

Annual Report 2012 Table of Contents

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Vision Statement

To provide the frequency controlled application products for the computer, communication, optical, and automotive industry so as to become, the most outstanding company in FCP industry judged by performance matrix and managerial capability.

Mission Statement

Through the continuous improvement and the urge for discipline and execution to enhance the productivity to interact with tier one vendors' requests by promoting company's professionalism and globalization framework.

Quality Policy

In accordance with the principles of customer orientation, problem prevention, and the pursuit of zero defect, TXC management team commits to deploy the quality policy as follows:

- (1)Technological innovation
- (2)Reliable quality
- (3)Continuous improvement
- (4)Customer satisfaction

Green Product Policy

- Based upon the most rigid legitimate rules or the requirements of our customers to set TXC's green product policy in order to be the fittest green products partner of our customer.
- Documented the environmental policy in details to promote the overall awareness of the environmental protection concept and the implementation methods.
- Through company-wide various activities to ensure the quality of our green products will meet or exceed the regulated or expected requirements.
- Continuously improving environmental management system through periodic auditing and system inspection.
- TXC's company policy, aimed at everlasting, is based upon the corner stones of green products designing, environmental protection, and customer satisfaction.

I. Business Report

Over the past year, the overall economic environment came under stress from European and American debt and Korean and Japanese monetary devaluation. Despite being able to maintain a level of operation performance in the quartz industry, customers will clearly possess more price negotiation power as competition intensifies and information becomes more transparent. As laws and regulations become more comprehensive, customer enforce stricter standards, profit erodes and the business environment become more uncertain, it is important to honestly examine our business to find new profit models and prepare sufficient resources to break through the status quo and achieve steady growth and profit for another 30 years. In the future, we must become accustomed to study and maintain sufficient flexibility and vitality to cope with the stresses brought by change. Also, niche profits must be better understood in this age of reduced profits. In fact, these are the innovation and breakthroughs from the operation process. The limitations to future habitual domains must be gradually removed no matter how difficult the task in order to truly build a sustainable business. We have the determination to challenge the future, face competition and strive forward to change ourselves. Our 2012 business results and future plans are provided below for our shareholders.

With regard to our company's 2012 operation performance, consolidated sales reached NT\$10.93 billion which represented an increase of 10.4% over the NT\$9.90 billion in consolidated sales for the previous year and reached 103.9% of our forecast goal. Net income after tax was NT\$1.15 billion which was 9.4% less than the previous year and met 101.7% of our forecast goal. This decline is mainly attributable to a decline in market competitive prices. Base earnings per share were NT\$3.79 which represented a decline of 8.9% when compared to the EPS of 3.48 posted the previous year. Looking over this year, TXC hopes that sales, growth and profits will be above industry levels with respect to the performance index set by the company and provided there is a significant economic recovery. The 2012 Operations Results and 2013 Business Plan Overview are provided below:

A. Operational achievements in 2012

1. Revenue and net profit after tax

Unit: NT\$1,000

	2012	2011	Increase(decrease)amount	Percentage increase
Net consolidated revenue income	10,928,495	9,897,341	1,031,154	10.4
Consolidated operational profit	2,508,295	2,400,646	107,649	4.5
Net consolidated profit (loss) after tax	1,148,886	1,050,216	98,670	9.4

2. Revenue income and expenditure and profitability:

Revenue income and expenditure and profitability:

	Year	2012	2011
Finance Structure (%)	Liability vs asset ratio	37.63	37.87
	Longterm fund vs fixed asset ratio	274.49	261.85
Debt-paying Capability (%)	Liquidity ratio	163.47	185.13
	Quick ratio	130.78	145.45
Profitability (%)	Return on assets ratio (%)	9.71	9.80
	Return on shareholders equities ratio (%)	15.28	15.34
	Earnings per basic share (NT\$)	3.79	3.48

Consolidated revenue income and expenditure and profitability:

	Year	2012	2011
Finance Structure (%)	Liability vs asset ratio	39.36	40.05
	Longterm fund vs fixed asset ratio	164.03	162.54
Debt-paying Capability (%)	Liquidity ratio	195.52	218.31
	Quick ratio	150.24	170.70
Profitability (%)	Return on assets ratio (%)	9.45	9.35
	Return on shareholders equities ratio (%)	15.28	15.34
	Earnings per basic share (NT\$)	3.79	3.48

3. Budget Implementation Status:

Only internal budget targets were set at the company for 2012 and financial forecasts were not announced externally. Over 100% of the overall sales, profit and business goals set by the company were reached.

4. Research and Development Status :

Our company has focused its R&D and investment in crystal miniaturization and specification enhancement technology for frequency element products. Dimension / specification design and applications have reached the world class levels. Quartz crystal and quartz oscillator series products all display exceptional technical prowess. As for product development results, 1612 dimension specification has been successfully developed in the XO field. For VCXO, 5032 specification has been sold to a multinational corporation and we are continuing development of 3225 dimension. With regard to TCXO, the 1612 specification has entered pilot production and efforts are being made to develop the next generation dimension applications. For OCXO, 3627 / 2525 / 2020 dimension specifications have been successfully developed. For MO, 7050 / 5032 / 3225 / 2520 dimension specifications have been developed. In the future, TXC will continue to conduct research in the directions of low cost, low energy consumption, high vibration resistance and broader frequency range and follow our original product planning and development roadmap as well as focus resources on making advances towards high end high-frequency and automotive product development.

5. Implementation Results for Other Projects :

(1) Green Enterprise :

Having passed BSI external audit and certification, TXC completed the ISO 14064-1 greenhouse gas inventory, PAS 2050 product carbon footprint inventory and PAS 2060 neutralization certification declaration in July, August and September of 2012 and obtained TEEMA carbon reduction label certification in December of the same year. In addition, TXC conducts annual inventories of public facilities, process machinery / equipment and other energy use to understand energy consumption at the company so to achieve management and control goals. ISO 50001 energy management system certification was also completed by BSI.

With regard to low carbon activities, the company has obtained no. 10200125 and no. 10200180 symbols from the Environmental Protection Administration. TXC is the first company in the quartz industry to have conducted inventories for the above systems. In August 2012, TXC received green sustainable enterprise award from BSI. In the future, the company will continue to make efforts in the fields of green and environmental protection to fulfill our corporate social responsibility.

(2) Occupational Safety and Health :

Under the guidance of the Occupational Safety and Health Committee and Labor / Management Meeting, TXC passed Council on Labor Affairs Occupational Safety and Health Performance Recognition in 2009 and earned OHSAS 18001 Occupational Safety and Health Management System certification from BSI in 2010. In September 2012, TXC passed CNS 15506 Taiwan Occupational Safety and Health Management System certification and received Occupational Safety and Health Performance Recognition in September 2013. A total of 18 health promotion activities were held in 2012. In addition, an EICC VAP audit was conducted and certification received. In the future, the company will continue to strive to create a safe work environment so to offer the maximum assurance of safety to our employees.

(3) System Certification :

In 2012, TXC passed BSI audits and obtained ISO 140001 environmental system certification in September, ISO 9001 quality system, ISO/TS16949 automotive quality system and IECQ/QC080000 hazardous substance management system certification in December and purchased a scanning electron microscope (SEM) to speed up engineering analysis. Chinese RoHS and CESI certification was granted for our 5032 oscillator and 3225 crystal products. Obtaining the above certification ensures that our product quality meets international standards. In order to ensure the safety of our operations, TXC passed the ISO 27001 audit with an outstanding record of zero deficiencies in 2012 and plans to introduce the ISO 27001: 2013 version this year to guarantee the security of company information control measures and protect the rights of company stakeholders.

(4) Skill Upgrading :

In 2012, TXC formally launched Design for Six Sigma (DFSS) classes and introduced Theory of Inventive Problems Solving (TRIZ/TIPS) innovative design methods to complete the introduction of five major programs to further raise the R&D standards of the company.

(5) Corporate Governance and Corporate Social Responsibility :

As a result of our efforts in the fields of corporate governance and corporate social responsibility, TXC was awarded Authorized Economic Operator (AEO) by the MOF Customs Administration in March 2013, received an A+ grade for our CSR report in June and was honored with a Information Disclosure and Transparency Ranking of A++ in July. In addition,

the voluntary disclosure status of TXC has been consecutively rated as transparent. The company was given the Corporate Citizenship Award by Commonwealth Magazine in September and stood out from hundreds of public listed companies to win the first annual Mittelstand Award from the Industrial Development Bureau in February 2013.

B. 2012 Business Plan Overview :

1、Operation Direction and Major Policy :

(1) Risk Management :

In 2013, TXC continued to introduce the risk identification and control ISO 31000 risk management system and ISO 22301 business continuity management system to quickly respond to major changes and provide continuous service to customers.

(2) Quality Defect Cost Improvement :

In 2013, quality defect cost discussion and improvement plans has been in use since 2011. An information collection system was also completed to show the quality defect cost for five major items. The quality of each process can be effectively control and system improvements can be discussed to achieve superior operation quality.

(3) Financial and Information System Establishment :

In 2013, TXC continued to make fine adjustments to IFRS related Oracle R12 computer system to make internal operations more smooth and efficient. A Oracle PeopleSoft skill management application system was established. In addition, PLM (Product Lifetime Management) module was formally established to strengthen project schedule and process controls to raise communication and work efficiency.

(4) Management System :

In 2013, TXC continued to maintain and introduce energy conservation and carbon reduction ISO 14064-1, PAS 2050, PAS 2060 systems and system inventories. The new version of ISO 27001:2013 serves as a standard for the establishment of an information security system that is protected against possible hacker attacks.

(5) Corporate Governance and Corporate Responsibility :

TXC, which previously received Taiwan Corporate Governance Association CG6005 certification, introduced CG6008 advanced version this year. In June, the audit committee was established to provide this corporate governance function. In addition, TXC completed CSR report certification based on AA 1000 and GR I3.1 standards and continues to work towards information disclosure and fulfill corporate social responsibility.

(6) Plant Expansion :

TXC completed the expansion of our manufacturing plant and started trial production in Chongqing, China in the fourth quarter of 2012. A monthly production capacity of 20KK is initially planned to diversify the production risk at Pingzhen and Ningbo plants. Following the establishment of the new energy division, in addition to original sapphire growing, pattern sapphire substrate process production capacity has been expanded in order to achieve a breakthrough in our LED business.

2、Forecast Quantity of Sales and Basis :

The global economy has finally started to rebound as the economic stimulus from U.S. quantitative easing continues in 2012, the European stability mechanism brings the European

debt problems under control and Japan joins the loose monetary policy club at the end of the year. In the midst of this uncertain global political and economic climate, TXC was able to post impressive growth of 10.4% and reached a market share of 10.8%. As a result, the Company continues to adopt a cautiously optimistic stance in our 2013 sales forecasts. In addition to cooperating further with major international firms, TXC plans to actively develop new customers and products in response to future industry development requirements. Furthermore, future development will focus on high-end products to raise profit margins and profitability. Additional production capacity expansion is planned for 2013. Entry in the automotive industry as well as ongoing customer certification and approval of high frequency precision products are expected to help boost company sales and profits. Also, the products developed by our new energy division will gradually bring in more business after a year of technical research and customer development.

As for the global economy in 2013, the U.S. economic data has been showing improvement so the quantitative easing stimulus policy will be gradually withdrawn and the economy will need to be driven by fundamentals. Deficit reduction efforts in Europe are resulting in austerity measures. In addition, the expanded quantitative easing stimulus by Japan has spurred competitive devaluation among Asian currencies to stimulate exports. The future political and economic development direction was set during the meeting of the National People's Congress in China and the Chinese economy should recover under the 8 percent growth target. In general, TXC focus on miniaturized, high frequency and low consumption precision fields in product development is already seeing results. Also, our new energy division has started to generate sales and profits. As the global economy strengthens, total sales quantities in 2013 are forecast to exceed 2.5 billion and TMX market share is expected to increase to 11 – 12% which will make the company one of the top two manufacturers in the quartz industry.

Faced with business environment challenges and industry competition, TXC not only needs to be accustomed to respond quickly, but also has to strive to make breakthroughs, innovate, accept challenges and erode habitual domains that obstruct progress as profits come under pressure. By getting back to basics as stated last year “face improvement of human resource quality, allocate and integrate resources, reorganize, simplify and eliminate procedures once again”, and honestly engage in self-reflection in order to achieve company business sustainability.

Reflecting on the outcome of receiving the Mittelstand Award, self-examination through people-oriented corporate culture, practical dream building operation strategy, profit sharing / collaborative spirit, customer oriented service attitude and information transparency governance model and continue to strive for success by following the example of Tadashi Yanai “one-day success can be discarded”.

Looking back over the past three decades since the establishment of TXC, the challenges that we have faced and the appreciation deep in our hearts allows us to stay dedicated to our upward striving spirit. With regard to the frequent and hard-to-predict changes in the marketplace, we need to be even more diligent, focused and steadfast in achieving our set targets with a spirit of dedication, speed and efficiency and with modesty and a positive attitude. Success can only be attained by staying focused on our vision. There is no guarantee of success. As we look towards the future, quality improvement gives us the capability to enter the automotive market and security related products. As for technical progress, we must establish a position capable of attack and defense together with intellectual property. With respect to cultivation of human resources, we need to develop the professional and management skills of more people. In this way, we can honestly face ourselves, challenge the future and usher in another three decades of competitiveness.

II. Company Overview

A. Company Introduction

1. Date of the company's incorporation

TXC Corporation, founded in 1983, is a leading professional frequency control product manufacturer. We have devoted to the research, design, manufacture, and sale of Dual-Inline-Package (DIP) and Surface Mount Device (SMD) quartz crystal products. TXC now specializes in five categories of products such as high quality Quartz Unit Crystal, Automotive Crystal, Crystal Oscillator (CXO), Surface Acoustic Wave (SAW) Filter, and Timing Module (TM). In addition, to expand the Group's future development, the application of the core technical capabilities in the 2011 Q2 to import the LED substrate and wafer process, formal entry into the sapphire LED field. Our goal is to add value to our customers by providing a complete solution of frequency devices and modules, design-in service to fully satisfy various needs of the esteemed customers. We believe based upon the competence of cost effectiveness, quality, lead-time, and customer service TXC will go beyond customers' expectation. TXC has now been highly recognized as the first-class crystal provider by our customers and TXC Corporation will continue striving for excellence not to meet but to exceed the most rigid customers' standards.

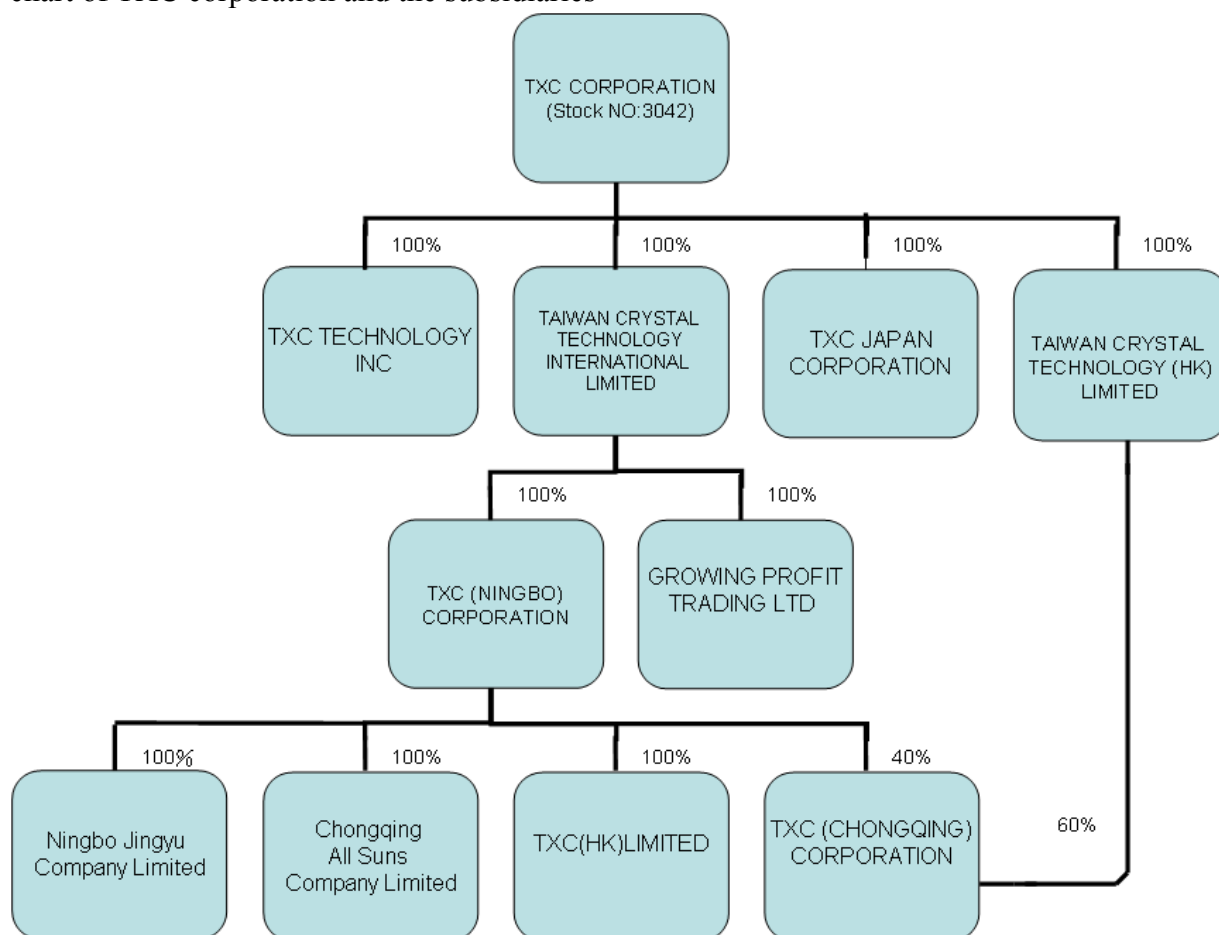
2. Company History

- 1983 Founded in Taiwan with US\$95,000 capital.
- 1984 Began production on DIP type crystals and oscillators in Peitou factory.
- 1993 ISO9002 certified.
- 1995 Winner of the 4th National Award of Small and Medium Enterprises.
- 1997 Began production of SMD type crystals and oscillators in Taoyuan factory.
- 1998 Began production of SAW devices.
Implemented Oracle ERP system.
- 1999 Established US sales office.
- 2000 Increased capital to US\$25.3 million.
- 2001 IPO'd with capital increased to US\$37 million.
- 2002 Listed in the Taiwan Stock Exchange (Code-3042)
ISO14001 certified.
Ranked among the top 10 worldwide frequency control product manufacturers.
- 2003 Began to offer value-added products (HF CXO/VCXO, OCXO, FX, etc.) for the telecom market.
Began production in new factory in Ningbo, China.
- 2004 Implemented QoS and 6-Sigma management systems.
QS9000 certified.
Established US Technology Center.
- 2005 ISO/TS16949 certified.
Ranked number 6 among the worldwide frequency control product manufacturers.
- 2006 Expanding Taoyuan factory. Adding production lines in Taiwan and China. The capacity reached to 70 million units per month. Authorized Capital: US\$57.9 million.
- 2007 New factory in Pingzhen inaugurated, factory expansion project in Ningbo factory launched, Intel presented the Preferred Quality Supplier, promotion of the Six Sigma project to Ningbo plant green belt training, procurement of the Shenzhen office, implementation of employee stock option, CB conversion, and recapitalization of surplus to NT\$2,415,530,000.
- 2008 Simultaneously expanded factories in Pingzhen, Taiwan and Ningbo, China; won Intel's Supplier

