellaneous equipment	93,090	1	75,839	1
Land - revaluation increment	8,954	-	8,954	-
	2,875,497	42	2,171,832	40
Less accumulated depreciation	(1,194,410)	(18)	(870,150)	(16)
Construction-in-progress and prepayments for equipment	49,387	1	167,214	3
Total property, plant and equipment, net	1,730,474	25	1,468,896	27
INTANGIBLE ASSETS				
Deferred pension cost (Notes 2 and 17)	7,947	-	7,947	-
OTHER ASSETS				
Idle assets (Notes 2, 3 and 12)	3,978	-	3,238	-
Refundable deposits	3,022	-	1,758	-
Deferred charges	14,846	-	8,818	-
Deferred income tax assets - noncurrent (Notes 2 and 19)	29,968	1	76,619	2
Total other assets	51,814	1	90,433	2
TOTAL	$ 6,780,703	100	$ 5,371,338	100

	2007		2006	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Notes 13 and 24)	$ 98,018	1	$ 228,331	4
Financial liabilities at fair value through profit or loss - current (Notes 2, 3 and 5)	29,579	-	340	-
Notes payable (Note 23)	54,130	1	49,565	1
Accounts payable to third parties	602,471	9	518,541	10
Accounts payable to related parties (Note 23)	311,312	5	224,046	4
Accrued expenses (Notes 16 and 23)	165,369	2	127,678	2
Current portion of long-term loans (Notes 15 and 24)	-	-	185,000	4
Other current liabilities	67,594	1	66,059	1
Total current liabilities	1,328,473	19	1,399,560	26
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	10,634	-	20,074	-
Bonds payable (Notes 2 and 14)	268,007	4	-	-
Long-term loans, net of current portion (Notes 15 and 24)	520,000	8	477,500	9
Total long-term liabilities	798,641	12	497,574	9
OTHER LIABILITIES				
Reserve for land value increment tax (Notes 2 and 11)	3,512	-	3,512	-
Guarantee deposits received	210	-	-	-
Deferred credits (Notes 2 and 10)	642	-	-	-
Total other liabilities	4,364	-	3,512	-
Total liabilities	2,131,478	31	1,900,646	35
STOCKHOLDERS' EQUITY (Note 18)				
Capital stock				
Common stock, $10 par value; Authorized - 300,000 thousand shares in 2007 and 260,000 thousand shares in 2006; Issued - 230,740 thousand shares in 2007 and 204,815 thousand shares in 2006	2,307,397	34	2,048,153	38
Advance receipts for common stock	95,037	2	-	-
Capital surplus	968,133	14	528,445	10
Retained earnings				
Legal reserve	238,045	4	153,821	3
Unappropriated earnings	951,694	14	686,869	13
Cumulative translation adjustments (Note 2)	83,359	1	47,962	1
Unrealized gain (loss) on financial instruments (Note 2)	118	-	-	-
Unrealized revaluation increment (Note 2)	5,442	-	5,442	-
Total stockholders' equity	4,649,225	69	3,470,692	65
TOTAL	$ 6,780,703	100	$ 5,371,338	100

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

(With Deloitte & Touche review report dated October 22, 2007)

TXC CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Note 2)	$ 4,229,486	101	$ 3,453,283	101
LESS SALES ALLOWANCES AND RETURNS	(39,038)	(1)	(37,422)	(1)
NET OPERATING REVENUE	4,190,448	100	3,415,861	100
COST OF GOODS SOLD	3,034,228	72	2,539,842	74
GROSS PROFIT	1,156,220	28	876,019	26
UNREALIZED INTERCOMPANY GAIN	(642)	-	-	-
REALIZED INTERCOMPANY GAIN	240	-	689	-
REALIZED GROSS PROFIT	1,155,818	28	876,708	26
OPERATING EXPENSES				
Selling expenses	181,619	5	147,256	4
General and administration expenses	95,946	2	80,236	2
Research and development expenses	135,155	3	87,975	3
Total operating expenses	412,720	10	315,467	9
OPERATING INCOME	743,098	18	561,241	17
NONOPERATING INCOME AND GAINS				
Interest income	12,247	-	2,377	-
Investment income recognized under equity method	113,243	3	72,877	2
Gain on disposal of property, plant and equipment	534	-	-	-
Gain on disposal of investments	1,145	-	1,018	-
Exchange gains	65,942	2	74,599	2
Valuation gain on financial assets, net	4,692	-	-	-
Valuation gain on financial liabilities, net	8,310	-	2,609	-
Other	17,558	-	25,423	1
Total nonoperating income and gains	223,671	5	178,903	5

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
NONOPERATING EXPENSES AND LOSSES				
Interest expense	$ 23,200	1	$ 16,743	-
Loss on disposal of property, plant and equipment	6	-	904	-
Loss on physical inventories	221	-	592	-
Provision for loss on inventories	20,013	-	24,241	1
Exchange losses	65,434	2	64,788	2
Valuation loss on financial liabilities, net	12,228	-	-	-
Other	3,626	-	1,283	-
Total nonoperating expenses and losses	124,728	3	108,551	3
INCOME BEFORE INCOME TAX	842,041	20	631,593	19
INCOME TAX EXPENSE (Notes 2 and 19)	(82,459)	(2)	(63,936)	(2)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	759,582	18	567,657	17
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, Net of tax benefit of NT$5,756 thousand	-	-	(17,267)	(1)
NET INCOME	$ 759,582	18	$ 550,390	16