- Continuous Quality Improvement (SCQI) Award; won A+ evaluation for information disclosure and top 10 potential golden torch award; continued to promote the 6-Sigma black belt training program at Ningbo and Pingzhen plants. Set up sales operations in Osaka, Japan and Singapore to promote sales. Issued employee options and implement the treasury stock system. Set up subsidiary TXC Hongkong; execute employee option, CB conversion, surplus conversion to increase capitalization to NT\$2,716,980,000.
- 2009 Second phase of Taiwan Pingchen and China Ningbo plant expansion initiated, received A+ ranking and top 10 award at sixth annual Information Disclosure and Transparency Ranking, on-the-job training plan launched for personnel at Ningbo and Pingchen plants, received Preferred Quality Supplier Award recognition again from Intel, strengthen company internal controls to ensure corporate governance effectiveness, promoted transparency of corporate governance information, exercised employee stock warrants, convertible bonds, capital increase by retained earnings to NT\$2,887.27 million.
- 2010 Issued third convertible bond, received corporate governance system evaluation certification from the Taiwan Corporate Governance Associations, received industry model award for the Technology Industry B group from Commonwealth Magazine, awarded National Quality Award from Executive Yuan, continued to implement 6-Sigma black belt training plan for Ningpo and Pingchen plants, set up sales office in Europe to expand business, purchased offices in Shanghai and Suzhou, started third phase of plant expansion for Taiwan PCF, purchased **5,733 level** ground of land, built the factories for new energy business unit, execute employee stock option and increase capital out of earning to 2.971 billion NT dollars.
- 2011 Completion and launch of Taiwan Pingzhen Third-Stage plant expansion and New Energy Division plant, establishment if TXC (Chongqing) Electronics Co., Ltd. production site, established TXC (Chongqing) Corporation and Ningbo Jingyu Company Limited, expansion of European subsidiary, receives A+ grade and top 10 award at Eighth Annual Information Disclosure and Evaluation, passed CGR report review, received Energy Conservation Elite, Outstanding Innovation Award and Commonwealth Corporate Citizen Award, received Taoyuan County Corporate Innovation Award, received ISO50001 Energy Management System, ISO28000 Supplier Chain Management System, ISO27001 Information Security Management System certification, Oracle ERP system upgraded to R12 version, valid assessment of remuneration fairness combined with performance evaluation, establishment of remuneration committee, exercise of employee stock warrants, NT\$3,022,420,000 capital increase by capital surplus.
- 2012 TXC (Chongqing) Corporation plant construction, awarded Authorized Economic Operator (AEO) by the MOF Customs Administration, passed BSI greenhouse gas (ISO 14064-1), product carbon footprint (PAS 2050) inventory, product carbon neutralization (PAS 2060) inventory, given Corporate Citizenship Award by Commonwealth Magazine, received green sustainable enterprise award from BSI, external certification of CSR Report conformed to GRI G3.1 A+ and AA 1000 standards, passed CNS 15506 TOSHMS, awarded ninth annual Information Disclosure and Transparency A++ and top ten ranking, exercised employee stock options, convertible bond and NT\$3,097,579,000 capital increase.
- 2013 Issued 4th convertible bond, TXC (Chongqing) Corporation started formal mass production, received 1st annual Mittelstand Award from the Industrial Development Bureau and applied for Development of Products of New Leading Industries R&D funding from the Industrial Development Bureau.

B 、 Company Structure and the Subsidiaries

1.The chart of TXC corporation and the subsidiaries



2.The basic data of the subsidiaries

2013.03.31

Name	Incorporated	Address	Capital	Business Nature
Taiwan Crystal Technology International Limited	1998.12.23	WESTERN SAMOA	USD45,835,294	Investment holding
Growing Profits Trading Ltd	1999.03.09	BRITISH VIRGIN ISLANDS	USD 50,000	National trading
TXC (NGB) Electronic Co., Ltd. corporation	1999.03.12	No.189, Huangshan Xi Rd., Economic & Technical Development Zone,Ningbo Zhejiang, China	USD45,835,294	Manufacture and sales of electronics products
TXC Technology Inc	2000.12.01	431 Lambert Road,Suite 306 Brea,California 92812, U.S.A.	USD 300,000	Marketing activities
TXC Japan Corporation	2005.09.13	Davinici-shin-yokohama Bldg.,1-3-1, Shin-yokohama, Kohoku-ku,Yokohama,222-0033 Japan	YEN 21,000,000	Marketing activities
TXC (HK) LTD	2008.03.31	ROOM C.21/F,CAPITAL TRADE CENTRE, 62,TSUN YIP ST.,KWUN TONG,KOWLOON, H.K.	HKD 200,000	National trading
TAIWAN CRYSTAL TECHNOLOGY (HK) LIMITED	2010.07.06	Rm.804, Sino Centre, 582-592 Nathan Rd.,Kln.H.K	USD 10,080,000	Investment holding
TXC (Chongqing) Electronic Co., Ltd. corporation	2010.10.11	JinFeng Industrial Region, Jiulongpo District, Chongqing City, China	RMB 106,842,032	Manufacture and sales of electronics products
Chongqing All Suns Company Limited	2011.02.14	Jiulongpo District, Chongqing, China Jinfeng Road 108,	RMB 66,000,000	Marketing activities
Ningbo Jingyu Company Limited	2011.09.07	No.189, Huangshan Xi Rd., Economic & Technical Development Zone,Ningbo Zhejiang, China	RMB 1,000,000	Purchasing and selling electronic component

III. Corporate governance

A. Directors and Supervisors

2013.03.31

Title	Name	Major academic (professional) experience	Current position in our company or other company
Chairman of the Board of Directors	Lin, Jin-Bao	MBA, West Texas A&M University, USA	Director, TaiwanCrystal Industry Association
Vice-Chairman of the Board of Directors	Hsu, Der-Jun	Kei-Nan Institute of Technology and Business	Chairman of the Board of Director, Chan-Yu Corporation Chairman of the Board of Director, Kuan-Ya Int'l Corporation Chairman of the Board of Director, TCTI Corporation
Director of Board	Lin, Wan-Shing	Master in Management, Taipei Science and Technological University	Chairman of the Board of Director, Tai Shin Electronics Corporation Chairman of the Board of Director, TXC Ninpo Corp
Director of Board	Go, Tien-Chong	Electronics Dept, Taipei Institute	Consultant, Amulaire
Director of Board	Kuo, Shu-Hsin	Business Major, Taipei Business School	Vice-Chairman of the Board of Director, Chan-Yu Corporation
Director of Board	Chen Chueh, Shang-Hsin	Master of management, Zhejiang University	Marketing inspector of TXC
Corporate Director of Board	TLC Capital Co.,LTD	Investment Company of UMC Group	Investment Company of UMC Group
Independent Director of Board	Shen, Chi-Fong	BusinessAdministration, Taipei Cultural University	Board of Director, Shun-Ban Technology Corp. Chairman of the Board of Director, Hon-Sheng Technology Corp (Institution Representative) Auditor, Chun-Chong Optics-Electronics (Institution Representative)
Independent Director of Board	Yu, Shang-Wu	Ph.D., Birmingham University	Professor, Taipei Science and Technological University
Supervisor	Yang, Min-shou	Taipei Second Professional High School	-
Supervisor	Yang, Du-An	History Dept, TamKung University	-
Supervisor	Lin, Ming-Zong	Accounting Department, Feng Cheng University	Director of Chung Financial Consulting Corporation

B. Personnel data of the general manager, vice general manager, assistant vice general manager, chief of divisions

2013.04.21

Title	Name	Date of employment	Major academic (professional)	Other part time position with other companies
General Manager	Lin, Wan-Hsing	1989.11.11	Master in Management, Taipei Science and Technological University	Chairman of the Board of Director, Tai-Shin Electronics Corp Chairman of the Board of Director, TXC Ninpo Corp
Vice General Manager	Chen Chueh, Shan-hsing	2002.04.01	Master of management, Zhejiang University	President of TXC Ninpo Corp Chairman of the Board of Director, Shin Mau Electronics Corp
Vice General Manager	CS Lam	2011.01.03	PhD, Princeton University	President of TXC Technology Chief Technology Officer of TXC Corporation
Vice General Manager	Chang, Qi-Zhong	2006.04.01	Lunghwa University of Science and Technology	-
Vice General Manager	Kuo, Ya-Ping	2009.08.01	BOSTON UNIVERSITY, MBA	-
Vice General Manager	Adam Lee	2011.01.31	Ph.D., National Taiwan University of Science & Technology, Department of Business Administration Vice President, Sequel Technology, Inc.	-
Vice President Manager	Colin Chang	2012.01.01	City University of Macau, MBA Plant Manager, Taitien Electronics Co., Ltd.	
Assistant Vice General Manager	Kuo, Ya Han	2009.08.01	West Coast University, MBA Sales & Marketing Center TXC Corp.	-
Assistant Vice General Manager	Lin, Sufen	2010.07.01	Electrical Department of Kaohsiung Institute Director, OEM Product Division, TXC Corp.	-
Assistant Vice General Manager	Lin, Shi Bo	2011.01.31	Master of Physics, UC, Riverside, USA Director, Marketing Center, TXC Corp.	-
Assistant Vice General Manager	Su Zheming	2011.01.31	Department of Electrical Engineering, National Taiwan Ocean University Director, Manufacturing Center, TXC Corp.	-
Assistant Vice General Manager	M.K. Chao	2012.01.01	Ph.D., Naval Architecture & Ocean Engineering, National Taiwan University Engineer, Biomedical Engineering Center, ITRI	
Assistant Vice General Manager	Stephen You	2012.01.01	Department of Electronic Engineering, Oriental Institute of Technology Special Assistant, Sales/Marketing Center, TXC Corp.	
Chief of Finance	Hong, Gon-Wen	2003.03.11	MBA, National Taipei University Financial Manager, TXC Corp.	-

Note 1: The shareholdings listed in the table include shares under trust with discretion reserved.

Note 2: The tenures of VP Colin Chang, AVP Stephen You, AVP M.K. Chao began on January 1, 2012

C. Corporate governance and variations with management principles of publicly-listed companies and reasons

Items	Enforcement	Discrepancy with best-practice principles of TWSE/GTSM listed companies
I. Company ownership structure and shareholders' equity (A) Company handling of shareholders' proposals and disputes (B) Search for information on the identities of major shareholders and their ultimate controlling persons (C) The establishment of risk control mechanism and firewalls with affiliates	1. The Company has established spokesperson, deputy spokesperson and e-mail address. E-mail addresses have been set up for independent directors and supervisors to handle shareholder proposal and disputes. 2. The Company reports changes in internal personnel including directors, supervisors and executives and shareholders with 10% of company shares monthly to the MOPS site designated by the Securities and Futures Bureau in accordance with Article 25 of the Securities and Trading Act. 3. In addition to setting up risk control mechanisms, the Company has established related procedures of operation, business and financial dealings with affiliates such as subsidiary operation and management procedures. Besides overseeing the establishment of written internal control system at subsidiaries, determining subsidiary decision making authority, management of interested party transactions, transaction procedure for specific companies, related parties and group companies. In addition, procedures for acquisition or disposal of assets, procedures for endorsement and guarantee, procedures for lending funds to other parties, policies and procedures for financial derivatives transactions have been established with reference to parent company procedures to set up risk control mechanisms for subsidiaries.	Conforms with best-practice principles, no discrepancy

II. The composition and duties of board of directors (A) Company independent director placement (B) Regularly evaluation of CPA independence	1. The company elected two directors who conformed to independent director criteria at the 2010 shareholders' meeting convened on June 15, 2010 and amended the articles of incorporation in line with the Securities and Exchange Act to include independent directors. The academic background, operating beliefs, declarations and commitments of the two independent directors and the election process and complete results are posted on the company website. The related important statements made by the independent directors during the board meetings are recorded in the board meeting minutes. 2. The Company conducts an annual internal evaluation of the competence of CPA to strengthen CPA independence and familiarity with company business and makes regular (every 1 – 2 years) reports to the board to evaluate the independence of CPAs. A CPA performance evaluation procedure was passed on April 29, 2013 which utilizes the audit committee to strengthen evaluation functions. Before the CPA is replaced, the Chairman and President first understand the reason and circumstances of the replacement and interview the CPA successor. Following the evaluation, the resume of the CPA is sent to the audit committee for review and the matter is reported to the board for discussion. If necessary, the CPA may be requested from time to time to attend board meetings. Reports were made to board for discussion of independence and competence at the two most recent board meetings on January 5, 2010 and August 27, 2012.	Conforms with best-practice principles, no discrepancy
III. Establishment of communication channels with stakeholders	The Company has established a spokesperson system, website and other channels to provide the latest company information and create channels for communication. A dedicated shareholder mailbox has also been set up to serve as a contact window for business management and operation items so stakeholder replies can be handled appropriately.	Conforms with best-practice principles, no discrepancy

IV. Disclosure of information (A) Establishment of website to disclose financial, operation and corporate governance information (B) Other means of disclosing information (such as establishment of English website, designation of dedicated personnel responsible for the collection and disclosure of company information, setting up spokesperson system, placement of investor conference details on the company website).	1 、 The Company has set up simplified, complex Chinese, English and Japanese versions of website. The website at http://www.txccorp.com provides financial and business information and dedicated personnel are responsible for its maintenance and information updating. 2 、 The Company holds investor conferences as required and relevant information is placed on the company website and posted on the MOPS site designated by the competent authorities. 3 、 As for corporate governance information disclosure, the Company's important information, financial status, board and shareholder meetings, dividend issuance, internal audit organization and operation, major laws and regulations and procedures for internal persons and past board meeting minutes were posted on the company website for investor reference. 4 、 The Company has set up Chinese, English and Japanese versions of the company website and dedicated personnel are responsible for collection of related information. Disclosure of major company events is done uniformly through a spokesperson. Recordings or video files of the company's investor conference are posted on the company information disclosure website to allow convenient access by outside persons. Related information is also reported to the MOPS site designated by the competent authorities.	Conforms with best-practice principles, no discrepancy
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V. Company establishment, nomination or operation of other functional committees	The Company's board of directors passed a resolution on December 28, 2011 to establish a remuneration committee and convened meetings on January 16, 2012, August 27, 2012 and December 24, 2012. Three supervisor and two independent director positions have been established in accordance with the Securities and Exchange Act. One of them conforms to independent supervisor criteria. Related duties including nomination of committee members and setting remuneration committee attributes. Its operations comply with Best-Practice Principles of TWSE/GTSM Listed Companies. The supervisor system will be abolished during the 2013 board of directors election and a audit committee will be established in its place in accordance with related laws and regulations.	To establish supervisor, audit committee or other function committees in accordance with the law, it will be proposed to revoke the supervisor system and elect three independent and establish an audit committee at the June 19, 2013 shareholders' meeting.
VI. If your Company has established corporate governance principles according to Best-Practice Principles of TWSE/GTSM Listed Companies, describe any discrepancies between them: 1. The Company's board of directors passed the initial version of Corporate Governance Best-Practice Principles on October 27, 2009. Amendments were made on April 29, 2013. Actual operations of the Company comply with Corporate Governance Best-Practice Principles. Its enforcement principles are: (1) Encourage shareholder participation and corporate governance (2) Establish corporate governance relations between the Company and affiliated companies (3) Strengthen board of directors functions (4) Plan to establish audit committee to replace supervisor positions in 2013 (5) Set board resolution rules and decision making procedures (6) Exercise remuneration committee and audit committee functions (7) Respect rights of stakeholders (8) Raise information transparency (9) Improve corporate government disclosure 2. In order to enhance corporate governance content and spirit, the Company will continue to establish more detailed and concrete rules and procedures, the code of conduct, management of transactions with interested parties, procedure for transactions with designated companies, interested parties and group companies and major internal information guidelines, scope of duties of independent directors, code of ethical business management, corporate social responsibility best-practice principles have been passed at board of directors and shareholders' meetings and are implemented by the Company.		

VII. Other major information that is helpful to understand corporate governance enforcement (such as employee rights, employee concern, investor relations, supplier relations, stakeholder rights, director and supervisor continuing studies, risk management policy and risk weighing criterion implementation conditions, consumer protection or customer policy implementation conditions, purchase of liability insurance for company directors and supervisors):

1. Employee rights: The Company has set up employee welfare measures, retirement system, continuing studies and various employee rights based upon the Labor Standards Act.
2. Employee concern: The Company has set up a medical office with professional medical staff, established a labor safety and health committee to govern employee safety and health matters and offers employee assistance programs including psychological, medical and health. Many communication channels have been opened for employees to submit suggestions and recommendations to create excellent two-way communication channels.
3. Supplier relations, stakeholders' rights: Procedures are followed for each aspect of company work. Cooperation with companies is conducted in accordance with contract provisions to uphold the legal rights of both parties. As of today, no related litigation has arisen.
4. Investor relations: The Company is very concerned about investor rights. In addition to reporting related information to the MOPS site designed by the competent authorities and posting related information on the company website, the Company received an A+ rating for four consecutive years by the Securities & Futures Institute information disclosure and evaluation system, awarded the voluntary disclosure and transparent company honors for eight consecutive years and given an A++ rating for the ninth annual rating period.
5. The Company's directors and supervisors attend continuing education finance and business classes on a non-regular basis. See the director and supervisor education & training table of the Company's Annual Report.
6. Company risk management policy and risk weighing criterion implementation: See the Company's Annual Report for related company risk management policy, organization framework and related risk control work. In addition, the Company conducts analysis, tracks and devises countermeasures for business targets that could result in high risks to establish a sound risk control mechanism.
7. Consumer protection and customer policy implementation: Customer first, mission accomplishment shows TXC commitment and determination to create a customer-oriented business. Our dedication towards quality has earned deep customer recognition over the years. The outstanding supplier awards given to us by numerous customers are a source of pride and encouragement.
8. The Company has purchased liability insurance for directors and supervisors in 2004. In 2008, the policy was increased to US\$5 million.

9. Corporate governance instruction, training and continuing education for executive officers:

Position	Name	Training Period	Continuing Education Date		Organizer	Name of Course
			Start	Finish		
President	Peter Lin	3 hrs	07/23/2012	07/23/2012	Taiwan Corporate Governance Association	Taiwan Corporate Acquisition Legal System and Frequent Disputes
Vice President	Yapin Guo					
Vice President	C.S. Lam					
Vice President	Colin Chang					
Vice President	Adam Lee					
Marketing Principal	Levi Chen					
Audit Supervisor	Chang Wei-Han	6 hrs	5/22/2012	5/22/2012	Taiwan Development & Research Academia of Economic & Technology	Lecture on Supervision and Auditing of Chinese Subsidiaries of Taiwan Businesses
		6 hrs	5/23/2012	5/23/2012	Taiwan Development & Research Academia of Economic & Technology	China Taxation and Accounting Internal Audit Case Study Seminar
Financial Controller	Vivien Hong	3 hrs	07/23/2012	07/23/2012	Taiwan Corporate Governance Association	Taiwan Corporate Acquisition Legal System and Frequent Disputes
		12 hrs	10/18/2012	10/19/2012	Accounting Research and Development Foundation	Issuer Securities Exchange Accounting Supervisor Continuing Education Course
		3 hrs	12/05/2012	12/05/2012	Securities and Futures Institute	International Financial Reporting Standard (IFRS) Coming Times and How Enterprises Should Respond

		3 hrs	11/20/2012	11/20/2012	Securities and Futures Institute	IAS1 no. 8, 24, 34 Reporting and Analysis - Financial Reporting Expression, Accounting Policy, Changes in Accounting Estimates and Errors, Interested Party Disclosure and Mid-Term Financial Reporting	
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VIII. If the corporate governance self-evaluation or corporate governance rating report by an external body, describe the self-evaluation (or external evaluation) results, major deficiencies (or suggestions) and improvement conditions:

(A) The Company hired the Taiwan Corporate Governance Association on March 2, 2010 to rate the corporate governance of the Company and received CG6005 general version corporate governance system rating certification on March 23, 2010. The rating recommendations were as follows. The Company will continue to make improvements based on the recommendations.

1. Recommended the Company to refer to corporate governance best-practice principles and spirit and conduct a comprehensive examination of the overall connection and integration of the rules and procedures passed as a result of the high speed growth over recent years. A internal corporate governance system and related work procedures need to set up that conform to company attributes and requirements to aid compliance.
2. Recommend the Company think from a corporate group perspective and differentiate the Company from ordinary companies and set up a system and related procedures that conform to affiliated company requirements to implement group company management procedures.
3. Recommend the Company's board of directors take the high ground when setting business targets and strategy development at different stages for the Company, identifying various risks and establishing a suitable risk appetite and tolerance. In addition, take a pro-active stance in bringing together the risk management procedures currently distributed in different company systems and procedures, set up a comprehensive risk management policy as well as clearly worded procedures, rules, guidelines and measures, assign dedicated sections to be responsible for implementation and auditing to achieve the goals of risk management. Risk management policy results should be reported regularly to the board of directors.
4. Recommend the Company set up a board of directors performance evaluation system and conduct regular evaluations to urge board of directors to upgrade performance and raise the overall operation performance of the board of directors.
5. Recommend the Company have the board of directors approve the performance evaluation standards of the president and other executive officers.
6. The Company is currently in a high growth stage. The Company's chairperson concurrently serves as the CEO and the Vice Chairman serves as the Deputy CEO. It is recommended the Company think about what concrete steps can be taken to gradually separate the Chairman and Vice Chairman from business operations team including increasing the number of independent directors and raising the board of direction supervisory functions which should be the long-term development goal for the Company's corporate governance system.
7. In order to raise board of director meeting attendance, first schedule the board of director meetings six months or one year in advance or use teleconferencing for the meeting. Also follow related procedures to ensure that the legality of the teleconference.

8. Based on the spirit of corporate governance, when a director or supervisor has a conflict of interest involving a matter before the board of directors, the independent director shall fulfill their decision-making responsibility and oversee related director recusal at board meetings. For effective implementation, the board secretary can be responsible for reminding the meeting chairperson and have the independent directors supervise the recusal procedure and work.
 9. The Company's information disclosure system is very effective but it is recommended that procedures set up for reporting major information to the board, independent directors and supervisors including reporting period, type of information reported and reporting method to ensure board members are familiar with major company information and directors and supervisors are able to fulfill their duties.
 10. It is recommended that the Company set up regular / formal meeting or communication channels between independent directors, supervisors and CPA outside of board meetings. Appropriate meeting minutes should be made of the meeting and communications to conduct tracking and oversight of financial record quality and internal control system and operation results.
- (2) The Company hired the Taiwan Corporate Governance Association to conduct a CG6008 advanced version rating of our corporate governance system in 2013.
- Note 1: For continuing education of directors and supervisors, refer to the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and GTSM Listed Companies issued by the Taiwan Stock Exchange.
- Note 2: If a securities firm, securities investment trust, securities investment consulting firm or futures operator, describe risk management policy, risk weighing criterion and consumer protection or customer policy implementation.
- Note 3: What is referred to as corporate governance self-evaluation reports is a self-evaluation and description of corporate governance self-evaluation items by the company and a report of the company's current operation and enforcement status of each self-evaluation item.

IV.Capitals and Stocks

A. Source of Capitals

2013.04.21 unit:shares

Shares Class	Approved Shares			Remark
	Circulated in Market (note)	Uncirculate shares	Total	
Common shares	309,757,040	190,242,960	500,000,000	

note:these shares are listed shares °

B. Shareholders structures

2012.04.21 unit:people/shares/%

Shareholders Numbers	Government	Financial institutions	Other institutions	Individuals	Foreign institutions and foreigners	Total(note)
Numbers	6	4	108	20,880	151	21,149
Number of Shares	12,423,993	16,945,457	54,763,820	121,499,187	104,124,583	309,757,040
Percentage of shares	4.01%	5.47%	17.69%	39.22%	33.61%	100.00%

note : The above based on the transactions end at 21/4/2013

C. Data on share price, net value, profit, and dividend of the past two years

item \ year			2011	2012	2013.03.31 end
Marketprice / share (note 1)	Highest		58.40	52.80	48.90
	Lowest		29.00	34.35	42.65
	Average		45.93	45.81	46.65
Net value per share (note 2)	Before distribution		23.69	25.44	26.51
	After distribution		21.49	Note9	Note 9
Earnings Per Share	Weight average number of shares (1000's share)		301,703	303,070	309,757
	earnings per share (note3)	Before adjustment	3.79	0.68	0.66
		After adjustment	Note 9	-	-
Dividend Per share	Cash dividend		2.20	2.20	-
	Stock dividend without compensation	Earning per share	Note 9	-	-
		Stock dividend	Note 9	-	-
	Accrued undistributed dividend (note 4)		-	-	-
Analysis of rate of return	P/E (note 5)		13.20	-	-
	P/C (note 6)		21.74	Note9	-
	C/P (note 7)		4.60%	Note9	-

* If use profits or capital reserve for raising capital shares appropriate, then it should announce the information of the number of appropriate shares and retroactively adjust market price and cash dividend °

- note1 : list the hightest and lowest price of the common stocks in that year, and the average market price for that year is calculated based on the transaction values and transaction amounts °
- note2 : Use the number of circulated shares at the end of the year as the base, then the dividend distributed determined in the coming year's stockholders' meeting °
- note3 : If there is any retroactive adjustment from the stock dividend without compensation, then it should list earning per share on before and after adjustment °
- note4 : If the equity investment has constraint that limits the undistributed dividend for that year and it is cumulated until to later profitable year. Then it should disclose the cumulative undistributed dividend up to that year °
- note5 : $P/E = \text{current year average share price at closing} / \text{earning per share}$ °
- note6 : $P/C = \text{current year average share price at closing} / \text{cash dividend per share}$ °
- note7 : $C/P = \text{cash dividend per share} / \text{current year average share price}$ °
- note8 : The financial statements of TXC Corporation were audited or view or certified by CPA.
- note9 : Up to 2013.03.31 , The retain earnings of 2012 has not yet admitted by the stockholders' meeting.

D. Company's dividend policy and its current implementation status

1.Dividend policy as defined in the articles of incorporation :

If there is a profit at the final settling of accounts after paying all taxes and offsetting of losses from previous years, the Company shall first set aside ten percent of the profits as legal reserve. This shall not apply when the legal reserve amounts to the total authorized capital. Director remuneration shall be no more than 2% and employee bonus shall be no lower than 3% of the special reserve allocated from the profits in accordance with the law or after reversal. The remainder together with undistributed earnings from previous periods after an appropriate amount is reserved depending on operating conditions is distributed as shareholder dividends as resolved by the shareholders' meeting. The board of directors is authorized to determine the counterparts for employee stock dividend distribution which include those company employees that conform to certain conditions.

The Company's dividend distribution policy is made in consideration of factors such as industry development being in a growth phase, long-term financial planning and shareholder cashflow requirements. Therefore, the earnings available for distribution for that year, after allocation of the legal reserve and special reserve in accordance with the law, shall be distributed as provided in the previous paragraph. Of this, the cash dividend portion of shareholder dividends shall not be lower than 20% of total dividends.

2.Suggested dividend appropriate in this shareholders' meeting :

Profit distribution for 2012

unit : NTD

Item	Amount	
	Sub-total	Sum
Beginning period undistributed profits		1,131,072,296
plus : Net profit after tax for this year	1,148,885,866	
minus :		
Appropriate legal reserve (10%)	(114,888,587)	
Profits available for distribution		2,165,069,575
Items of distribution :		
Shareholder bonus—cash (\$2.2 per share)	681,465,488	
Total of distribution		(681,465,488)
End period of undistributed profits		1,483,604,087
Reference:		
Employee bonus—cash	124,078,878	
Directors and supervisor remuneration—cash	20,679,813	

Note 1. Calculation for issuance of stock dividend and cash dividend is based on the number of shares in circulation externally (In the end of 2012, the number of shares is 309,757,040 shares) Afterwards, if the convertible bond is converted into common stocks or the company purchases back the treasury stocks so that stock dividend ratio and cash dividend ratio is changed, it is supposed to propose shareholders' meeting to authorize the board of directors to handle relative matters.

2. There is no difference between the planned allocation amount from expense for employee bonus and surplus in the 2012 financial statement. So, no adjustment for income and loss is required.

E. Employee bonus and rewards for directors and auditors

1. The principle of surplus distribution in accordance with company regulations:

Surplus in this year's final account should first be used to pay tax and to make up for past deficits, then followed by allocation of 10% as legal reserve or appropriate or divert the special surplus reserve in accordance with applicable laws and regulations, but if where such legal reserve amounts to the total authorized capital, this provision shall not apply and after retaining an appropriate amount in view of the operation status, the balance unallocated surplus should be allocated by percentages as follows:

(1) Employee bonus must not be less than 3%.

(2) Reward for directors and auditors must not be over 2%.

Moreover, the objects of employee bonus should comprise employees of affiliated companies under specific conditions and authorize the board of directors to formulate the stipulations.

2. Proposal by the Board of Directors for surplus distribution in 2012:

As proposed by the Board of Directors on 29 April, 2013 surplus distribution for employee bonus and reward for directors and auditors are as follows:

(1) Propose to allocate employee cash bonus amounting to NT\$124,078,878 and cash reward for directors and auditors amounting to NT\$20,679,813. There is no difference between the planned allocation amount from expense for employee bonus and surplus in the 2012 financial statement. So, no adjustment for income and loss is required.

(2) Propose to allocate employee bonus and reward for directors and auditors in accordance with par value setting earnings per share at: NT\$3.79

3. The Company Board of Directors on surplus allocation in 2011:

The actual surplus allocation of employee bonus and reward for directors and auditors according to resolution adopted by the shareholders meeting on 13 June, 2012.

(1) Actual reward for employee、directors and supervisors in cash respectively: NT\$113,316,786 and NT\$18,886,131.

(2) No difference between the proposed allocation adopted by the Board of Directors and the resolution by shareholders meeting.

F. Buying back company stocks: None

G. Convertible Corporate Bond:

Convertible Corporate bond data

Type of corporate bond (note 2)	3rd domestic convertible bond (note 5)	4th domestic convertible bond (note 5)
Date of issuance	January 11, 2010	January 25, 2013
Face value	NT\$100,000.00	NT\$100,000.00
Location of issuance and trade (note 3)	N/A	N/A
Issuance price	Issued at face value	Issued at face value
Total amount	NT\$800,000,000.00	NT\$800,000,000.00
Interest rate	Coupon rate 0%	Coupon rate 0%
Term	Three-year term Due date: January 11, 2013	Three-year term Due date: January 25, 2016
Guarantee institute	N/A	N/A
Trustee	Chinatrust Commercial Bank	Chinatrust Commercial Bank
Underwriter	Yuanta Securities Co., Ltd.	Yuanta Securities Co., Ltd.
Attorney	Chen Ching-shang	Chiu Ya-wen
CPA	Deloitte & Touche CPAs Gong Shuang-hsiung, Yang Ching-chen	Deloitte & Touche CPAs Gong Shuang-hsiung, Wong Bo-ren

Type of corporate bond (note 2)		3rd domestic convertible bond (note 5)	4th domestic convertible bond (note 5)
Solvency		The Bonds will be repaid in whole on the maturity date at the face value of the bonds unless the bondholders convert the corporate bonds into the Company's common stock in accordance with Article 10 of these procedures, the bonds are called in accordance with Article 18 or the bonds are repurchased and cancelled by the securities broker.	
Outstanding principal		NT\$0.00	NT\$800,000,000.00
Redemption or liquidated before maturity			
Restrictive clauses (note 4)		None	None
Rating institute, rating date, corporate bond rating		N/A	N/A
Other rights	Converted (exchanged or subscribed) common stock, GDR or marketable security up to the report publishing date	Listing of this convertible bond ended on January 14, 2013.	As of the publishing date of the annual report, there has been no request by bondholders for conversion to common stock, so the unconverted amount is NT\$800,000,000.
Other rights	Issuance and conversion (exchange or subscription) measures	N/A	See attachment 1 (2012 fourth domestic unsecured convertible bond issuance and conversion procedure).
Issuance and conversion, exchange or subscription measures, dilution effect of issuance conditions on equity and shareholder equity		N/A	Thus domestic unsecured convertible bond issue is converted at a conversion price of NT\$49.2 per share. Provided all of the corporate bonds are converted into common shares, the share dilution will be 4.99%. Therefore, it will not have a very significant effect on shareholders' equity
Custodian		N/A	N/A

Note 1: Publicly offered and private placement company bonds are including in the company bond procedure. Publicly offered corporate bonds in the procedures refers to board validated (approved) issues. Private placement corporate bonds in the procedures refers to issues that have passed board resolution.

Note 2: The number of columns may be adjusted based on the number of issues.

Note 3: List for overseas corporate bond.

Note 4: If issuance of cash dividend, outward investment is restricted or certain capital ratio is maintained.

Note 5: Indicate in a conspicuous manner if it is a private placement.

Note 6: Convertible bonds that are convertible corporate bonds, exchangeable bonds, shelf registration bonds or warrant bonds shall be listed in a table format according to their attributes for disclosure of convertible corporate bond, exchangeable bond, shelf registration bond or warrant bond information.

Type of corporate bond		domestic 3 rd unsecured convertible corporate bond		domestic 4 th unsecured convertible corporate bond
Year		2012	As of April 21, 2013	As of April 21, 2013
Convertible corporate bond market price	Highest	109.90	100	104.75
	Lowest	98.40	99.75	100.50
	Average	103.87	99.83	103.09
Conversion price		NT\$50.4 / NT\$48	NT\$48	NT\$49.2
Issuance (handling) date & conversion price at issuance		2010.01.11 , NT\$57.6	2010.01.11 , NT\$57.6	2013.01.25 , NT\$49.2

H. Employee stock option handling:

(1) Handling of unmatured employee stock option receipts and impact on shareholder equity

2013.04.21

Type of employee stock option receipts	2007 employee stock option receipts	
Approval date of competent authority	2007.11.09	
Issuance (handling) date	2007.12.10	
Issuance unit qty (thousand shares/unit)	8,000	
Proportion of warranted shares to total issued shares (%)	2.58%	
Warrant period	2009.12.10~2012.12.09	
Fulfillment	Issue new shares	
Restricted warrant period and ratio (%)	Over 2 years	50%
	Over 3 years	75%
	Over 4 years	100%
Acquired no. of shares	7,155 thousand shares	
Implemented warrant amount	300,942,400 dollars	
Unimplemented warrant quantity	845 thousand shares	
Per share warrant price of unimplemented warrant	NT\$ 37.8	
Proportion of unimplemented warrant shares to total issued shares (%)	0.27%	
Impact on shareholder equity	Employee stock option receipts must over 2 years before purchasing stock option by scheduled stage as stipulated by the company therefore no major impact on shareholder equity.	

V 、 Business Information

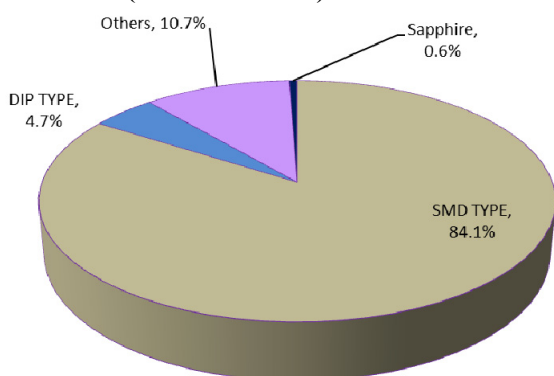
A 、 Business Contents

1 、 Business Scope

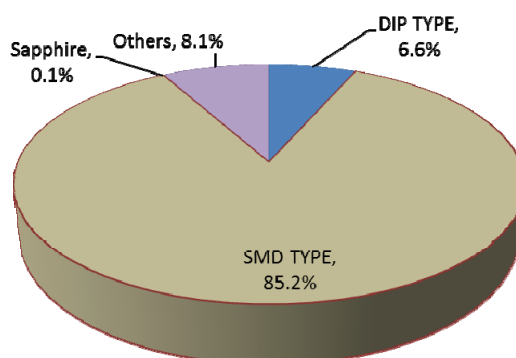
(1). The Major Business Contents

TXC Corporation, founded in 1983, is a leading professional frequency control product manufacturer. We have devoted to the research, design, manufacture, and sale of Dual-Inline-Package (DIP) and Surface Mount Device (SMD) quartz crystal products. TXC now specializes in five categories of products such as high quality Quartz Unit Crystal, Automotive Crystal, Crystal Oscillator (CXO), Surface Acoustic Wave (SAW) Filter, and Timing Module (TM). In addition, to expand the Group's future development, the application of the core technical capabilities in the 2011 Q2 to import the LED substrate and wafer process, formal entry into the sapphire LED field. Our goal is to add value to our customers by providing a complete solution of frequency devices and modules, design-in service to fully satisfy various needs of the esteemed customers. We believe based upon the competence of cost effectiveness, quality, lead-time, and customer service TXC will go beyond customers' expectation. TXC has now been highly recognized as the first-class crystal provider by our customers and TXC Corporation will continue striving for excellence not to meet but to exceed the most rigid customers' standards.