	2007		2006	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 21)				
Basic	$ 3.65	$ 3.29	$ 2.69	$ 2.43
Diluted	$ 3.53	$ 3.16	$ 2.67	$ 2.41

(Concluded)

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

(With Deloitte & Touche review report dated October 22, 2007)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 759,582	$ 550,390
Cumulative effect of changes in accounting principles	-	17,267
Net income before cumulative effect of changes in accounting principles	759,582	567,657
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	258,084	186,934
Nonoperating loss - idle assets	148	1,283
Amortization	10,658	34,681
Bad debt expense	275	3,579
Provision for loss on inventories	20,013	24,241
Loss on physical inventories	221	592
Gain on disposal of investments	(1,145)	(1,018)
Investment income recognized under equity method	(113,243)	(72,877)
(Gain) loss on disposal of property, plant and equipment	(528)	904
Valuation (gain) loss on financial instruments, net	(774)	(2,609)
Unrealized gross profit	642	-
Realized gross profit	(240)	(689)
Deferred income tax	24,967	5,532
Interest expense	14,369	(699)
Others	(1,744)	-
Net changes in operating assets and liabilities		
Notes receivable	33,391	41,566
Accounts receivable	(237,177)	(225,116)
Inventories	(1,253)	(120,845)
Other current assets	(14,832)	(20,422)
Notes payable	(1,156)	(2,856)
Accounts payable	167,246	186,319
Accrued expenses	9,983	(866)
Other current liabilities	(14,536)	25,950
Net cash provided by operating activities	912,951	631,241
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(210,011)	(220,000)
Proceeds from disposal of available-for-sale financial assets	181,157	281,018
Acquisition of investments accounted for by equity method	(19,571)	(129,618)
Acquisition of property, plant and equipment	(323,268)	(392,194)
Proceeds from disposal of property, plant and equipment	1,178	600
(Increase) decrease in refundable deposits	(52)	571
Increase in deferred charges	(14,007)	(38,760)
Net cash used in investing activities	(384,574)	(498,383)

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	**2006**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$(107,257)	$ 63,122
Proceeds from in long-term loans	110,000	192,500
Increase in guarantee deposits received	210	-
Cash bonus to directors and supervisors	(49,167)	(6,869)
Cash dividends	(412,065)	(188,909)
Proceeds from the exercise of employee stock option	6,956	55,719
Net cash provided by (used in) financing activities	(451,323)	115,563
NET INCREASE IN CASH AND CASH EQUIVALENTS	77,054	248,421
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	797,134	212,986
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 874,188	$ 461,407
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	$ 26,375	$ 15,473
Income tax paid	$ 73,389	$ 31,765
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of current portion of long-term loans to current liabilities	$ -	$ 185,000
Convertible bonds	$ 499,700	$ 19,800
Acquisition of long-term equity investments through payment in the form of machinery	$ 3,922	$ 9,723

(Concluded)

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

(With Deloitte & Touche review report dated October 22, 2007)

TXC CORPORATION

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

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 crystal, crystal oscillator and SAW (surface acoustic wave) filters and Timing Module (TM).

As of September 30, 2007 and 2006, the Corporation had 875 and 795 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, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC. Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation of property, plant and equipment, pension cost, etc. Actual results may 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 inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

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

Current/Noncurrent Assets and Liabilities

Current assets include cash, cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents, consisting of commercial papers, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Corporation recognizes a financial asset or a financial liability on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to issue of initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Revenue Recognition, Trade Receivables and Allowance for Doubtful Accounts

Revenue from sales of goods is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or realizable. The Corporation does not recognize sales revenue on materials delivered to subcontractors as risks and rewards associated with the materials have not yet been transferred.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the buyers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables as well as the economic environment.

Inventories

Inventories are recorded at weighted-average cost on the balance sheet date. Market value means replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process.

Financial Assets Carried at Cost

Investments in equity instrument with no quoted 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 by the Equity Method

Investments in which the Corporation holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus revaluation increment less accumulated depreciation and accumulated impairment losses. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to property, plant and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives as follow: buildings - 5 to 60 years; machinery and equipment - 3 to 9 years; transportation equipment - 3 to 6 years; miscellaneous equipment - 5 to 15 years.

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives. Depreciation of revaluated assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, idle assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

Stock-based Compensation

Employee stock option plans with a grant or amendment date on or after January 1, 2004 is accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). The Corporation adopted the intrinsic value method, under which compensation cost is recognized on a straight-line basis over the vesting period.

Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the period in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the period.

Convertible Bonds

The entire proceeds from convertible bonds issued on or before December 31, 2005 were accounted for as a liability. The difference between the agreed redemption price and the face value of the bonds is accrued using the effective interest method over the period from the issue date of the bonds to the date the put option becomes exercisable. The conversion of bonds into common shares is accounted for using the book value method, whereby the difference between the book value of the bonds (net of any unamortized premiums or discounts, accrued interest, and unamortized transaction costs) and the par value of the common shares issued is recorded as capital surplus.

For convertible bonds issued on or after January 1, 2006, the Corporation first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Corporation uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

Income Tax

The Corporation applies intra-period and inter-period allocations for its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years’ tax liabilities are added to or deducted from the current period’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Foreign Currencies

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee’s financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of shareholders’ equity.