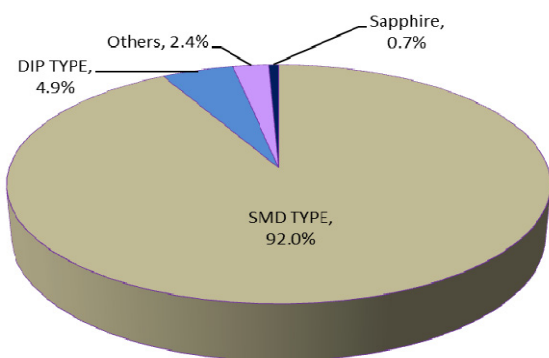
(2). Business Proportions (unit NTS 1000's)



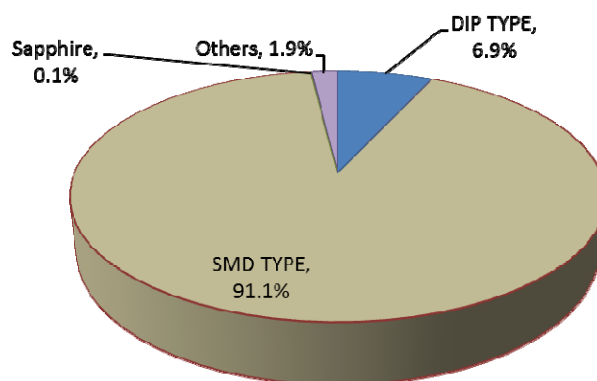
*2012 Consolidated Revenue
NTD10,928,495 thousand dollars*



*2011 Consolidated Revenue
NTD9,897,341 thousand dollars*

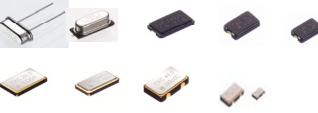


*2012 Parent Revenue
NTD 9,477,481 thousand dollars*



*2011 Parent Revenue
NTD8,918,023 thousand dollars*

(3). Company's current products

Product type	Type	Product description	Product picture
Crystals	DIP	HC-49U / HC49S / HC-49S SMD	
	Glass Sealed Crystal	5*3.2mm / 3*2.5mm / 2.5*2mm	
	Seam Sealed Crystal	5*3.2mm / 3.2*2.5mm / 2.5*2mm/2*1.6mm/ 1.6*1.2mm/1.2*1.0mm	
	Seam Temperature Sensing Crystal	2.5*2mm/2*1.6mm	
	Tuning Fork Type	6.9*1.4mm/3.2*1.5mm / 2.0*1.2mm/1.6*1mm	
Crystal Oscillators)	XO	14.4*9.5mm / 7*5mm / 5*3.2mm / 3.2*2.5mm / 2.5*2mm / 2*1.6mm	
	RTC XO	7*5mm/5*3.2mm/3.2*2.5mm	
	VCXO	14*9mm / 7*5mm / 5*3.2mm/3.2*2.5mm	
	SO	7*5mm/5*3.2mm	
	TCXO	3.2*2.5mm / 2.5*2.0mm / 2*1.6mm/1.6*1.2mm	
	OCXO	36*27mm/25*25mm/20*20mm/21*13mm	
Timing Module		25.4*20.3mm	
Automotive	DIP / Glass Sealed Crystal / Seam Sealed	HC49S / HC-49S SMD / 8*4.5mm / 5*3.2mm / 3.2*2.5mm / 2.5*2 mm	

Product type	Type	Product description	Product picture
	Crystal /XO		
Sapphire	2"/4"/6" Single-side / Double-side Polished Sapphire Wafer 2"/ 4" PSS wafer	430 um / 650 um / 900 um / 1000 um / 1300 um	

(4). Scheduled new products development

The Company will invest more resources to develop new products to expand our market share for high-end application and high added value products and actively cross over into technical R&D in the optics, microelectromechanics, sensor and medical electronics fields. Due to adherence to sustainable business concepts, the Company will continue to make advancements in basic research. Faced with domestic and foreign competition, the Company's new product and technology development will extend in the following directions:

(1) SMD miniaturized product development and process technology upgrading:

Having worked for many years on quartz element miniaturization, the Company has completed development of a 1.2x1.0x0.35mm quartz element. In order to meet future product miniaturization and advanced deployment of process technology requirements as well as make progress towards 1.0 x 0.8 x 0.35mm quartz crystal element development, TXC will continue to focus on the development of higher precision process technology to pursue research towards lower costs, reduced energy consumption, high vibration resistance and enlarge frequency range.

(2) Automotive product development

The Company received TS-16949 advanced product quality planning system certification in 2006 and completed the conversion to ISO/TS16949-2009 version. Automotive product is now entering a growth period. TXC will continue to raise product technology, safety and quality to the highest grade 1 quality and reliability rank.

(3) High-end oscillator and module product development

TXC will continue to develop high-end products such as special TCXO for telecommunication use, VCXO for optical fiber telecommunication modules, HFF VCXO, VCXO for high frequency communications and high precision frequency temperature controllers (OCXO) for base station use. These products can meet the brisk demand for telecommunication systems in Asia and emerging countries.

	Current	World Smallest	2013	2014	2015
Crystal- 32 kHz	• ... 3215 / 2012 / 1610			• 1008 (Crystal / MEMS)	
Crystal- MHz	• ... 2520 / 2016 / 1612 / 1210		• 1210 (<24 MHz)	• 1008	• 0806 (Crystal / MEMS)
Crystal- MHz w/ Thermistor	• 2520 / 2016		• 1612		• 1210
XO	• ... 3225 / 2520 / 2016 / 1612		• 1612 (<1 mA)	• 1210	
SO	• 7050 / 5032		• 7050 / 5032 (<50 ppm)		
MO	• 7050 / 5032 / 3225 / 2520		• 2016	• 1612	
VCXO	• Telecom <700 MHz - 1409 / 7050 / 5032 • General <160 MHz - ... 5032 / 3225			• Telecom- 7050 / 5032 (Ultra Low Phase Noise) • General- 2520	
XO/TCXO- 32 kHz	• MHz XO Divided Down- 7050 / 5032 / 3225 / 2520			• 3225/2520 TCXO (<5 uA) • 2016 TCXO (<5 uA) • 3215 TF XO (<2 uA)	
TCXO- MHz	• Stratum-3 / Small Cell Grade- 5032 • RF / GPS Grade- ... 2016 / 1612			• Stratum-3 / Small Cell Grade- 7050 • RF / GPS Grade- 1210	
OCXO	• 3627 / 2525 / 2020		• 1409		• Double Oven

(d).Basic Research

Effectively integrate company internal engineering department technical problems, upgrade basic research capability and speed up new production market entry time through our technical team cross-functional platform.

2、The Industry

(1). Current industry status and development

The current domestic quartz industries are mainly for producing components such as crystals, crystal oscillators, and crystal filters. The basic manufacturing process of making crystals starts from cutting the quartz, and then after grinding and polish to the desired sizes; followed by depositing thin metal film electrodes on its surface under the vacuum, and subsequently, it is connected with conduct wires; afterward it is packaged. In addition, by assembling and packaging the crystal components with IC oscillators then it will result the crystal oscillators. Assembling and packaging the crystal components and capacitors, wires, and resistors then it will be the crystal filters.

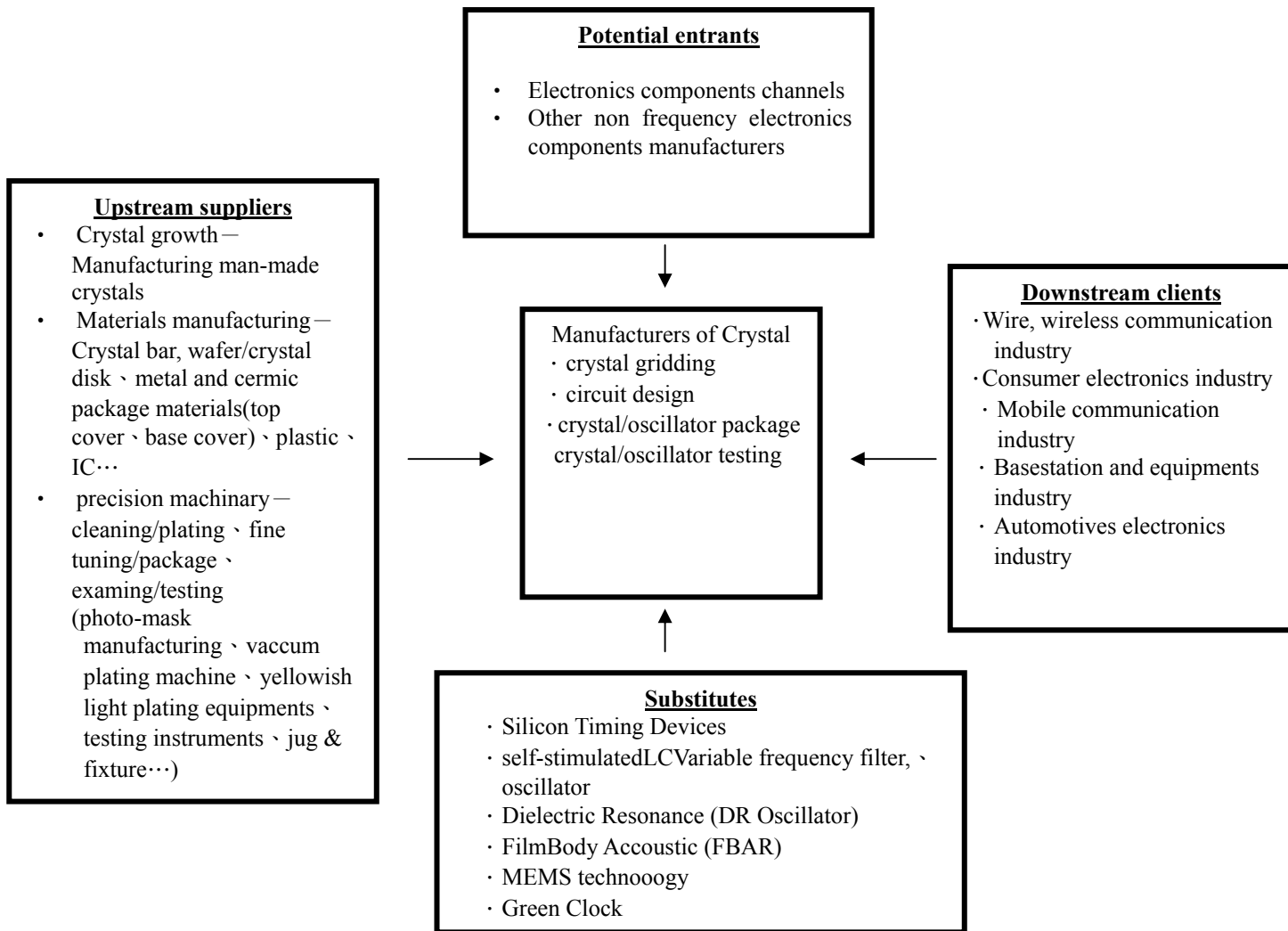
When you comparing the three crystal technologies: frequency, precision, and size dimension you can see that the European and US manufacturers are strong in the frequencies development. It was because of their development of the wireless technology that it gives them an advantage in the design and development; but production efficiency is lower. Japan manufacturers are the technology leaders and they are excellent in the precision and the scale size of the products. They have the advantages of products improvement, and can further to make it in mass production and automatic production. To the Taiwanese manufacturers, most of them are buying the material & know-how, machinery equipments, or purchasing the manufacturing process of which usually lead to a faster time in marketing the product. But recently, the manufacturers have improved their manufacturing process, and the manufacturing equipments; also the learning of the manufacturing process further improves it. Presently, the mainland manufacturers mainly produce low-end products wherein 80% of them are for export and their products still have not effectively satisfied the demand of their massive domestic market. In recent years Chinese manufacturers are aggressively to promote their technology abilities and to advance to the middle and high end. Below table is a comparison of advantages/disadvantages of competitions from the major producers.

Key technology	European, USA manufactures	Japanese manufactures	Taiwanese manufactures	China manufactures
Frequency	high	High	High-middle	Middle-low
Precision	high	Very high	High-middle	Middle-low
Sizes	High-middle	High	High-middle	Middle-low

Currently, in Taiwan the major crystal manufacturers are TXC Corp, Siward Crystal Technology, Harmony Electronics, Taitien Electronics, Tai-Saw Technology, and EChina Technology. TXC Corp has the highest market share and Harmony Electronics is next.

(2). Market relationship of up, middle, and down stream companies

Crystal components are our major product and it is also the basic electronics parts. Our



upstream industries include crystal growth, material manufacturing, and precision machinery. The downstream applications include information technology, wire and wireless communications, consumer electronics, and network products etc. The relationship between the up, middle, and downstream manufacturers is given in the below diagram:

3. Development Trend of Crystal Industry

Crystal products are important components in the electronics products. To sponsor the future 3C growth and trend, the future product style, its size, and the precision will have the following trend :

(3). Production trend :

(a). Slim down and usage of SMD

In terms of the technology aspect, we have achieved the slim down level for use the single crystal IC, crystal design & manufacturing, and packaging & testing etc. For example take the case of SMD quartz crystal, its dimension has downsized from 11.8×5.5mm、8×4.5mm、7×5mm to 6×3.5mm、5×3.2mm, and further to 4×2.5mm、3×2.5mm、2.5×2.0mm、2.0×1.6mm、even to the dimension of 2.0*1.6mm、1.6*1.2mm、1.2*1.0 ; its height has also improved from 2mm、1.8mm、1.5mm、1.2mm to 1mm、0.9mm、0.8mm、0.7mm、0.5mm、0.35mm、0.30mm. By the effective SMD scale down improvement, we are also toning with the development trend of Chipset, design trend of brand clients and the SMT production from our downstream clients.

(b). High frequency modularized 、high precision：

High frequency, high frequency element modularization, high precision:

Fiber channel, gigabit Ethernet, synchronous optical networking (SONET), synchronous digital hierarchy (SDH), femtocell base station or access point base station, 3G/4G base station and other various high speed transmission system advances has raised high frequency, modularization, high precision requirements for quartz elements. Through the Company's self developed high frequency, high precision and low phase noise crystal oscillators (XO), voltage control crystal oscillators (VCXO), temperature compensating crystal oscillators (TCXO) and constant temperature crystal oscillators (OCXO) will assist simplification of customer circuit design and satisfy performance requirements for the high speed networks and the next generation of wireless telecommunication systems.

The products are as the below list:

No	Projects	PKG	Type	Features
		(mm)		
1	High Frequency XO (above 100MHz)	7x5 5x3.2 3.2*2.5	LVPECL LVDS	High Freq. Low Noise
2	High Frequency VCXO (above 50MHz)	7x5 5x3.2 3.2*2.5	CMOS LVPECL LVDS	High Freq. Low Noise High Pull
3	High Frequency SO (above 150MHz)	7x5 5x3.2	CMOS LVPECL LVDS	High Freq. Low Noise
4	TCXO	3.2x2.5 2.5x2.0 2.0x1.6 1.6*1.2	Clipped Sine	High Stability
5	32.768KHz CXO (TF)	7.0x5.0 5.0x3.2 3.2x2.5	CMOS	High Stability
6	Precise XO/MO	7x5 5x3.2 3.2x2.5 2.5x2.0 2.0x1.6	CMOS	High Stability
7	Stratum 3 TCXO	7x5 5x3.2	Clipped Sine	Ultra High Stability
8	OCXO	36*27 25*25 20*20 21*13	LVC MOS HCMOS Sinewave	High Stability Ultra Low Noise

(4). Competitions

For quite some time Taiwan electronics industry usually take the OEM fashion to function as a supplier to world's largest electronics and information technology companies. Applying Taiwan's capital, technical skills, labor or other market unique advantages that takes the

advantages of "global labor division" 、"regional labor division" to achieve the vertical integration purpose 。 With the advance of Taiwanese electronics manufacturer's technical level, their business operatios have transformed from the parts assembled in the early days, to the OEM, and even promoted to the ODM scale. In order to gain a more added value, many Taiwan electronics companies, reposition their value chain locations, and have gradually extended themselves from manufacturing to product R&D, design and even further to sales and marketing, post-sale and brand management; and amid the global work divisions, have stance in a unique place . The major global companies with their procurement arranging, are team with Taiwan electronics companies in value creations; and themselves would be able to intend more on their brand and sales management. This ends up in a win-win situation for both parties.

With Taiwanese electronics industry forms in the nature cluster groups, and it thus has a demand of 30% of the global crystal component product. But Taiwanese manufactures can only produce no more than the 20% of total global production, and this China domestic market would provide growing space for Taiwanese companies. But the crystal component industries are in the border of oligopoly competition since the ten largest manufacturers in the world have a total combination of production of 75% and more. This illustrates the great differences of the manufacturers in this industry, and this can be said it is a oligopoly competition market. But because the wide applications of the products, each manufacturer emphasizes its own product and the market. The lower end, and mature market has a stronger tendency in cutting price to competition. This results a very strong competition market.

In the global crystal component industry, Japan is still the largest producer and it has about 60% of the worldwide productions. Our domestic competitors are SiWard Crystal Corporation, EChina Technology, Harmony Electronics, Taitien Electronics, and Tai-Saw Technology and Hosonic Electronics. Each corporation differentiates by specializing in different products and market. Our company has the highest market share which demonstrates our leading role in the crystal component industry.

3. Technology and Recent Research and Development

- (1) Ratio of R&D expense in Total Operating Cost during recent years up to 2013.03.31
units : NT\$ 1,000's , %

Year	2011	2012	2013.03.31
Net Operating Cost	8,918,023	9,477,481	2,056,884
Cost for Research and Development	344,468	297,829	67,957
R&D cost/net operating Cost(%)	3.86%	3.14%	3.30%

- (2). Research and Development Results

Products development	1. SMD Crystals 1.6×2.0 mm for SIP. 2. SMD 5.0×3.2 mm TF CXO for variable applications. 3. SAW-based Oscillator for SAN applications. 4. SMD Seam CXO 2.0×1.6 mm 2~54 MHz for digital camera, Portable TV. 5. SMD 3.2×2.5 mm TCXO for GPS and WiMAX applications. 6. SMD 2.5×2.0 mm TCXO for GPS and WiMAX applications SMD 2.0×1.6 mm TCXO for GPS and WiMAX applications. 8. SMD 1.6×1.2 mm TCXO for GPS and WiMAX applications.
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	9. SMD 5.0 x 3.2 mm Stratum-3 VC-TCXO for Base Station, Small-cell, Networking Infrastructure applications. 10. SMD Crystal 1.2×1.0mm for future application. 11. SMD 5.0 × 3.2 mm TF CXO for variable applications. 12. Inverted MESA BLK 1.6 × 1.14mm 13. Inverted MESA BLK 2.49 × 1.83mm 14. SMD 2.0 x 1.6 mm TSX for GPS 15. SMD 2.5 x 2.0 mm TSX for GPS 16. SMD 3.2 x 1.5 mm Tuning Fork 17. SMD 3.2 x 1.5 mm Tuning Fork for Automotive applications. 18. SMD 2.0 x 1.2 mm Tuning Fork 19. SMD 1.6 x 1.0 mm Tuning Fork 20. SMD 7.0 x 5.0 mm Oscillator for HCSL 21. SMD 5.0 x 3.2 mm Oscillator for HCSL 22. DIP 25 x 25 mm OCXO for stratum-level and base-station applications. 23. DIP 20 x 20 mm OCXO for telecommunication applications. 24. 2" Single-side Polished Sapphire Wafer for LED application 25. 2" Double-side Polished Sapphire Wafer for LED application 26. 4" Single-side Polished Sapphire Wafer for LED application 27. 4" Double-side Polished Sapphire Wafer for LED application 28. 6" Single-side Polished Sapphire Wafer for LED application 29. 6" Double-side Polished Sapphire Wafer for LED application
Patents and Academic publications	Patent : 1. Electrode of the piezoelectric crystal oscillator components 2. Vacuum gas-tight system integration package structure 3. Structure and production method of the piezoelectric quartz oscillator chip 4. The production of piezoelectric quartz oscillator chip 5. quartz crystal oscillator 6. Crystal oscillator with layout structure for the miniaturization of size 7. Piezoelectric material thinning device 8. Grooved resonator unit packaging structure 9. Light sensor chip packaging structure 10. Stacked light sensor chip packaging structure 11. Thru-hole resonator device wafer level packaging structure 12. Thru-hole resonator device wafer level packaging structure manufacturing method For the patents or possible patents of TXC, please refer to relative patent database http://www.tipo.gov.tw/ch/ Paper : 1. A Brief View of the Current State of the Development and Aging Performance of Fixed Frequency Surface Acoustic Wave (SAW) Oscillator (English), 2012. 2. Properties of Miniature X- and Z'-Elongated Rectangular AT-CUT Quartz Resonators of Different Sizes (English), 2012. 3. Vibration Mode Identification and Coupling Assessment with the Mindlin Plate Equations and Measurements is a Quartz Crystal Plate (English), 2012. 4. Aging Performance of Small Size MHz Quartz Crystal Under High Drive (English), 2011 5. Inharmonic Overtones in Partially Plated AT-cut Quartz Crystal Plates (English), 2011 6. The Study of Activation Energy (Ea) by Aging and High Temperature Storage for Quartz Resonators' Life Evaluation (English), 2011.

	7. An Efficient AT-cut quartz Crystal Resonator Design Tool for Activity Dip in Working Temperature Range (English), 2011. 8. Quartz Crystal Industry of China at Crossroads (English), 2011. 9. Resonant Frequency Function of Thickness- Shear Vibrations of Rectangular Crystal Plates (English), 2011. For relative paper, please refer to the website of TXC: http://txccorp.com/
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4. Long and short term sales and marketing plan

(1). Short term Development Plan

(a). Sales and Marketing Strategy :

- Consolidate our existing market share among our customer base in the PC/NB, telecommunication, consumer electronic industries.
- Results are being seen in high-end product markets including ÁOM (high frequency) and ACAP (automotive electronic product). Continue to deepen and broaden our customer base and trade opportunities.
- Target the industry and clients , start from the Deign in, to secure the business opportunities and time and to promote the profitability.
- In addition to the continuous strengthening the sales activities in North America and China, more aggressively in expanding market territories in Japan, Kprea, and Europe.
- Strengthening the Marketing PM functions , that to fulfill the pre-sale operations and planning.
- Establish a mission-oriented learning organization; improve personnel quality and organization operation efficiency.
- Set up agile sales channels and deploy worldwide
- Construct a complete global Logistic network, that would meet clients' delivery on time needs, and also provides clients' technical integration services in real time basis.
- Maintain service and flexibility edge in cultivating core customer relation to increase market share.
- Assist sales with formulation and determination of sales strategies by establishing information system learning curve.

(b). Manufacturing Strategy :

- Time to Volume , Time to Market. Orders taking and planned production policy run in parallel , delivery on time , and have the appropriate amounts of products in stock.
- In response to special circumstances of the industry: Response capability+Control capability+Integration capability=Core.
- Integrate production resources on both sides of Taiwan Strait for optimum production capacity and benefit allocation for maximum company benefit.
- Establish new products, new technology and automated factories for development of company core technology.
- Targeting the "ideal cost" , by using the "comparing cost" as the base , gradually improve monthly until the cost becomes reasonable.
- Full introduce TPS production management and promote "99.99%" of yield rate for all stations.
- Introduce management systems based on PAT/SYA management concepts to optimize and further improve product quality.
- An effective operation, management; and well organizedin driving the business projects.

(c). Quality Assurance Strategy :

- Optimize the quality management system, work towards the goal of "Zero Defect".

- Improve global environmental protection awareness related green product and process service provision to ensure that all product, production processes and work environments at the company conform to international standards and requirements.
- Launch COPQ (quality failure cost) analysis refinement and improvement response.
- Launch basic and advanced job training of quality tools on the basis of continuous improvement
- Reinforce reliable equipment and personnel analysis, satisfy with the goal of miniaturization, high precision, and high stability and meet the operation of verification and monitoring.
- To our suppliers and outsourcing partners we need to further raise their quality requirements and management level. Looking for the SCM system implementation , and further in link up with global companies.
- Audit development of professional personnel to re-strength product quality and system
- Promote quality system of security product of automotive industry to re-create new decade of TXC corporation

(d). Product R&D Strategy :

- According to the marketing & sales strategy and needs; we need to map the direction of the product that it should go. We will aim the product's specifications meet the clients' needs.
- According to the new specifications from the clients, our RD or engineering can provide the product within the scheduled time frame that will help us to win the business opportunity.
- According to our business strategy and planning; our RD will fix on the product development or work as team with other company in the industry that we could bring the new product to the market.
- Execute the scheduled progress RD project management , effectively monitoring and managing the RD development that to shorten the RD time.
- Continuously to strengthen the RD staff, conduct the effective training and upgrade the overall professional attribute.
- Cooperation between the industry and the academic circle, cooperative development with schools and research institutes, strengthening of R&D technological capability.
- Have an effective RD management practice, reasonable reward system, and to motivate the group's efficiency and attitude.

(2). Long term Development Plan

- (a) Assertively developing the applications of Fiber Channel 、 Gigabit Ethernet 、 SDH-SONET(synchronous fiber optics transmission) 、 and Femtocell and frequency controlled component used in terminal communications.
- (b) Actively developing frequency controlled component used in automobile accessories; and the primary goal would be their converge to the strict high quality requirements.
- (c) Continuously expanding sales and services offices. Need to strengthen the marketing & sales phase in Europe and North America; and to add the marketing & sales centers in South China (ShenZhen, WuHam, Chongqing), and East China (Suzhou, Shanghai, Beijing). Successively set up new operations in Japan (Yokohama, Osaka) , Europe, United States and Singapore to provide market demand and service for China, Japan, Singapore, India and Vietnam. It can also expand the China market share and setup as a foundation for future expansion in China. Eventually the above approach will help us to position into the top three worldwide of the crystal components manufacturers.
- (d) Continuously seeking alliance that would provide good joint opportunities, and this would strengthen our overall competitiveness.

B 、Marketing & Sales Situation

1 、Market Analysis

(1).Market for our major products

The product trend is toward to small and light . The products that use the SMD crystal will have a higher percentage than others. In the future, Asia still is the major OEM center, and the products from Asia are still very high. TXC would still need to work hard on the market expansion in America and Europe.

Regional sales distribution of our major products in the past two years :

unit: Thousand NT\$

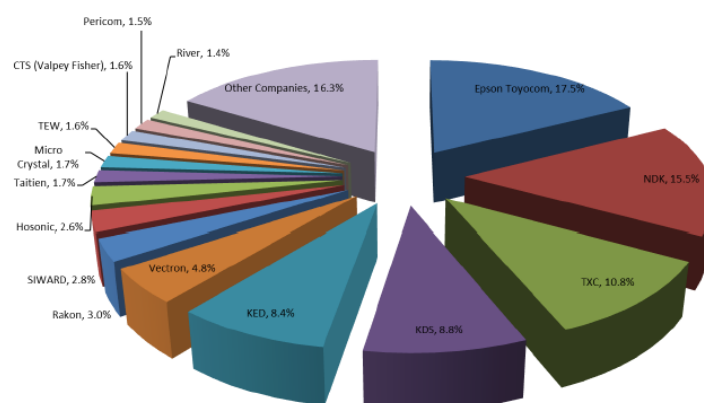
Region year	2011 (consolidated)		2012 (consolidated)	
	\$ dollars	%	\$ dollars	%
America	204,297	2.06	275,479	2.52
Europe	140,791	1.42	120,181	1.10
Asia	8,441,217	85.29	9,896,578	90.56
Domestic	1,111,036	11.23	636,257	5.82
Total	9,897,341	100.00	10,928,495	100.00

(2). Market share

unit : million USD

2011 Rank	2012 Rank	Company Name	2011 Revenue USD: Million	2012 Revenue USD: Million	2011-2012 Change	2011 Market Share	2012 Market Share
1	1	Epson Toyocom	592	610	3.0%	16.7%	17.5%
2	2	NDK	557	540	-3.0%	15.7%	15.5%
4	3	TXC	327	377	15.3%	9.2%	10.8%
3	4	KDS	389	309	-20.5%	11.0%	8.8%
5	5	KED	265	292	10.0%	7.5%	8.4%
6	6	Vectron	196	166	-15.0%	5.5%	4.8%
7	7	Rakon	111	106	-4.8%	3.1%	3.0%
9	8	Siward	90	97	8.4%	2.5%	2.8%
8	9	Hosonic	101	92	-9.5%	2.9%	2.6%
10	10	Taitien	79	59	-25.4%	2.2%	1.7%
		Other Companies	832	841			
		Total Revenues	3,539	3,489			

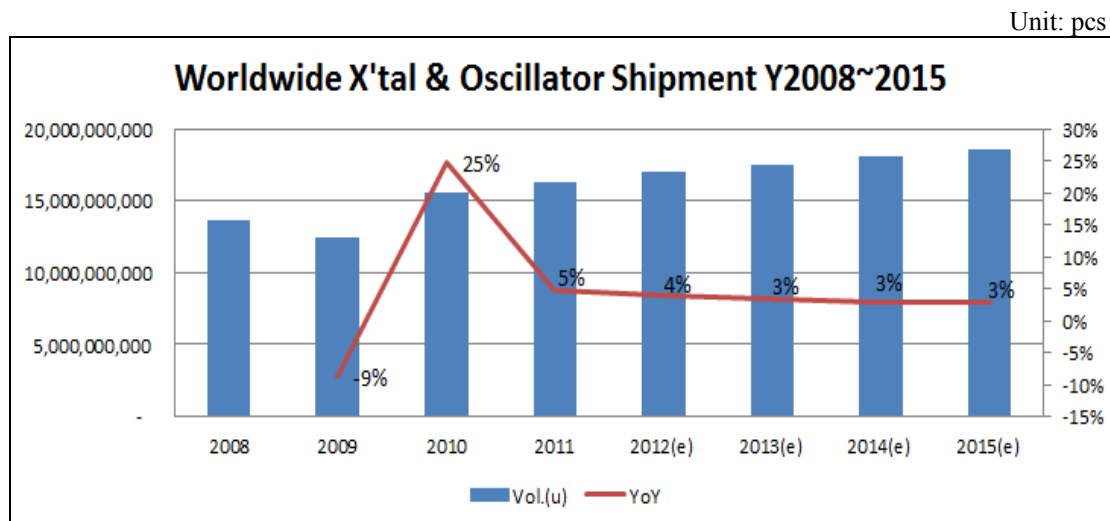
Total Xtal & Oscillator Market Shares - 2012



(3). Market future demand and supply condition, and its growth potential

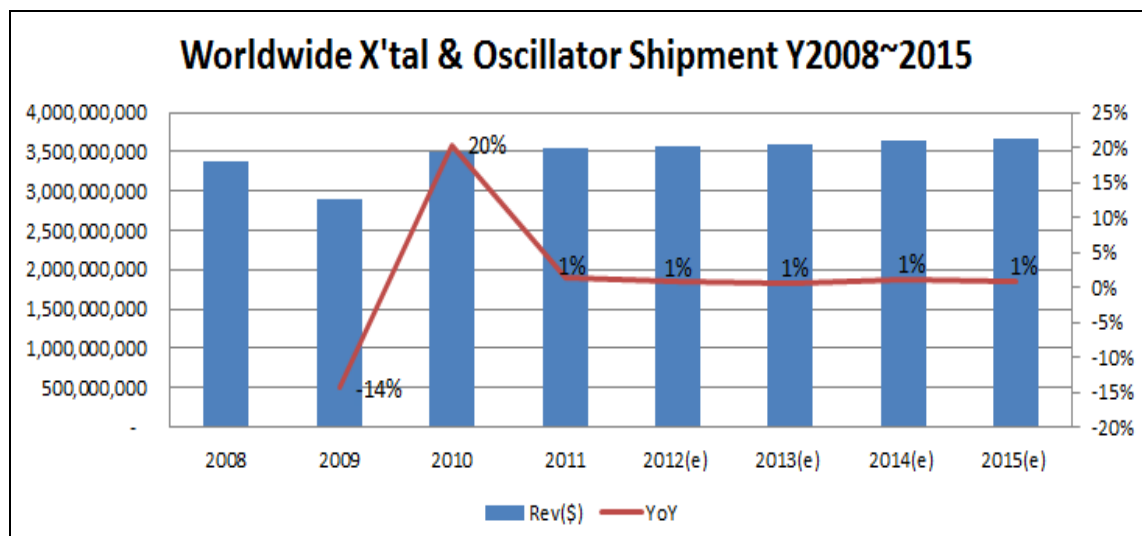
(a) Industry

The global economy rebounded gradually in 2012. Global quartz crystal and oscillator market demand grew a modest 2% in 2012. Influenced by faster than expected declines in the ASP for XO/VCXO/OCXO high-unit price products, global sales for the quartz crystal and oscillator market declined by 1.4%. According to CS&A market survey institute forecasts, positive growth should return in 2013 and a CAGR of 1.8% shall be maintained until 2015.



Source : CS&A, 2013.04

Unit: US Dallar

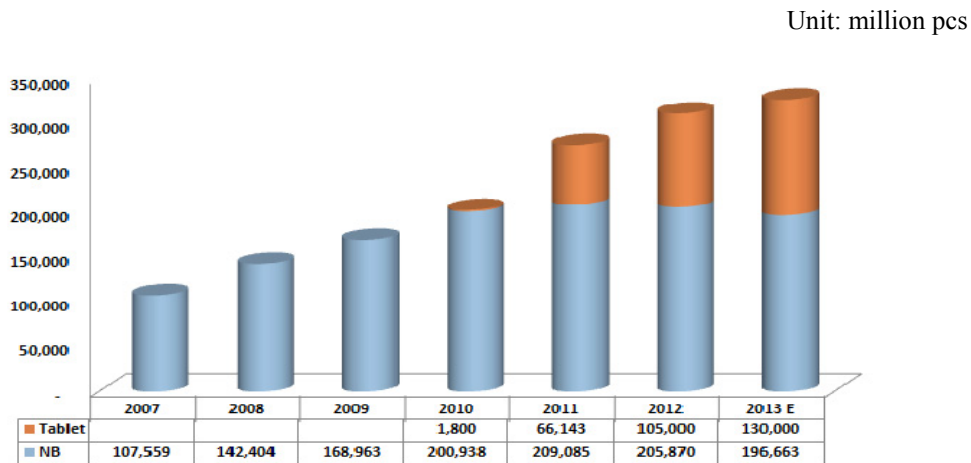


Source : CS&A, 2013.04

(b) Markets

A. Tablets

According to DIGITIMES Research forecasts, global tablet shipments will exceed notebook shipments for the first time in 2013. Shipments are forecast to reach 210 million, representing an increase of 38.3% over 2012. Combined tablet and notebook shipments are estimated to top 403 million in 2013 and ratio of tablet to notebook shipments will be 53:47. In 2015, global tablet shipments are expected to reach 318 million units.

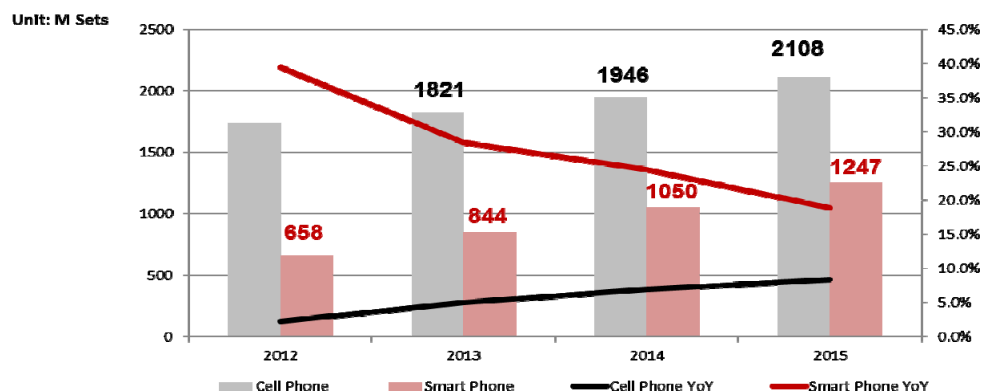


Source: IDC DEC, 2012

The tablet with the highest market share is still the Apple iPad at 60%. iPad shipments are estimated to reach 60 million this year. As for non-Apple tablets, Samsung, Asus and Acer tablets are worthy of notice. With regard to hardware additions to the MTK platform, it is forecast that 7-inch small screens and low cost tablets will be the two main factors behind growth in 2013.

B. Smartphones

Overall global smart phone shipments in 2012 posted strong 40% growth rate and smart phone shipments made up 46% of the global mobile phone market. According the market survey institute Nomura forecasts, smart phones will formally reach a penetration of 50% in 2014 and 2012-2015 CAGR will maintain at a high growth rate of 37.7%.



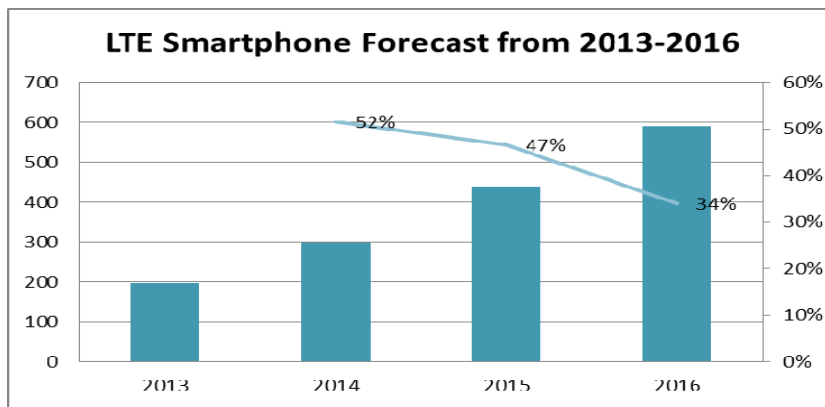
Nomura Oct 9, '12

Three smart phone development trends:

(1) LTE smart phone high speed development

Having obtained real combat experience in the second half of 2012, OEM plants have built up design ability for 4G LTE products. Major telecommunication firms will complete the deployment of global LTE networks after 2013 which will spur explosive growth in LTE smart phones.