Reclassifications

Certain accounts in the financial statements as of and for the nine months ended September 30, 2006 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2007.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Corporation adopted the newly released SFAS No. 34, "Financial Instruments: Recognition and Measurement" and SFAS No. 36, "Financial Instruments: Disclosure and Presentation"

The Corporation categorized its financial assets and financial liabilities upon initial adoption of these newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at FVTPL and derivatives designated for fair value hedges were included in the cumulative effect of changes in accounting principles, and the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets and derivatives designated for cash flow hedges or hedges of net investments in foreign operations were recognized as adjustments to shareholders' 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 above accounting changes resulted in decreases of NT$17,267 thousand in income before income tax, NT$17,267 thousand in net income and NT$0.08 in after income tax basic earning per share, for the nine months ended September 30, 2006.

4. CASH AND CASH EQUIVALENTS

	September 30 2007	September 30 2006
Cash on hand	$ 1,836	$ 939
Checking accounts and demand deposits	231,433	153,996
Time deposits	17,919	36,972
Cash equivalents		
Repurchase agreement collateralized by bonds	623,000	269,500
	$874,188	$461,407

Overseas deposits as of September 30, 2007 and 2006 are summarized as follows:

	September 30 2007	2006
Hong Kong (US$869thousand in 2007 and US$319 thousand in 2006)	$ 28,326	$ 10,544
Hong Kong (HK$315thousand in 2007 and HK$224 thousand in 2006	1,324	953
	$ 29,650	$ 11,497

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30 2007	2006
Financial assets held for trading		
Forward exchange contracts	$ 4,692	$ -
Financial liabilities held for trading		
Liability component of domestic convertible bonds	$ 29,579	$ -
Forward exchange contracts	-	340
	$ 29,579	$ 340
Interest rate swap contracts	$ 10,633	$ 20,074

The Corporation entered into derivative contracts during the nine months ended September 30, 2007 and 2006 to manage exposures related to exchange rate and interest rate fluctuations. The financial risk management objective of the Corporation is to minimize risks due to change in fair value of cash flows.

Outstanding forward contracts as of September 30, 2007 and 2006:

	Currency	Maturity Date	Contract Amount (In Thousands)
September 30, 2007			
Sell	USD/NTD	November 28, 2007	US$10,000/NT$328,213
Sell	USD/JPY	November 19, 2007	US$4,250/ JP¥491,563
Sell	NTD/JPY	October 4, 2007	NT$8,268/ JP¥30,000
September 30, 2006			
Sell	USD/NTD	October 27, 2006	US$1,000/NT$32,843
Sell	USD/JPY	October 27, 2006	US$1,000/ JP¥117,347

Outstanding Interest rate swap contracts as of September 30, 2006:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
September 30, 2006			
August 12, 2010	300,000	3.68%	Rate on 90-day commercial paper

Net losses arising from derivative financial instruments for the nine months ended September 30, 2007 and 2006 were $9,096 thousand and $1,368 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30	
	2007	2006
Mutual funds	$180,118	$ -

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	September 30	
	2007	2006
Notes receivable, third parties	$ 11,422	$ 44,191
Notes receivable, related parties	-	-
	11,422	44,191
Less allowance for doubtful accounts	(57)	(847)
	$ 11,365	$ 43,344
Accounts receivable, third parties	$1,893,953	$1,398,385
Accounts receivable, related parties	37,006	22,447
	1,930,959	1,420,832
Less allowance for doubtful accounts	(13,777)	(9,903)
	$1,917,182	$1,410,929

Movement of allowance for doubtful accounts were as follows:

	Nine Months Ended September 30			
	2007		2006	
	Notes Receivable	Accounts Receivable	Notes Receivable	Accounts Receivable
Balance, beginning of period	$ 224	$ 13,335	$ 429	$ 9,333
Add (deduct): provision (reversal of provision) for doubtful accounts	(167)	442	418	570
Balance, end of period	$ 57	$ 13,777	$ 847	$ 9,903

8. INVENTORIES

	September 30	
	2007	2006
Raw materials	$ 148,911	$ 128,194
Supplies and spare parts	13,386	11,518
Work in process	130,896	106,017
Finished goods	132,771	228,919
Merchandise	177,728	210,842
Merchandise in transit	8,788	26,262
	612,480	711,752
Less allowance for loss on decline in market value and obsolescence	(30,556)	(28,107)
	$ 581,924	$ 683,645

9. FINANCIAL ASSETS CARRIED AT COST

	September 30	
	2007	2006
Domestic unquoted common stocks	$ 3,000	$ 3,000

The above equity investments which had no quoted prices in on active market and of which fair values could not be reliably measured were carried at cost.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	September 30			
	2007		2006	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Unlisted companies				
Taiwan Crystal Technology International Ltd. (TCTI)	$ 1,316,892	100	$ 1,100,331	100
TXC Technology Inc.	7,292	100	2,188	100
TXC Japan Corporation	2,965	100	2,047	100
	$ 1,327,149		$ 1,104,566	

Investment income (loss) recognized under the equity-method was as follows:

	Nine Months Ended September 30	
	2007	2006
TCTI	$ 108,512	$ 75,839
TXC Technology Inc.	4,641	(2,931)
TXC Japan Corporation	90	(31)
	$ 113,243	$ 72,877

The above equity-method investments were determined on the basis of unreviewed financial statements of the investees for the same periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Nine Months Ended September 30			
	2007			2006
	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	395	47	116
Buildings	581,825	154,503	427,322	147,882
Machinery and equipment	2,031,589	979,818	1,051,771	957,672
Transportation equipment	2,557	1,984	573	872
Miscellaneous equipment	93,090	57,710	35,380	29,146
Prepayments for equipment	49,387	-	49,387	15,294
Construction in progress	-	-	-	151,920
	$ 2,924,884	$ 1,194,410	$ 1,730,474	$ 1,468,896

Information about capitalized interest was as follows:

	Nine Months Ended September 30	
	2007	2006
Capitalized interest	$ 2,762	$ -
Capitalization rates	2.63%	-

See Note 24 for the details on property, plant and equipment pledged as collaterals.