Unit: million pcs



Resource: MIC

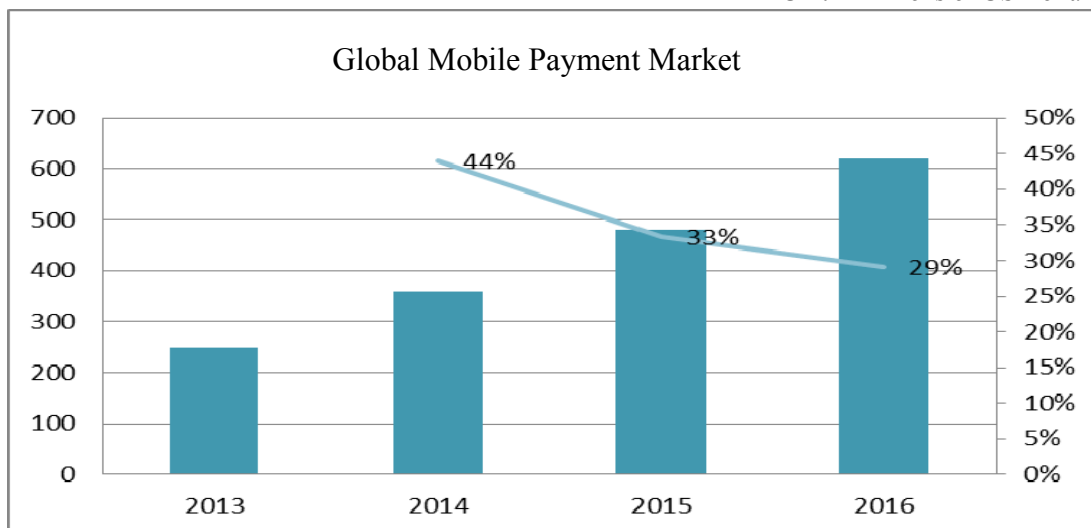
(2) Emergence of low price smart phones

Smart phone penetration in North American and Western European markets is already over 70%. As a result, the center of market growth is moving to China and emerging markets. It is forecast that retail sales of USD 300 and under models will exceed 300 million units in 2013 so these markets will be a battleground for major brands.

(3) Rapid growth of IOT technology

The emergence of GPS and mobile payment applications has spurred the growth of end-user IOT technology including the spread and development of GPS and NFC technology. In 2013, NFC mobile phone sales targets are 10 million units and service providers that support NFC service will expand to over 3 million.

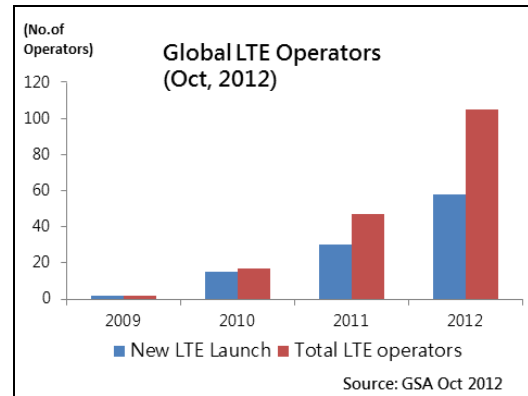
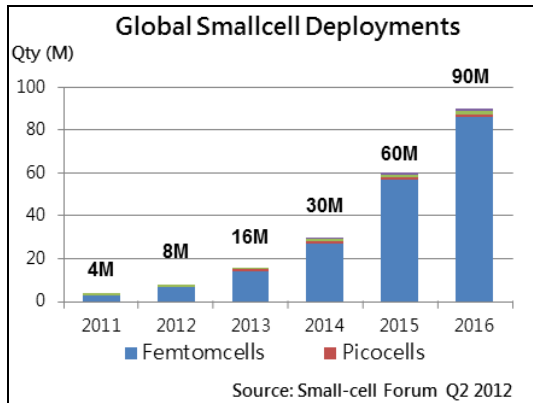
Unit : Millions of US Dollar



Source: MIC, 201304

C. Base Station/Smart Cell

4G-LTE will be deployed in 48 countries and commercially operated by 105 operators. There will be significant growth in 4G infrastructure starting from 2013. CMCC Active deployment by CMCC will begin in the second half of 2012. One hundred Chinese cities are now purchasing TD-LTE equipment. It is forecast that over 200,000 TD-LTE base stations will be installed in 2013.



(4). Niches competition, the advantages/disadvantages of the future development, and the response strategies.

SWOT analysis

Advantages	Disadvantages
- Have been in the industry for long time, and a higher market share, have good knowledge of customers and their production base, can team with their design and technical service ° - High flexible in adjust production line, has large and complete capability in production lines, excellent manufacturing improvement ability, efficient in production, and good competitiveness in unit cost ° - more miniaturized sizes and more stringent specifications close the gap in technology with the advanced US and Japanese quartz component manufacturers. - Global operation management, fast product delivery, a good customer service team, wide product line, can satisfy clients' one stop shop ° - High technical in vertical integration; better quality management and fast response in proposing total solution to clients application needs °	- It is insufficient channel in America and Europe ° - Insufficient guidance in areas of critical materials, equipment development ° - Extent of Automation is limited in the front end manufacturing process ° - With a comparative edge in brand recognition, control of raw material production and technology capability, the Japanese manufacturers have comparative advantage in cost structure. - The material and labor cost is higher than before.
Opportunities	Threatens
- China service outlets can supply to nearby downstream customers. - Automotive electronics supply chain has moved offshore to China and has the competitive advantages of price and sharing same the cultural and ethnicity. - Upgrading of mobile phone functions has spurred related demand. - New generation of products will drive further demand growth. - Robust wireless telecommunication growth brings market growth. - High-end, high precision products and market deployment are reaching maturity which should significantly raise profits. - Received Middelstadt award, CSR, National Quality	- Low price competition - Customers can switch from high priced products to lower priced products due to customer cost considerations. - End user product design may reduce quartz element use amounts due to cost consideration. - MEMS products have started to threaten some low-end applications.

Award, AEO certification, passed greenhouse gas inventory report, product carbon footprint inventory report and BSI ISO14064-1 and PAS2050 audit honors to raise of brand exposure and aid company image establishment.	
Respond Strategies	
1. Enhance abroad sales teams , actively seeking Europe, USA,Japan and Korea etc Tier 1 clients . 2. Develop the market aggressively and expect to be the largest brand in China 3. Enhance the engineering technololist of NGB factory, train material handling/ manufacture process automatic professionals in China . 4. Continuously to hire domestic trained as well as from abroad the research scientists and professionals in the communication and automobile parts industries. 5. Create more advantageous products , may take strategic alliance and partnership in some of the products for cost reduction . 6. Enhance product R&D ability , develop smaller size and high end products that to improve the overall profitability . 7. Enhance the development of quartz crystal modularized products . 8. Exercise stringent control over receivables and timely and closely verify demand on the customer side to facilitate flexible allocation.	

2 、Major products' important applications and their manufacturing process

(1). Major products' important applications

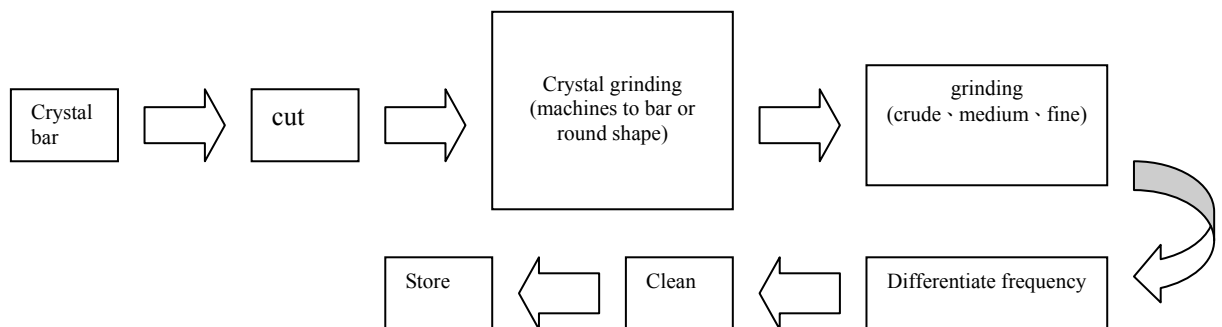
Crystal components product		Major Applications
Crystals		Mobile phone、wireless equipment、W-LAN、wireless telephone 、WiFi Module 、Sip Module 、 bluetooth 、telephone terminal equipment 、 intelligent transport(ITS)、car accessories、LCD projector、coping machine 、computer 、printer 、scanner 、audio-visual equipments 、camera 、games 、beeper
Crystal Oscillators	CXO	base 、wireless equipments 、W-LAN 、coaxial cable communication 、 fiber optics communication 、telphony terminal equipments 、counter/synthesizers 、 intelligent transport(ITS) 、 computer 、 storage device 、 printer 、 audio-isual device 、 camera 、 games
	VC-TCXO 、 TCXO	Mobile phone 、 basestation 、 wireless equipment 、satellitecommunication 、 W-LAN 、 bluetooth 、 global positioning systems 、 coaxial cable communication 、 fiber optics communication
	VCXO	base 、wireless equipments 、satellite communication 、 W-LAN 、 coaxial cable communication 、 fiber optics communication 、 phony terminal equipment 、 counter/synthesizer

	OCXO	base 、wireless equipments 、satellite communication 、global positioning systems 、coaxial cable communication 、fiber optics communication 、counter/synthesizer
Tuning Fork		mobile phone 、digital home 、camera 、wireless networking 、computers 、automotives
Sapphire		With the technology of GaN by MOCVD (metal organic vapor phase epitaxy), produce high-brightness blue LED. Applied to the LED backlight and lighting systems.

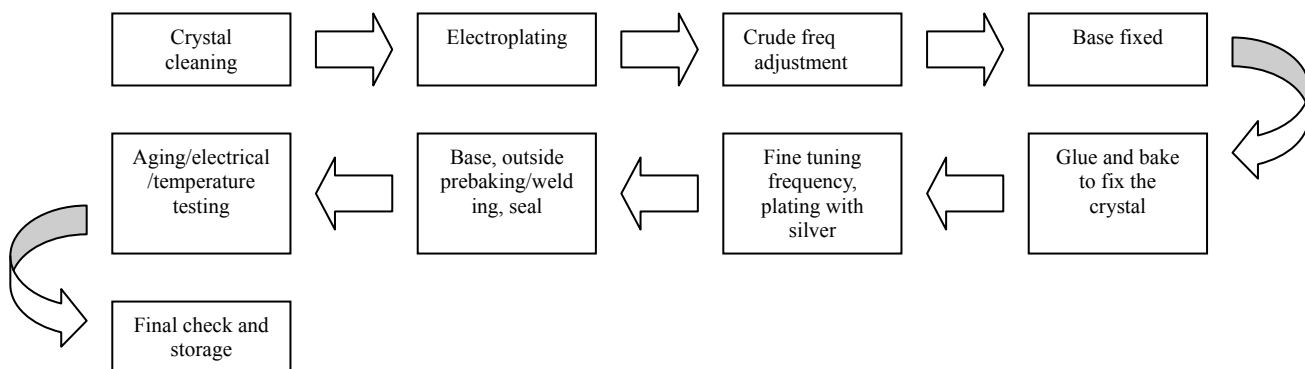
(2). Manufacturing Process

Steps for crystal components manufacturing are: first we need to manufacture the quartz crystal needed for the electrical material. It involves the cutting, polish, cleaning of the wafer form. Then with the mechanical arms to place the wafer on the base and fixed with the silver based glue. Then package it under vacuum. For oscillators it is necessary to add one more unit of oscillating circuit IC with golden line conduction via amplified output of crystal chip oscillation. It requires more IC placement and wire bonding process compared to the quartz crystal.

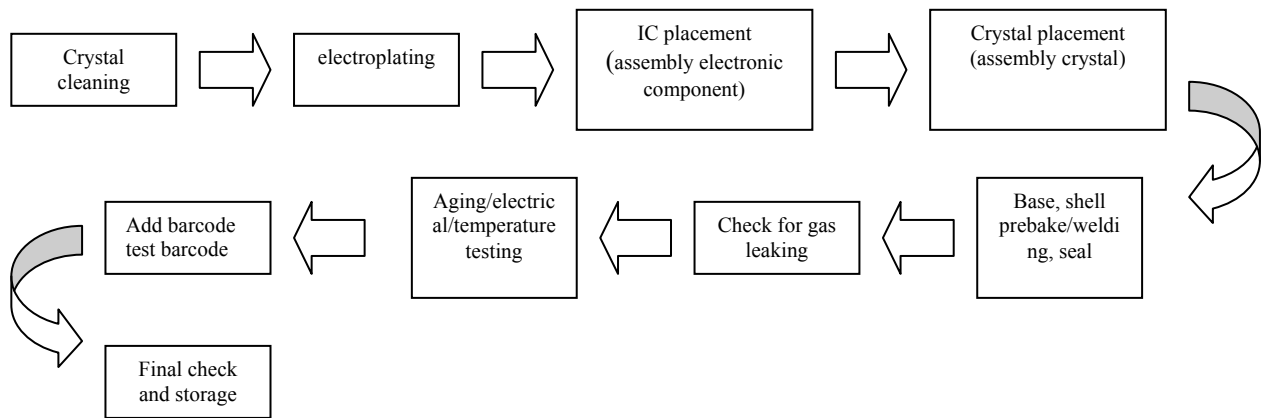
(a). Pre-manufacturing process — quartz crystal.



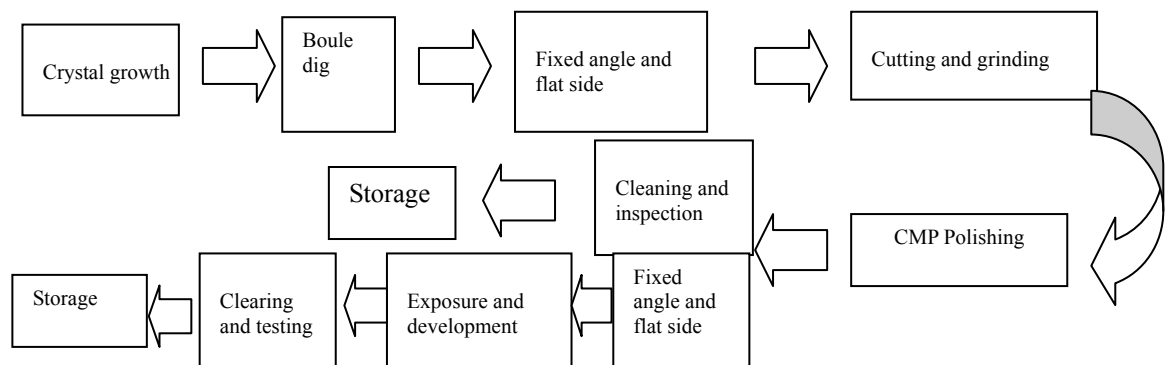
(b). Post-manufacturing process — quartz crystal (use silver, gold, nickel for electroplating, and the process would reduce crystal frequency. Fine tuning the electroplating that would reduce frequency error to 3~10ppm)



(c). Post manufacturing process — crystal oscillator (use silver, gold, nickel for electroplating, and the process would reduce crystal frequency.)



(3) 、Sapphire substrate process



(3) 、State of the major materials suppliers

The major materials for crystal and crystal oscillators include the base, wire bond, IC package, crystal slice and crystal bars. The main raw material of the sapphire substrate such as alumina.

(a). All the materials come from the at least three suppliers, and this would minimize the risk of all materials coming from a single supplier. Our company's procurement depends on the buying terms, state of supply, and specifications; before the materials to be ordered. And, it also depends on some special conditions that we would adjust the ratio of buying materials and this approach would help us not too concentrated the ordering from a single supplier, or running the risks of the orders being interrupted.

(b). All the suppliers have long term relationship with us. And, our friendship is good. With our company is growing strongly, these suppliers would also take highest priority to satisfy our company needs. Annually, we also meet with our suppliers on regular or irregular base to review our purchasing terms and any room for the improvement. This also helps a stable and continuous relationship in the materials supply.

(c). In considering the steady material supply, our company will provide the Rolling Forecast to the suppliers and the production preparations. This can shorten the

delivery time and an assurance of on time delivery. If there is any unusual situation, these suppliers will accommodate our needs to assure a stable supply.

(4) 、The suppliers and customers over than 10% of the past two years:

(a). Ten largest supplier

unit : NT\$1,000

2011			2012		
Company	amount	The Percentage of annual procurement (%)	Company	amount	The Percentage of annual procurement (%)
TXC(NINGBO) CORPORATION	2,309,451	38.26%	TXC(NINGBO) CORPORATION	2,417,255	34.15%
K Company	762,245	12.63%	K Company	656,105	9.27%
Other	2,965,007	49.11%	Other	4,005,471	56.58%
Total	6,036,703	100.00%	Total	7,078,831	100.00%

(b). Ten largest clients

unit : NT\$ 1,000's

2011			2012		
Name of client	Amount	Percentage of annual sale (%)	Name of Client	amount	percentage of annual sale (%)
H Group	2,450,848	27.48%	H Group	1,774,450	18.72%
Q Group	928,321	10.41%	Q Group	646,073	6.82%
Other	5,538,854	62.11%	Other	7,056,958	74.46%
Total	8,918,023	100.00%	Total	9,477,481	100.00%

(5) 、Production and monetary values for the past two years

Year	2011			2012		
	capacity	Production	value	capacity	production	value
Major products						
DIP Crystal product	330,000	320,946	489,822	280,000	243,315	381,087
SM Crystal products	1,800,000	1,688,230	6,661,702	2,200,000	1,983,218	6,860,769
Others	0	565,720	468,611	-	734,230	499,787
Total	2,130,000	2,574,896	7,620,135	2,480,000	2,960,763	7,741,643

(6) 、Volumes of sales and monetary values of the past two years

unit1000's , \$1000's

year	2011				2012			
	Domestic sales		export		Domestic sales		Export	
	quantity	value	quantity	value	quantity	value	quantity	value
Major products								
DIP Crystal product	30,793	68,433	299,495	545,581	26,528	59,563	215,987	411,113
SM Crystal products	88,698	505,274	1,653,647	7,626,342	98,602	519,468	1,864,518	8,192,003
Others	301	6,735	172,000	165,658	457	57,226	508,656	238,108
total	119,792	580,442	2,125,142	8,337,581	125,587	636,257	2,589,162	8,841,224

C 、Employees' average years in service, age, and educational background distribution of the past two years

Year		2011	2012	2013/03/31
Total number employees	engineer	193	203	201
	administrative	196	205	205
	Sales	75	72	72
	Technicians/operators	560	545	532
	total	1024	1025	1010
Average age		33.52	34.37	34.66
Average years in service		5.4	5.95	6.2
Distribution of educational background	Ph.D.	1.37%	1.27%	1.39%
	M.S.	10.06%	12.10%	12.18%
	B.S.	48.63%	46.44%	45.94%
	High School	36.62%	36.59%	36.83%
	Below High School	3.32%	3.60%	3.66%

D 、Data on our environmental protection expense

1. In recent years and as of the date of annual report publishing, the Company fixed pollution source installation was not operated within the scope of the permit in 2012 which resulted in non-conformance with related air pollution control laws. Considering that the non-conformity was relatively slight, the Taoyuan County government levied the minimum fine. In addition, a power trip on the wastewater pre-treatment facility collection system prevented the water pump from being activated and the wastewater in the collection and storage area overflowed in the storm drain and then into the industrial park storm sewer system. Though the water quality test results conformed to wastewater discharge standards, it was still deemed a violation of Article 18 of the Water Pollution Control Act and Article 21 of the Water Pollution Control Measures and Test Reporting Management Regulations. Since it was short-term emergency, the Taoyuan County government decided to levy the minimum fine. The total fine amount for the above two violations was NT\$110,000. Response measures and expenditures: Improvement costs including submersible pump, catch basin project, new wastewater basin project. Total amount was NT\$2,190,000.
2. The environmental protection regulatory requires the permit for pollution control equipments, or the permission to discharge, or a fee charged for the pollution prevention, or designated personnel for the environment protection affairs. To illustrate the filing, pay fee or implementation as follows:

Item	Description
Permit for air pollution equipment	has applied to Taoyun county, environ protection agency
Paid fee for pollution prevention	monthly pollution treatment fee is about NT\$346,973
Designated environment protection personnel	According to law, our company doesn't need to designate personnel for environment protection affair

The testing and packaging work originally sited in the Company's Beitou plant was moved to the Pingzhen plant. The Pingzhen plant is responsible for chip, surface mounted components, pattern sapphire substrate product production. Special attention is paid to noise, dust, grinding, waste and other pollutants and various improvements have been made such as preventing grinding fluid from causing water pollution, completing wastewater treatment and control equipment installation and testing. Total environmental protection expenditures in 2012 amounted to NT\$9,727,857 which mainly consisted of environmental cleaning, work environment testing, pollution control equipment operation & maintenance and protective gear outlays.