The Corporation revalued its land in 1996, which resulted in total revaluation increments of NT$8,954 thousand. The net revaluation amount of NT$3,512 thousand after deducting the reserve for land value increment tax of NT$5,442 thousand was credited to equity as unrealized revaluation increment.

12. IDLE ASSETS

	September 30, 2007		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	6,598	4,873	1,725
Machinery and equipment	4,997	4,997	-
	$ 13,848	$ 9,870	$ 3,978

	September 30, 2006		
	Book Value	Accumulated Impairment	Carrying Value
Land	$ 2,253	$ -	$ 2,253
Buildings	6,845	5,860	985
Machinery and equipment	2,827	2,827	-
	$ 11,925	$ 8,687	$ 3,238

13. SHORT-TERM LOANS

	September 30	
	2007	2006
Usance letters of credit	$ 58,922	$ 178,331
Unsecured bank loans	39,096	50,000
	$ 98,018	$ 228,331

(a) Usance letters of credit amounted to US$1,500 thousand and JP¥208,425 thousand as of September 30, 2007 and US$43 thousand, JP¥626,260 thousand as of September 30, 2006. Interest rates ranged from 1.2% to 2.07% and from 0.72% to 7.65% at September 30, 2007 and 2006, respectively.

(b) Interest rates for the unsecured bank loans ranged from 2.700% to 2.955% and from 1.745% to 1.98% at September 30, 2007 and 2006, respectively.

14. BONDS PAYABLE

	September 30	
	2007	2006
Second domestic unsecured convertible corporate bonds	$ 300,300	$ -
Liability component of unsecured domestic Add discount on bonds payable	(32,293)	-
	$ 268,007	$ -

First Domestic Unsecured Convertible Corporate Bonds

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

(a) On the 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.

Second Domestic Unsecured Convertible Corporate Bonds

On November 8, 2006, the Corporation issued second domestic unsecured convertible bonds with an aggregate value of $800,000 thousand and maturity on November 8, 2011. Nominal interest is 0%. As of September 30, 2007, the Corporation's outstanding domestic unsecured convertible corporate bonds were $499,700 thousand. According to Statement of Financial Accounting Standards No. 36, "Disclosure and Presentation of Financial Instruments," these domestic unsecured convertible bonds were separated into convertible options, equity (Note 18), and bonds payable, liability. Other details of the bond issuance are summarized as follows:

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

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

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

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

15. LONG-TERM LOANS

Nature of Loans	Repayment Period	September 30 2007	September 30 2006
Secured bank loans	Repayable maturing on March 20,2014	$ 70,000	$ -
Secured bank loans	Repayable maturing on September 3, 2021	100,000	10,000
Unsecured bank loans	Repayable maturing on August 14, 2009	100,000	-
Unsecured bank loans	Repayable in maturity on October 26, 2008	200,000	200,000
Unsecured bank loans	Repayable maturing on September 3, 2021	-	150,000
Unsecured bank loans	Repayable maturing on September 12, 2009	50,000	-
Chinatrust syndicated loan		-	302,500
		520,000	662,500
Less current portion		-	(185,000)
		$ 520,000	$ 477,500
Interest rate (%)		2.15~2.8716	2.15~2.9211

See Notes 24 for collateral on 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. Total syndicated loan had been fully paid as of September 30, 2007.

16. ACCRUED EXPENSES

	September 30	
	2007	**2006**
Payroll	$ 27,205	$ 23,607
Bonus	62,979	42,830
Commission	25,842	16,595
Sales agent fee	9,413	3,298
Others	39,930	41,348
	$165,369	$127,678

17. RETIRMENT BENEFIT PLANS

The Labor Pension Act (the "LPA") took effect on July 1, 2005. Employees subject to the Labor Standards Law (the "LSL") prior to July 1, 2005 were allowed to choose to continue being subject to the LSL or to be subject to the LPA, with their service years as of July 1, 2005 retained. Those hired as regular employees on or after July 1, 2005 automatically become subject to the LPA.

The pension plan under the LPA is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at not less than 6% of monthly salaries and wages. Such pension costs were NT$10,840 thousand and NT$9,320 thousand for the nine months ended September 30, 2007 and 2006, respectively.

Based on the defined benefit plan under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited with the Central Trust of China in the committee's name. The Corporation recognized pension costs of NT$3,058 thousand and NT$3,200 thousand for the nine months ended September 30, 2007 and 2006, respectively.

18. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital is $3,000,000 thousand and $2,600,000 thousand at September 30, 2007 and 2006 (NT$10 dollars par value). As of September 30, 2007, the Corporation's outstanding capital was $2,307,397 thousand divided into 230,740 thousand shares at NT$10 dollars par value.