Our green product policy:

- A. The labor safety and health committee established by the Company currently has 14 members. Of these, six are elected. Current members make up 1.51% of our workforce. A labor safety and health meeting is held every quarter to handle safety and health problems. In order to improve workplace safety, the Company launched the occupational safety and health performance recognition under the supervision of the labor safety and health committee based on related work guidelines in 2009. The Council on Labor Affairs granted recognition for three year after conducting risk identification and taking corrective and preventive measures. In September 2012, TXC passed CNS 15506 Taiwan Occupational Safety & Health Management System certification. Occupational safety and health performance recognition was reapplied for in December and performance recognition was granted in March 2013. A total of 18 health promotion activities attended by 1212 persons were held in 2012. As requested by our customers, TXC passed external EICC VAP audit and certification which shows our company commitment to continually provide a safe work environment and do our best to guarantee the safety of our employees.
- B. In addition, to strengthen fulfillment of corporate social responsibility, TXC completed greenhouse gas inventory report, product carbon footprint inventory report and carbon neutralization declaration in 2012 and obtained ISO 14064-1, PAS 2050 and PAS 2060 declarations from BSI respectively in July, August and September. Received carbon label certification in December from TEEMA. In addition to conducting organization and product carbon inventories, the Company also performs annual inventories of public facilities, process machinery & equipment and other energy and power use to understand energy consumption at the Company to achieve management and control goals. ISO 50001 energy management system was certified by BSI. TXC will continue to assist with the promotion of low carbon activities organized by the EPA. In 2013, the Company obtained no. 10200125 and no. 10200180 symbols from the EPA. TXC will continue promote related environmental safety and health practices to ensure that the work environment is safe and healthy and do our best to guarantee the safety of employees.
- C. Protecting the Earth and environment are two top issues for people living in the 21st century. To protect the Earth, share the benefits with our children and grandchildren and jointly protect the general ecology and environment, the Company strongly believes it has a mission to contribute to society and proactively engage in environmental management activities with a prudent attitude.

The company's non-use of hazardous substances policy is as follows:

To fulfill our responsibility as global citizen, we are committed to:

1. Become the best green partner to customers based on the strictest regulations or customer requirements.
2. Check organization operations and supply resources, promote environmental education,

strengthen environmental awareness and goals of all employees and supplier partners.

3. Design green products and emphasize products and production processes that do not use hazardous substances.

4. Make continuous improvement through related company activities to achieve the sustainable business goals of the Company.

· TXC complies with RoHS (Restriction of Hazardous Substances in Electrical and Electronic Equipment) 2011/65/EU, WEEE (Waste Electrical and Electronic Equipment) 2012/19/EU, PFOS 2006/122/EC, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) (EC) No 1907/2006 requirements. Starting from July 1, 2006, TXC has been in compliance with international standards banning the use of substances containing Pb, Cd, Hg, Cr⁶⁺, PBB, PBDE and PFOS. In addition to receiving ISO 14001: 2004 environmental management system and IECQ/QC 080000: 2005 hazardous material management system certifications, the company through the efforts of our employees passed Sony Green Partner, Samsung ECO-Partner and Huawei Green Partner certification. Voluntary Certification on the Pollution Control of Electronic Information Products was obtained from China RoHS in accordance with electronic and information product pollution control management regulations. Building upon the foundation of mutual understanding and joint introduction of environment improvements, green purchasing activities serve as a basis for the continuous provision of green products. In order to ensure that product quality conforms to the related green and environmental protection regulations, the company strictly prohibits the use of banned substances in its production processes and instructs our suppliers not to use banned substances in either products or production so that the requirements of non-use, non-containment and non-contamination are complied with at each stage from product design and manufacturing to delivery so to reduce the environmental impact of our products and services.

In order to strengthen supplier green product requirements, TXC encourages suppliers to introduce the basic ISO 9001 quality management system as well as the QC 080000 system to implement environmentally safe material controls. In our supplier management procedure, major raw material suppliers are requested to sign a green product and environmental protection declaration and stricter MSDS sheet requirements have been implemented for upstream and downstream supplier environmental safety. All MSDS sheets used throughout the plant have both English and Chinese instructions to ensure full comprehension and appropriate handling. In addition, TXC has issued a Environmental Safety and Health Management Manual to request further compliance with international environmental, safety, health related standards so that we can work jointly with our suppliers to conform to the highest international production condition and environmental protection standards.

Related introduction and tracking of environmental protection is listed in detail on the company website. Refer to http://www.txc.com.tw/tw/i_esh/02.html

E 、Employer/Employee Relation

1. The Company has maintained harmonious employer/employee relation since its establishment. In recent years and since the closing date for publication of the annual report, there are no losses due to employer/employee disputes and there have never been any major employer/employee disputes since its establishment. Aside from holding employer/employee meetings and discussion meetings for new employees and for foreign nationals, and conducting employee satisfaction investigation, we have also set up an employee opinions mailbox and other channels for reflecting their opinions. We have spared no efforts toward employee benefits. We have often stressed the importance of employees and have provided employee bonus in stock allotment, stock options, and cash for wedding/funeral/other

festive occasions, emergency relief fund, group insurance/medical checkup, subsidies for tour at home or abroad, as well as discounts for books, magazines and special convenience stores; and sponsor birthday celebrations, sports competition, year-end party and luck draw, various recreational activities and commendation of senior and outstanding employees; also provide canteen, hostel and parking lots, table tennis table, pool table and other facilities. It is hoped that through coordination of the employee welfare committee with the Company to promote employer/employee harmony and guarantee employee benefits and health in a bid for win-win for both the employer and the employees.

Insurance and retirement	Labor, health, group insurance (occupation injury), pension reserve fund
Profit sharing	Stock dividends, stock options, convertible corporate bonds, treasury stock systems
Gifts	Cash gifts for three major holidays, birthdays, weddings, births, hospitalization and white card consolation gifts (cash or a basket of flower)
Medical insurance	Group insurance: Major disease insurance, accident injury insurance, emergency medical treatment, group hospitalization treatment and occupational injury insurance. Regular health exams: Physical exam, complete blood count (CBC), vision exam, hearing exam, liver function exam, blood fat exam, urine examination, chest X-rays, seasonal flu vaccine inoculation subsidy. Manager insurance
Activities	Domestic and international travel activities, birthday parties, employee athletic meets, year-end banquet and employee drawing, ball sport competitions, painting contests, photography contests, contracted merchant discounts, book reading club, a variety of employee social club activities and group purchase of movie ticket, art activities, course or activity for employee's anti-pressure, and course for anti-smoking and anti-weight
Emergency relief	Grants allocated based on real-life conditions experienced by employees
Book reading	Regularly purchase books, magazine, newspapers for the reading enjoyment of company personnel, and VCD/DVD multimedia for employees to watch
Other welfare	Solid promotion channels, overseas assignment development opportunities for outstanding employees, performance bonuses issued based on operation status, recognition of veteran and exceptional personnel, top ten outstanding project commendations, incentives for employee project proposals, bonuses for employees' child, bonus for patents and proposal
Facilities	Employee cafeteria, employee dormitory, car and motorcycle parking spaces, table tennis room, billiards room, badminton court, fitness room, breast-feeding room, medical service office, employee welfare association, lounge bar, sofa room, shooting machines, and KTV

2. Employee education and training:

The Company provides employees a multiple learning environment. Colleagues can continually challenge their growth limit through internal/external training, OJT, KM (knowledge management system), reading clubs, online/physical library, and supervisor/peer instruction. At the same time, through the new employees/professional technology/supervisor coaching/general knowledge course/self-development education and training system to bring maximum satisfaction for employees! On the other hand, through planning of

job category/job level, work rotation, project allocation and overseas assignments to integrate their lives with their careers and enable them enjoy the happiness of growth in knowledge and skills and develop a bright future.

The Company has formulated management regulations for employee education and training and mapped out relevant training courses in view of job function and professional requirements in order to enhance the knowledge and raise the quality of employees for better operation performance. The relevant education and training results in 2012 are as follows:

Item	No. of Class	Total No. of sessions	Total No of Trainees	Total No. of Hours	Total Expense
1. General Knowledge Training	19	52	2,673	3,664	57,185
2. Management Level Training	13	19	602	1,728	479,951
3. New employees training	27	27	240	3,149	0
4. Job Function Training	1	9	490	3,486	414,855
5. Self Heuristic Growth Training Course	380	934	12428	10,860	468,661
Total	14	14	484	441	6,600

- (1)The Company's finance supervisor qualified for Professional Certification of Finance and Accounting Supervisor of Publicly-listed Companies sponsored by the R.O.C. Accounting Research Development Fund.
 - (2)Two financial staffs of the Company acquired the Internal Auditor Certificate issued by the Internal Auditing Association.
 - (3)One financial staff of the Company acquired the Certified Public Accountant issued by the Ministry of Examination.
 - (4)One financial staff of the Company acquired the Stock Professional Services certification test issued by the Securities and Futures Bureau , Financial Supervisory Commission.
 - (5)One financial staff of the Company acquired the Certified Accountant issued by the Ministry of Examination.
 - (6)Two financial staffs of the Company acquired the Certificate of Securities Salesperson issued by the Ministry of Examination.
3. The Company has formulated employment retirement regulations in accordance with the Labor Standards Law, and regularly appropriated retirement contributions for deposit into the Central Trust of China according to the law. The employee retirement contribution supervisory committee will be responsible for management and use of the retirement fund. The pension costs recognized in 2012 and 2011 by the Company were respectively NT\$8,146 thousand and NT\$4,028 thousand. The Legislative Yuan passed the third reading on June 11, 2004 and started from July 1, 2005, in accordance with the labor retirement regulations, and in collaboration with the new system of monthly appropriation of retirement pension for depositing into the personal labor pension account set up at the Bureau of Labor Insurance, the Company recognized retirement pension costs in 2011 and 2010 respectively at NT\$22,867 thousand and NT\$23,626 thousand. And in January 2007 the director employee retirement fund was set up to guarantee retirement planning of professional directors.
 4. To protect employees with work safety the Company has formulated the following control methods regarding the work environment and employee body safety protection and call on employees for thorough implementation: Besides, establish the "Environmental and Occupational Safety and Health Committee" and hold the meeting regularly to review the effectiveness of business development and related matters of environmental safety and health. Aside from purchasing yearly group insurance, sponsoring regular work safety seminars, and dispatched employees to attend relevant industrial safety courses, it has revised the TXC Contingency Plan in October, 2009 and issued the manual for Environmental Safety and Health Management to ensure employee life security and handling of contingency incidents.

Please go to website: www.txccorp.com. To achieve the zero disaster goal, the company regularly revised the annual contingency plan and formulated detailed implementation operation according to contents of the plan. The business units shall implement the schedule and contents of the plan, and find out shortcomings via the auditing system to formulate the contingency plan for the coming year, and review and revise the implementation processes and auditing operation from time to time and lower risk of disasters by the business units to achieve the final goal of zero disaster.

5. Fulfillment of Social Responsibility: In line with humanitarian conviction of care for the disadvantaged, the Company would compile budget every year for feeding back to society. In performing our corporate social responsibility, every year the Company will continue to donate to basic education and education business for the disadvantaged and contribute to public charity. Our company was listed by the Global Views Monthly among the top 50 enterprises for corporate social responsibility. In August 2011, TXC was ranked second for the mid-sized enterprise category in Commonwealth Magazine's Corporate Citizen Award, the Energy Conservation Elite, Outstanding Innovation Award presented by the Bureau of Energy and received ISO50001 Energy Management System certification. Moreover, TXC published its corporate social accountability report in January 2009

<http://www.txc.com.tw/download/other/Social%20Responsibility.pdf>. and has strived to fulfill its corporate social accountability by making contributions to society. Please refer to information in the Company website: http://www.txc.com.tw/tw/h_csr/02.html.

VI. An Overview of the Company's Financial Status

A. Abbreviated Balance Sheets and P/L Statements for the Past 5 Years

(1) 、Abbreviated Balance Sheets (IFRS)

Unit : NT\$ 1,000

Year Item		Financial information for the post 5 years					Up to 2012.03.31
		2008	2009	2010	2011	2012	
Current assets		Note 2					7,280,011
Property, plant and equipment							5,553,851
Intangible assets							0
Other assets							741,640
Total assets							13,575,502
Current liabilities	Before distribution						3,115,300
	After distribution						0
Long-term liabilities							2,248,184
Total liabilities	Before distribution						5,363,484
	After distribution						0
Interests attributable to parent company							8,212,018
Common stock							3,097,570
Capital surplus							1,662,181
Retained earnings	Before distribution						3,452,266
	After distribution						0
Other interests							1
Treasury Stock							0
Non-controlling interests							0
Total stockholders' equity	Before distribution						8,212,018
	After distribution						0

B.

Note 1 : The financial statements of TXC Corporation were audited or viewed or certified by CPA.

Note 2: See Table (2) for the Condensed Consolidated Balance Sheet financial information over the past five years, condensed income statement - ROC financial accounting standards. (ROC financial accounting standards used)

(2) 、 Abbreviated Balance Sheets (GAAP)

Unit : NT\$ 1,000

Item \ Year		Financial information for the post 5 years				
		2008	2009	2010	2011	2012
Current assets		3,539,804	4,278,622	4,660,207	4,476,212	5,188,324
Long-term equity investments		1,902,741	2,155,217	2,646,768	3,572,912	4,033,572
Property, plant and equipment		2,592,594	2,247,824	2,967,919	3,450,973	3,394,698
Intangible assets		7,947	0	0	0	0
Other assets		48,160	29,623	38,878	24,972	18,424
Total assets		8,091,246	8,711,286	10,313,772	11,525,069	12,635,018
Current liabilities	Before distribution	1,490,000	2,012,901	2,229,042	2,417,825	3,173,779
	After distribution	1,490,000	2,012,901	2,229,042	2,417,825	Note 2
Long-term liabilities		965,877	692,437	1,543,117	1,875,805	1,437,500
Other liabilities		10,055	85,020	12,798	67,527	139,731
Total liabilities	Before distribution	2,465,932	2,790,358	3,784,957	4,364,669	4,754,522
	After distribution	2,465,932	2,790,358	3,784,957	4,364,669	Note 2
Common stock		2,716,981	2,887,272	2,971,831	3,022,423	3,022,423
Capital surplus		1,092,215	1,168,416	1,302,853	1,356,078	1,616,549
Retained earnings	Before distribution	1,708,180	1,818,658	2,375,441	2,545,465	3,029,417
	After distribution	1,036,435	1,185,263	1,575,417	1,880,532	Note 2
Unrealized gains on financial instruments		49	0	(3,235)	(18,133)	(13,105)
Cumulative translation adjustments		229,680	168,373	3,716	264,762	167,431
Asset revaluation increment(note 3)		5,442	5,442	5,442	5,442	5,442
Treasure Stock		(127,233)	(127,233)	(127,233)	0	0
Total stockholders' equity	Before distribution	5,625,314	5,920,928	6,528,815	7,160,400	7,880,496
	After distribution	5,087,918	5,345,114	5,788,052	6,495,466	Note 2

Note 1 : The financial statements of TXC Corporation were audited or viewed or certified by CPA.

Note 2 : Up to 2013.03.31 , The retain earnings of 2012 has not yet admitted by the stockholders' meeting.

(3) 、 Abbreviated P/L Statements (IFRS)

Unit : NT\$ 1,000

Year Item	Financial information for the post 5 years (Note 1)					Up to 2013.03.31
	2008	2009	2010	2011	2012	
Net operating revenue	Note 3					2,326,980
Gross profit						521,710
Operating income						219,869
Nonoperating gains and losses						19,003
Income before income tax						238,872
Continuing operations net Income						238,872
Discontinuing operations net Loss						0
Net income (loss)						209,434
Other comprehensive income (net amount)						110,437
Total comprehensive income						319,871
Net income attributable to parent company						209,434
Net income attributable to non-controlling interests						0
Comprehensive income attributable to parent company						319,871
Comprehensive income attributable to non-controlling interests						0
Earnings per share						0.68

Note 1 : The financial statements of TXC Corporation were audited or viewed or certified by CPA.

Note 2: Earnings per share prior to retroaction adjustment.

Note 3: See Table (4) for the Condensed Consolidated Income Statement financial information over the past five years, condensed income statement - ROC financial accounting standards. (ROC financial accounting standards used)

(4) 、 Abbreviated P/L Statements (GAAP)

Unit : NT\$ 1,000

Item \ Year	Financial information for the post 5 years (Note 1)				
	2008	2009	2010	2011	2012
Net operating revenue	6,547,340	6,557,116	8,156,933	8,918,023	9,477,481
Gross profit	1,536,196	1,267,998	1,702,014	1,658,329	1,708,304
Operating income	769,980	552,205	805,521	744,212	866,519
Nonoperating income and gains	790,985	642,550	911,040	771,533	449,511
Nonoperating expenses and losses	510,489	283,205	471,131	356,557	57,327
Income before income tax	1,050,476	911,550	1,245,430	1,159,188	1,258,703
Net income before cumulative effect of change in accounting principles	951,817	782,223	1,190,178	1,050,216	1,148,886
Cumulative effect of change in accounting principles	0	0	0	0	0
Net income	951,817	782,223	1,190,178	1,050,216	1,148,886
Earnings per share	3.56	2.75	4.06	3.48	3.79

Note 1 : The financial statements of TXC Corporation were audited or viewed or certified by CPA.