Employee Stock Options

In October 2001, April 2002 and October 2002; 3,500, 1,500 and 4,000, options, respectively, were granted to qualified employees of the Corporation and its subsidiaries. Each option entitles the holder to subscribe for one thousand common shares of the Corporation when exercisable. The options granted are valid for 5 years and exercisable at certain percentages after the second anniversary year from the grant date. The options were granted at an exercise price equal to the closing price of the Corporation's common shares listed on the TSE on the grant date. For any subsequent changes in the Corporation's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Information about employee stock option plans was as follows:

	Nine Months Ended September 30			
	2007		2006	
	Number of Options (in thousand)	Weighted Average Exercise Price (NT$)	Number of Options (in thousand)	Weighted Average Exercise Price (NT$)
Balance, beginning of period	334	$ 17.59	4,129	$ 17.0
Options granted	-	-	-	-
Options exercised	(334)	20.83	(2,724)	16.0
Options canceled	-	-	-	-
Balance, end of period	-		1,405	
Options exercisable, end of period	-		317	

Capital Surplus

Under the Company Law capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital and once a year.

Capital surplus comprised of the following

	September 30	
	2007	2006
Arising from issuance of common shares	$290,248	$290,248
Arising from conversion of bonds	604,926	188,779
Employee stock options	58,064	49,418
Conversion options	14,895	-
	$968,133	$528,445

Appropriation of Earnings and Dividend Policy

Under 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 - not less than 3%
(b) Directors and supervisors' remuneration - not less than 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.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative transaction adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Legal reserve shall be appropriated until its has reached the Corporation's paid-in capital. It may be used to offset a deficit. When legal reserve has reaches 50% of the Corporation's paid-in capital, up to 50% there of may be transferred to paid in capital.

Any appropriations of earnings are recorded in the year of shareholders' approval. Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equals to their proportionate share of the income tax paid by the Corporation.

The appropriation of earnings for 2006 and 2005 had been approved in the stockholders' meeting on June 15, 2006 and June 13, 2005, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2006	**For Fiscal Year 2005**	**For Fiscal Year 2006**	**For Fiscal Year 2005**
Legal reserve	$ 84,224	$ 48,047	$ -	$ -
Cash dividends	412,065	188,909	2.0	1.0
Stock dividends	206,032	113,345	1.0	0.6
Bonus to employees - stock	35,119	34,347	-	-
Bonus to employee - cash	35,119	-	-	-
Bonus to directors and supervisors - cash	14,048	6,869	-	-

The Board of Directors set August 15, 2006 as the ex-dividend date.

Unrealized Gain or Loss on Financial Instruments

For the nine months ended September 30, 2007 and 2006 movement of unrealized gain or loss on financial instruments were as follows:

	Available-for-Sale Financial Assets	Total
Nine months ended September 30, 2007		
Balance, beginning of period	$ 183	$ 183
Recognized in stockholders' equity	105	105
Transferred to gain or loss	(170)	(170)
Balance, end of period	$ 118	$ 118

Nine months ended September 30, 2006: None

19. INCOME TAX

The government enacted the Alternative Minimum Tax Act (the "AMT Act"), which became effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Corporation has considered the impact of the AMT Act in the determination of its tax liabilities.

The reconciliation of income taxes expense based on income before income tax at 25% statutory rate and income tax expense was as follows:

	Nine Months Ended September 30	
	2007	2006
Income tax expense at the 25% statutory rate	$210,500	$157,888
Tax effects on adjusting items		
Permanent differences	(287)	(19,966)
Temporary differences	(26,186)	2,305
Tax-exempt income for five years	(70,472)	(34,972)
Income tax (10%) on undistributed earnings	5,563	8,895
Investment tax credit	(59,559)	(57,075)
Current tax expense	$ 59,559	$ 57,075

Income tax expense consisted of the following:

	Nine Months Ended September 30	
	2007	**2006**
Current tax expense	$ 59,559	$ 57,075
Prior year's adjustment	(2,067)	1,328
Deferred tax benefits		
Temporary difference	10,644	13,309
Investment tax credits	14,323	(7,776)
Income tax expense	$ 82,459	$ 63,936

A change of income tax payable:

	September 30	
	2007	**2006**
Balance, beginning of period	$ 74,456	$ 30,437
Accrued income tax this year	59,559	57,075
Current payment	(72,389)	(31,765)
Adjustment of prior years' tax expense	(2,067)	1,328
Balance, end of period	$ 59,559	$ 57,075

Deferred income tax assets (liabilities) were as follows:

	September 30	
	2007	**2006**
Deferred income tax assets, current		
Investment tax credit	$ 27,543	$ 28,746
Unrealized allowance for loss on inventories	7,823	7,211
Unrealized exchange loss	5,122	1,212
Unrealized gain on transactions with investees	1,033	1,404
Unrealized sale allowance	717	645
Unrealized valuation loss on financial instruments	-	85
	-	
	42,238	39,303
Deferred income tax liabilities, current		
Unrealized exchange gain	(2,374)	(4,672)
Unrealized valuation gain on financial instruments	(1,173)	-
	$ 38,691	$ 34,631
Deferred income tax assets, noncurrent		
Investment tax credit	$ 82,629	$ 86,238
Impairment loss	2,468	2,172
Unrealized valuation loss on financial instruments	5,715	5,018
Others	331	331
	91,143	93,759
Deferred income tax liabilities, noncurrent		
Investment income	(61,175)	(17,140)
	$ 29,968	$ 76,619

The Corporation's investment tax credits as of September 30, 2007 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	$ 73,018	$ 46,115	2011
	Research and development expenditures	95,130	62,475	2011
	Personnel training expenditure	1,582	1,582	2011
		$169,730	$110,172	

As of September 30, 2007, profits attributable to the following expansion and construction projects were exempted from income tax for a five-year period:

Expansion of Construction Project	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 2004 had been examined and approved by the tax authorities.

Information about intergrated income tax was as follows:

	September 30	
	2007	2006
Balance of ICA	$ 21,138	$ 15,370

	2006 (Estimate)	2005 (Actual)
Estimated imputation	8.34%	10.88%

	September 30	
	2007	2006
Undistributed earnings		
Until 1997	$ -	$ -
From 1998 and thereafter	951,694	686,869
	$951,694	$686,869

20. PRESONNEL, DEPRECIATION AND AMORTIZATION

Expense Item \ Function	Nine Months Ended September 30					
	2007			2006		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Personnel						
Salary	195,001	139,414	334,415	190,165	97,806	287,971
Insurance	12,010	8,655	20,665	11,882	6,503	18,385
Pension	7,538	6,870	14,408	7,827	4,693	12,520
Meal	8,971	4,064	13,035	8,416	2,848	11,264
Welfare	4,646	1,368	6,014	3,529	1,398	4,927
Others	-	-	-	-	-	-
Depreciation	215,601	42,483	258,084	152,694	34,240	186,934
Amortization	2,177	8,481	10,658	7,671	27,010	34,681

21. EARNINGS PER SHARE

	Nine Months Ended September 30			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (dollars)				
From continuing operations	$ 3.65	$ 3.29	$ 2.79	$ 2.51
Cumulative effect of changes in accounting principle	-	-	(0.10)	(0.08)
Net income	$ 3.65	$ 3.29	$ 2.69	$ 2.43
Diluted earnings per share (dollars)				
From continuing operations	$ 3.53	$ 3.16	$ 2.77	$ 2.49
Cumulative effect of changes in accounting principle	-	-	(0.10)	(0.08)
Net income	$ 3.53	$ 3.16	$ 2.67	$ 2.41

	Nine Months Ended September 30									
	2007					2006				
	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	$ 842,041	$ 759,582				$ 608,570	$ 550,390			
Basic income per share	$ 842,041	$ 759,582	231,008	$ 3.65	$ 3.29	$ 608,570	$ 550,390	226,437	$ 2.69	$ 2.43
Convertible bonds			15,002			97	73	360		
Employee stock option	26,027	19,105	107			-	-	1,500		
Net Diluted income per share	$ 868,068	$ 778,687	246,117	$ 3.53	$ 3.16	$ 608,667	$ 550,463	228,297	$ 2.67	$ 2.41

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused the basic and diluted after income tax EPS for the nine months ended September 30, 2006 to decrease from NT$2.71 to NT$2.43 and from NT$2.69 to NT$2.41, respectively.

22. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair values of financial instruments:

	September 30			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Financial assets at FVTPL, current				
Forward contract	$ 4,692	$ 4,692	$ -	$ -
Available-for-sale financial assets, current	180,118	180,118	-	-
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Forward contract	$ -	$ -	$ 340	340
Liability component convertible bonds	29,579	29,579	-	-
Interest rate swap contract	10,634	10,634	20,074	20,074
Bonds payable	268,007	268,007	-	-
Long-term loans (including current portion)	-	-	662,500	662,500

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

(a) The above financial instruments do not include cash and cash equivalents, notes and accounts receivable, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

(b) Fair values of financial instruments designated as at FVTPL and available-for-sale are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

(c) Financial assets carried at cost and Investments accounted for by the equity method are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

(d) Fair value of long-term loans is estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar loans (e.g., similar maturities).

Fair value of financial assets and liabilities using based on quoted market prices or valuation technique were as follow:

	Quoted Market Price		Valuation Techniques Incorporating Estimates and Assumptions	
	September 30		September 30	
	2007	2006	2007	2006
Assets				
Financial assets at fair value through profit or loss , current	$ -	$ -	$ 4,692	$ -
Available-for-sale financial assets, current	180,118	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	29,579	340
Financial liabilities at fair value through profit of loss, noncurrent	-	-	10,634	20,074

Valuation losses arising from changes in fair value of financial instruments determined using valuation techniques were NT$774 thousand and NT$2,609 thousand for the nine months ended September 30, 2007 and 2006, respectively.

As of September 30, 2007 and 2006, financial liabilities exposed to fair value interest rate risk amounted to $10,634 thousand and $20,074 thousand.

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 breached contracts. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation's exposure to default by those parties to be material.

(c) Liquidity risk: The Corporation's operating funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

23. RELATED-PARTY TRANSACTIONS

The related parties and their relationship with the Corporation

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) Corporation (NGB)	Subsidiary's equity-method investee
K&H MFG, Co., Ltd. (K&H)	Chairman is the Corporation's Vice-president

Major transactions with related parties are summarized below:

Sales

	Nine Months Ended September 30			
	2007		2006	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
NGB	$ 60,309	1	$ 3,804	-
Tai-Shing	13,130	-	16,282	-
TXC Technology Inc.	3,060	-	23	-
TXC Japan Corporation	2,529	-	44	-
GPT	-	-	28,018	1
	$ 79,028	1	$ 48,171	1

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

Purchases of Inventory and Processing Costs

	Nine Months Ended September 30			
	2007		2006	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
NGB	$791,822	33	$ 70,786	3
GPT	1,536	-	488,518	24
	$793,358	33	$559,304	27

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

Consulting Fee

	Nine Months Ended September 30			
	2007		2006	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
TXC Technology Inc.	$ 29,669	47	$ 21,859	46
NGB	17,388	27	1,487	3
TXC Japan Corporation	16,816	26	12,830	27
GPT	-	-	11,676	24
	$ 63,873	100	$ 47,852	100

Other Expense

	Nine Months Ended September 30			
	2007		2006	
	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Tai-Shing	$ 4,141	5	$ 4,952	5
K&H	252	-	-	-
GPT	192		-	-
	$ 4,585	5	$ 4,952	5

Receivables and Payables

		September 30			
		2007		2006	
Item	Related Party	Amount	% to Total Account Balances	Amount	% to Total Account Balances
Accounts receivable	NGB	$ 30,552	1	$ 3,843	-
	Tai-Shing	5,405	-	8,448	1
	TXC Technology Inc.	967	-	3	-
	TXC Japan Corporation	82	-	34	-
	GPT	-	-	10,119	1
		$ 37,006	1	$ 22,447	2
Other current assets	TXC Technology Inc.	$ 2,153	2	$ -	-
	NGB	609	-	-	-
		$ 2,762	2	$ -	-
Notes payable	Tai-Shing	$ 754	1	$ 782	1

Item	Related Party	September 30 2007 Amount	2007 % to Total Account Balances	2006 Amount	2006 % to Total Account Balances
Accounts payable	NGB	$310,899	34	$ 72,107	11
	Tai-Shing	413	-	184	-
	GPT	-	-	151,755	23
		$311,312	34	$224,046	34
Accrued expenses	NGB	$ 1,938	-	$ 1,492	1
	TXC Japan Corporation	70	-	74	-
	Tai-Shing	18	-	6	-
		$ 2,026	-	$ 1,572	1

In the nine months ended September 30, 2007, the Corporation sold to NGB its machinery and computer, with a net book value of $400 thousand, for $532 thousand, and gain of $132 thousand.

As of June 30, 2007, the Corporation's guarantees for loans of its subsidiaries were described in Table 1.

24. PLEDGED ASSETS

As of September 30, 2007 and 2006, the following assets had been pledged at their book values to secure short-term loans and long-term loans:

	2007	2006
Property, plant and equipment		
Land	$157,040	$165,994
Buildings, net	75,429	77,921
Machinery and equipment, net	85,966	374,793
	$318,435	$618,708

25. COMMITMENT AND CONTINGENCIES

The Corporation's commitments and contingencies as of September 30, 2007, which were not shown in the financial statements, were as follows:

Commitment	Contract Price	Paid Up	Not Yet Paid
Prepayment for land	$112,200	$ 11,220	$100,980

Guarantee for short-term loan and long-term loan, amounted to about $1,594,500 thousand.

Usance letters of credit amounted to about JP¥681,646 thousand.

As of September 30, 2007, the Corporation's guarantee for loans of its subsidiaries were described in Table 1.

26. ADDITIONAL DISCLOSURES

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

a. Financing provided: None.

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

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

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: Table 3 (attached).

e. Acquisition of individual real estate properties at costs of at least $100 million or 20% of the paid-in capital: Table 4 (attached).

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

g. Total purchases from or sales to related parties of at least $100 million or 20% of the paid-in capital: Table 5 (attached).

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 6 (attached).

i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 7 (attached).

j. Derivative transactions: Please refer to Note 22 for the related information and Table 8 (attached).

k. Investment in Mainland China: Table 9 (attached).

TABLE 1

TXC CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED
NINE MONTHS ENDED SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limit on Each Guaranteed Party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	TXC Corporation	TCTI	Subsidiary	$ 2,324,613	$ 33,089	$ 33,089	$ -	1	$ 4,649,225
		GPT	Subsidiary	2,324,613	241,550	158,827	-	3	4,649,225
		TXC (Ningbo) Corporation	Subsidiary	2,324,613	97,365	97,365	-	2	4,649,225

Note 1: Not to exceed 50% of the Corporation's net equity. ($4,649,225 thousand × 50% = $2,324,613 thousand)
Note 2: Not to exceed the net worth of the Corporation.

TABLE 2

TXC CORPORATION

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2007				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
TXC Corporation	Bond							
	Government Bond	-	Cash and cash equivalents	-	$ 150,000	-	$ -	
	Financial Bond	-	〃	-	473,000	-	-	
					$ 623,000			
	Beneficiary certificate							
	Ta Chong Bond Fund	-	Available-for-sale financial assets	2,295	$ 30,246	-	$ 30,246	
	Fubon Jin-Ju-I Fund	-	〃	2,454	30,370	-	30,370	
	Cathay Bond Fund	-	〃	2,582	30,106	-	30,106	
	Mega Diamond Bond Fund	-	〃	2,596	30,228	-	30,228	
	Yuanta Fund	-	〃	3,000	29,250	-	29,250	
	AIG US Dual Core Income Fund	-	〃	2,977	29,918	-	29,918	
					$ 180,118			
	Stock							
	TCTI	Subsidiary	Long-term investments - equity method	29,835	$ 1,316,892	100	-	
	TXC Technology Inc.	Subsidiary	〃	300	7,292	100	-	
	TXC Japan Corporation	Subsidiary	〃	2	2,965	100	-	
					$ 1,327,149			
	Marson Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	414	$ 3,000	5	-	
TCTI	Stock							
	GPT	Subsidiary	Long-term investments - equity method	50	$ 36,122 (US$ 1,109)	100	-	
	TXC (Ningbo) Corporation	Subsidiary	〃	US$ 29,835	$ 1,285,845 (US$ 39,467)	100	-	

TXC CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
TXC Corporation	Government Bond	Cash and cash equivalents	-	-	-	$ -	-	$ 300,000	-	$ 300,776	$ 300,000	$ 776	-	-
	〃	〃	-	-	-	-	-	300,000	-	300,697	300,000	697	-	-
	〃	〃	-	-	-	-	-	300,000	-	300,536	300,000	536	-	-
	〃	〃	-	-	-	-	-	150,000	-	150,247	150,000	247	-	-
	Financial Bond	〃	-	-	-	-	-	150,000	-	150,203	150,000	203	-	-
	〃	〃	-	-	-	-	-	150,000	-	150,305	150,006	305	-	-
	〃	〃	-	-	-	-	-	100,000	-	100,193	100,000	193	-	-
	Government Bond	〃	-	-	-	-	-	150,000	-	150,170	150,000	170	-	-
	Financial Bond	〃	-	-	-	-	-	100,000	-	100,157	100,000	157	-	-
	〃	〃	-	-	-	-	-	100,000	-	-	-	-	-	100,000
	Government Bond	〃	-	-	-	-	-	150,000	-	-	-	-	-	150,000

TABLE 4

TXC CORPORATION

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
TXC Corporation	Buildings	2007.05.31	$141,879	Full payment	-	-	-	-	-	$ -	-	Operating purpose	-

TXC CORPORATION

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms (Note)	Unit Price	Payment Terms	Ending Balance	% to Total	
TXC Corporation	NGB	Subsidiary	Purchase	$ 791,822	33	-	-	-	$ (310,899)	(34)	

Note: The terms of purchases from related parties were not significantly different from those with third parties.

TXC CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amounts	Action Taken		
NGB	TXC Corporation	Ultimate parent	$ 310,899 (US$ 9,408)	2.69	$ -	-	$ 10,034 (US$ 308)	$ -

TABLE 7

TXC CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2007			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				September 30, 2007	December 31, 2006	Shares (in Thousands)	Percentage of Ownership	Carrying Value			
TXC Corporation	TCTI	WESTERN Samoa	Investment holding	$ 988,041 US$ 29,835	$ 964,547 US$ 29,122	29,835	100	$ 1,316,892	$ 105,504	$ 108,512	
	TXC Technology Inc.	U.S.A.	Marketing activities	9,879 US$ 300	9,879 US$ 300	300	100	7,292	4,641	4,641	
	TXC Japan Corporation	Japan	Marketing activities	4,661 JP¥ 16,000	4,661 JP¥ 16,000	2	100	2,965	90	90	
TCTI	GPT	B.V.I.	National trading	US$ 50	US$ 50	50	100	36,122 US$ 1,109	12,057 US$ 366	12,057 US$ 366	
	NGB	Ningbo	Manufacture and sales of electronics products	US$ 29,835	US$ 29,122	US$ 29,835	100	1,285,845 US$ 39,467	93,447 US$ 2,837	93,447 US$ 2,837	

TABLE 8

Derivative Transactions

NGB entered into derivative transactions during the nine months ended September 30, 2007 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward contracts as of September 30, 2007:

	Currency	**Maturity**	**Contract Amount (In Thousands)**
September 30, 2007			
Sell	USD/RMB	January 4, 2008	US$6,000/RMB45,158

TXC CORPORATION

INFORMATION OF INVESTMENT IN MAINLAND CHINA
NINE MONTHS ENDED SEPTEMBER 30, 2007
(In Thousands of New Taiwan Dollars and U.S. Dollars)

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of September 30, 2007 (US$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2007 (US$ in Thousand)	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of September 30, 2007	Accumulated Inward Remittance of Earnings as of September 30, 2007
					Outflow (US$ in Thousand)	Inflow					
TXC (Ningbo) Corporation	Manufacturing and sales of crystal and crystal oscillator	$ 988,042 (US$ 29,835)	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	$ 904,965 (US$ 27,287)	$ 23,494 (US$ 713)	$ -	$ 928,459 (US$ 28,000)	100	$ 93,447 (US$ 2,837)	$ 1,285,845 (US$ 39,467)	$ -

2. The limitation on investment:

Accumulated Investment in Mainland China as of September 30, 2007 (US$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousand)	Upper Limit on Investment (Note)
$928,459 (US$28,000)	$1,254,579 (US$37,835)	$1,859,690

Note: Not to exceed 40% of the Corporation's net equity ($4,649,225 thousand × 40% = $1,859,690 thousand).

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

Company Name	Nature of Relationship	Transaction Details					Accounts/Notes Receivable/Payable		Unrealized Gain or Loss
		Purchase/Sale	Amount	Price	Payment Term	Compared with Terms of Third Parties	Balance	%	
NGB	Subsidiary	Sale	$ 60,309	Negotiated price	Similar with third parties	Similar	$ 30,552	1	$ -
		Purchase	$ 791,822	Negotiated price	Similar with third parties	Similar	$ 310,899	34	$ -