B、Financial Analysis for the past 5 Years

(1) Financial Analysis (IFRS)

Item \ Year			Financial analysis for the post 5 years					
			2008	2009	2010	2011	2012	Up to 2013.03.31
Capital Structure Analysis (%)	Debt ratio (%)		Note 2					39.51
	Long-term fund to fixed asstes ratio (%)							188.34
Liquidity Analysis(%)	Current Ratio (%)							233.69
	Quick Ration (%)							171.55
	Times interest earned (%)							2,461
Operating performace Analysis (%)	Average collection turnover(times)							2.89
	Days sales outstanding							126.27
	Average inventory turnover(times)							4.37
	Average payment turnover(times)							4.42
	Average inventory turnover(days)							83.56
	Fixed assets turnover(times)							0.42
	Total assets turnover(times)							0.17
	Profitability Analysis (%)	Turn on total assets (%)						1.64
Turn on total equity (%)		2.61						
Paid-in capital ratio (%)		Operating income						7.10
		Pre-tax income						7.71
Net margin (%)		9.00						
Earnings per share(Basic) Note I		0.68						
Earnings per share(Diluted) Note I		0.65						
Cash Flow		Cash flow ratio (%)						21.24
	Cash flow adequacy ratio (%)							68.25
	Cash flow reinvestment ration (%)							5.20
Leverage	Operating leverage							1.98
	Financial Leverage							1.04
Please explain the reasons of changes in financial ratio for the post two years (No needs for analysis if change of financial ratio is less than 20%)								

Note I : The financial statements of TXC Corporation were audited and certified by CPA. EPS is before retroactively adjust.

NoteII : Glossary :

1. Capital Structure Analysis
 - (1) Debt ratio = $\text{Total liabilities} / \text{Total assets}$
 - (2) Long-term fund to fixed assets ratio = $(\text{Total stockholders' equity} + \text{Long-term liabilities}) / \text{Net Fixed Assets}$
2. Liquidity Analysis
 - (1) Current Ratio = $\text{current assets} / \text{current liabilities}$
 - (2) Quick Ratio = $(\text{current assets} - \text{Inventories} - \text{Prepaid expenses}) / \text{current liabilities}$
 - (3) Times interest earned = $\text{Earnings before interest and taxes} / \text{Interest expenses}$
3. Operating performance Analysis
 - (1) Average collection turnover = $\text{Net sales} / \text{Average trade Receivables}$
 - (2) Days sales outstanding = $365 / \text{Average collection turnover}$
 - (3) Average inventory turnover = $\text{Cost of good sold} / \text{Average inventory}$ °
 - (4) Average payment turnover = $\text{Cost of good sold} / \text{Average trade Payables}$
 - (5) Average inventory turnover(Days) = $365 / \text{Average inventory turnover}$
 - (6) Fixed assets turnover = $\text{Net sales} / \text{Net Fixed Assets}$
 - (7) Total assets turnover = $\text{Net sales} / \text{Total assets}$
4. Profitability Analysis
 - (1) Turn on total assets = $[\text{Net income} + \text{Interest expenses} \times (1 - \text{Effective tax rate})] / \text{Average total assets}$ °
 - (2) Turn on total equity = $\text{Net income} / \text{Average stockholders' equity}$ °
 - (3) Net margin = $\text{Net income} / \text{net sales}$ °
 - (4) Earnings per share = $(\text{Net income} - \text{Perferred stock dividend}) / \text{Weighted average number of shares outstanding}$
5. Cash Flow
 - (1) Cash flow ratio = $\text{Net cash provided by operating activities} / \text{current liabilities}$
 - (2) Cash flow adequacy ratio = $\text{Five-year sum of cash from operations} / \text{Five-year sum of capital expenditures, inventory additions, and cash dividend}$
 - (3) Cash flow reinvestment ration = $(\text{Cash provided from operating activities} - \text{Cash dividend}) / (\text{Grosss fixed assets} + \text{investment} + \text{Other assets} + \text{Working capital})$
6. Leverage
 - (1) Operating leverage = $(\text{Net sales} - \text{Variable cost}) / \text{Income from operations}$
 - (2) Financial Leverage = $\text{Income from operations} / (\text{Income from operations} - \text{Interest expenses})$

(2) Financial Analysis (GAAP)

Item		Year	Financial Analysis for the past 5 Years				
			2008	2009	2010	2011	2012
Capital Structure Analysis	Debt ratio (%)		30.48	32.03	36.7	37.87	37.63
	Long-term fund to fixed assets ratio (%)		254.23	294.21	271.97	261.85	274.49
Liquidity Analysis	Current Ratio (%)		237.57	212.56	209.07	185.13	163.47
	Quick Ratio (%)		186.21	171.81	166.04	145.45	130.78
	Times interest earned (%)		3,584.00	4,497.01	6,230.00	5,013	4,409
Operating performance Analysis	Average collection turnover(times)		3.10	3.11	3.65	3.45	3.23
	Days sales outstanding		117.74	117.45	100.00	105.92	113.14
	Average inventory turnover(times)		7.22	7.38	7.51	7.54	7.73
	Average payment turnover(times)		5.78	6.01	6.19	6.08	5.57
	Average inventory turnover(days)		50.55	49.45	48.57	48.42	47.24
	Fixed assets turnover(times)		2.53	2.92	2.75	2.58	2.79
	Total assets turnover(times)		0.81	0.75	0.79	0.77	0.75
Profitability Analysis	Turn on total assets (%)		12.57	9.42	12.69	9.8	9.71
	Turn on total equity (%)		17.72	13.55	19.12	15.34	15.28
	Paid-in capital ratio (%)	Operating income	29.22	19.22	27.11	28.67	28.67
		Pre-tax income	38.66	31.72	41.91	41.65	41.65
	Net margin (%)		14.54	11.93	14.59	11.78	12.12
	Earnings per share(Basic) Note I		3.56	2.75	4.06	3.48	3.79
Cash Flow	Earnings per share(Diluted) Note I		3.50	2.73	3.85	3.29	3.58
	Cash flow ratio (%)		76.05	58.44	56.24	45.34	39.8
	Cash flow adequacy ratio (%)		92.07	108.40	84.24	77.14	74.99
Leverage	Cash flow reinvestment ration (%)		7.83	7.21	6.49	3.08	5.77
	Operating leverage		1.75	2.12	1.70	1.78	1.58
	Financial Leverage		1.03	1.02	1.03	1.03	1.03

Note I : The financial statements of TXC Corporation were audited and certified by CPA. EPS is before retroactively adjust.

NoteII : Glossary :

1. Capital Structure Analysis

(1) Debt ratio = Total liabilities / Total assets

(2) Long-term fund to fixed assets ratio = (Total stockholders' equity + Long-term liabilities) / Net Fixed Assets

2. Liquidity Analysis

(1) Current Ratio = current assets / current liabilities

(2) Quick Ratio = (current assets – Inventories – Prepaid expenses) / current liabilities

(3) Times interest earned = Earnings before interest and taxes / Interest expenses

3. Operating performance Analysis

(1) Average collection turnover =
Net sales / Average trade Receivables

- (2) Days sales outstanding = $365 / \text{Average collection turnover}$
- (3) Average inventory turnover = $\text{Cost of good sold} / \text{Average inventory} \circ$
- (4) Average payment turnover = $\text{Cost of good sold} / \text{Average trade Payables}$
- (5) Average inventory turnover(Days) = $365 / \text{Average inventory turnover}$
- (6) Fixed assets turnover = $\text{Net sales} / \text{Net Fixed Assets}$
- (7) Total assets turnover = $\text{Net sales} / \text{Total assets}$
- 4. Profitability Analysis
 - (1) Turn on total assets = $[\text{Net income} + \text{Interest expenses} \times (1 - \text{Effective tax rate})] / \text{Average total assets} \circ$
 - (2) Turn on total equity = $\text{Net income} / \text{Average stockholders' equity} \circ$
 - (3) Net margin = $\text{Net income} / \text{net sales} \circ$
 - (4) Earnings per share = $(\text{Net income} - \text{Perferred stock dividend}) / \text{Weighted average number of shares outstanding}$
- 5. Cash Flow
 - (1) Cash flow ratio = $\text{Net cash provided by operating activities} / \text{current liabilities}$
 - (2) Cash flow adequacy ratio = $\text{Five-year sum of cash from operations} / \text{Five-year sum of capital expenditures, inventory additions, and cash dividend.}$
 - (3) Cash flow reinvestment ration = $(\text{Cash provided from operating activities} - \text{Cash dividend}) / (\text{Grosss fixed assets} + \text{investment} + \text{Other assets} + \text{Working capital})$
- 6. Leverage
 - (1) Operating leverage = $(\text{Net sales} - \text{Variable cost}) / \text{Income from operations}$
 - (2) Financial Leverage = $\text{Income from operations} / (\text{Income from operations} - \text{Interest expenses})$

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying balance sheets of TXC Corporation (the "Corporation") as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TXC Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the accompanying schedules of significant accounts, provided for supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to above.

We have also audited the consolidated financial statements of TXC Corporation and subsidiaries as of and for the years ended December 31, 2012 and 2011, and expressed unqualified opinion on such financial statements.

March 25, 2013

Notice to Readers

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

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

TXC CORPORATION

BALANCE SHEETS DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,012,212	8	\$ 537,594	5	Short-term loans (Note 13)	\$ 135,332	1	\$ 294,419	3
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	-	-	3,922	-	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	26,019	-	7,758	-
Available-for-sale financial assets - current (Notes 2 and 6)	46,895	-	71,867	1	Notes payable (Note 2)	-	-	73,714	1
Notes receivable, net (Notes 2 and 7)	515	-	327	-	Notes payable - related parties (Notes 2 and 24)	-	-	285	-
Accounts receivable, net (Notes 2, 3 and 7)	2,969,463	24	2,765,484	24	Accounts payable (Note 2)	726,007	6	668,794	6
Accounts receivable - related parties, net (Notes 2, 3, 7 and 24)	54,710	1	48,055	-	Accounts payable - related parties (Notes 2 and 24)	727,470	6	595,854	5
Other receivable	28,066	-	38,682	-	Income tax payable (Notes 2 and 20)	63,155	-	57,404	-
Other receivable - related party, net (Note 24)	33,069	-	50,869	1	Accrued expenses (Note 16)	471,434	4	479,350	4
Inventories, net (Notes 2 and 8)	1,022,967	8	923,476	8	Other payables - related parties (Note 24)	86	-	-	-
Deferred income tax assets - current (Notes 2 and 20)	5,697	-	1,614	-	Current portion of long-term bonds (Notes 2 and 14)	556,079	4	-	-
Other current assets	<u>14,730</u>	-	<u>34,322</u>	-	Current portion of long-term loans (Note 15)	448,938	4	227,750	2
					Other current liabilities	<u>19,259</u>	-	<u>12,497</u>	-
Total current assets	<u>5,188,324</u>	<u>41</u>	<u>4,476,212</u>	<u>39</u>	Total current liabilities	<u>3,173,779</u>	<u>25</u>	<u>2,417,825</u>	<u>21</u>
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets carried at cost - noncurrent (Notes 2 and 9)	253,242	2	245,445	2	Bonds payable (Notes 2 and 14)	-	-	789,367	7
Investments accounted for by the equity method (Notes 2 and 10)	<u>3,780,330</u>	<u>30</u>	<u>3,327,467</u>	<u>29</u>	Long-term loans (Note 15)	<u>1,437,500</u>	<u>12</u>	<u>1,086,438</u>	<u>9</u>
Total long-term investments	<u>4,033,572</u>	<u>32</u>	<u>3,572,912</u>	<u>31</u>	Total long-term liabilities	<u>1,437,500</u>	<u>12</u>	<u>1,875,805</u>	<u>16</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 25)					RESERVES				
Cost					Reserve for land value increment tax (Notes 2 and 11)	<u>3,512</u>	-	<u>3,512</u>	-
Land	598,145	5	598,145	5	OTHER LIABILITIES				
Land improvements	151	-	593	-	Accrued pension cost (Notes 2 and 17)	14,028	-	9,349	-
Buildings	1,469,923	11	1,598,916	14	Guarantee deposits received	26,829	-	11,664	-
Machinery and equipment	2,241,611	18	3,732,866	33	Deferred income tax liabilities - noncurrent (Notes 2 and 20)	<u>98,874</u>	<u>1</u>	<u>46,514</u>	<u>1</u>
Transportation equipment	-	-	2,557	-	Total other liabilities	<u>139,731</u>	<u>1</u>	<u>67,527</u>	<u>1</u>
Office equipment	90,318	1	141,243	1	Total liabilities	<u>4,754,522</u>	<u>38</u>	<u>4,364,669</u>	<u>38</u>
Land - revaluation increment	<u>8,954</u>	-	<u>8,954</u>	-	STOCKHOLDERS' EQUITY (Note 18)				
Cost and revaluation increment	4,409,102	35	6,083,274	53	Capital stock				
Less accumulated depreciation	(1,156,252)	(9)	(2,752,299)	(24)	Common stock	3,022,423	24	3,022,423	26
Construction in progress and prepayments for equipment	<u>141,848</u>	<u>1</u>	<u>119,998</u>	<u>1</u>	Advance receipts for common stock	75,147	-	-	-
Property, plant and equipment, net	<u>3,394,698</u>	<u>27</u>	<u>3,450,973</u>	<u>30</u>	Capital surplus	1,616,549	13	1,356,078	12
OTHER ASSETS					Retained earnings				
Assets leased to others (Notes 2 and 12)	6,807	-	7,636	-	Legal reserve	749,459	6	644,438	6
Refundable deposits	910	-	925	-	Unappropriated earnings	<u>2,279,958</u>	<u>18</u>	<u>1,901,027</u>	<u>16</u>
Deferred charges (Note 2)	<u>10,707</u>	-	<u>16,411</u>	-	Total retained earnings	<u>3,029,417</u>	<u>24</u>	<u>2,545,465</u>	<u>22</u>
Total other assets	<u>18,424</u>	-	<u>24,972</u>	-	Other equity (Note 2)				
					Cumulative translation adjustments	167,431	1	264,762	2
					Net loss not recognized as pension cost (Note 17)	(22,808)	-	(15,637)	-
					Unrealized loss on financial instrument	(13,105)	-	(18,133)	-
					Unrealized revaluation increment (Note 11)	<u>5,442</u>	-	<u>5,442</u>	-
					Total other equity	<u>136,960</u>	<u>1</u>	<u>236,434</u>	<u>2</u>
					Total stockholders' equity	<u>7,880,496</u>	<u>62</u>	<u>7,160,400</u>	<u>62</u>
TOTAL	<u>\$ 12,635,018</u>	<u>100</u>	<u>\$ 11,525,069</u>	<u>100</u>	TOTAL	<u>\$ 12,635,018</u>	<u>100</u>	<u>\$ 11,525,069</u>	<u>100</u>

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

TXC CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUE (Note 2)	\$ 9,607,721	101	\$ 8,981,786	101
LESS: SALES RETURNS	(23,147)	-	(15,639)	-
LESS: SALES ALLOWANCES	<u>(107,093)</u>	<u>(1)</u>	<u>(48,124)</u>	<u>(1)</u>
NET OPERATING REVENUE	9,477,481	100	8,918,023	100
OPERATING COSTS	<u>(7,769,177)</u>	<u>(82)</u>	<u>(7,259,694)</u>	<u>(82)</u>
GROSS PROFIT	1,708,304	18	1,658,329	18
REALIZED INTER-COMPANY GAIN	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>1,708,304</u>	<u>18</u>	<u>1,658,329</u>	<u>18</u>
OPERATING EXPENSES				
Selling expenses	(350,801)	(4)	(377,574)	(4)
General and administrative expenses	(193,155)	(2)	(192,075)	(2)
Research and development expenses	<u>(297,829)</u>	<u>(3)</u>	<u>(344,468)</u>	<u>(4)</u>
Total operating expenses	<u>(841,785)</u>	<u>(9)</u>	<u>(914,117)</u>	<u>(10)</u>
OPERATING INCOME	<u>866,519</u>	<u>9</u>	<u>744,212</u>	<u>8</u>
NONOPERATING INCOME AND GAINS				
Interest income	4,697	-	4,734	-
Investment income recognized under equity method (Note 10)	359,392	4	358,541	4
Dividend income	3,954	-	4,031	-
Gain on disposal of property, plant and equipment	231	-	10,617	-
Gain on sale of investments	1,094	-	822	-
Exchange gains	42,004	1	42,736	1
Reversal of impairment loss	-	-	4,873	-
Miscellaneous income	<u>38,139</u>	<u>-</u>	<u>31,272</u>	<u>-</u>
Total nonoperating income and gains	<u>449,511</u>	<u>5</u>	<u>457,626</u>	<u>5</u>

(Continued)

TXC CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense	\$ (29,213)	(1)	4 (23,595)	-
Valuation loss on financial assets	-	-	(78)	-
Valuation loss on financial liabilities, net	(25,857)	-	(15,767)	-
Miscellaneous expenses	<u>(2,257)</u>	<u>-</u>	<u>(3,210)</u>	<u>-</u>
Total nonoperating expenses and losses	<u>(57,327)</u>	<u>(1)</u>	<u>(42,650)</u>	<u>-</u>
INCOME BEFORE INCOME TAX	1,258,703	13	1,159,188	13
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(109,817)</u>	<u>(1)</u>	<u>(108,972)</u>	<u>(1)</u>
NET INCOME	<u>\$ 1,148,886</u>	<u>12</u>	<u>\$ 1,050,216</u>	<u>12</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 22)				
Basic	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Diluted	<u>\$ 3.93</u>	<u>\$ 3.58</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>

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

(Concluded)

TXC CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus	Retained Earnings		Others Equity					
	Common Stock	Advance Receipts for Common Stock		Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Total
BALANCE, JANUARY 1, 2011	\$ 2,971,831	\$ -	\$ 1,302,853	\$ 525,420	\$ 1,850,021	\$ 3,716	\$ -	\$ (3,235)	\$ 5,442	\$ (127,233)	\$ 6,528,815
Appropriation of 2010 earnings											
Legal reserve	-	-	-	119,018	(119,018)	-	-	-	-	-	-
Stock dividends	59,261	-	-	-	(59,261)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(740,763)	-	-	-	-	-	(740,763)
Retirement of treasury stock	(30,000)	-	(17,065)	-	(80,168)	-	-	-	-	127,233	-
Exercise of employee stock options	21,220	-	69,814	-	-	-	-	-	-	-	91,034
Conversion of convertible bonds	111	-	476	-	-	-	-	-	-	-	587
Change in net loss not recognized as pension cost	-	-	-	-	-	-	(15,637)	-	-	-	(15,637)
Net income for the year ended December 31, 2011	-	-	-	-	1,050,216	-	-	-	-	-	1,050,216
Changes in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	(14,898)	-	-	(14,898)
Changes in translation adjustments	-	-	-	-	-	261,046	-	-	-	-	261,046
BALANCE, DECEMBER 31, 2011	3,022,423	-	1,356,078	644,438	1,901,027	264,762	(15,637)	(18,133)	5,442	-	7,160,400
Appropriation of 2011 earnings											
Legal reserve	-	-	-	105,021	(105,021)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(664,934)	-	-	-	-	-	(664,934)
Exercise of employee stock options	-	24,460	67,999	-	-	-	-	-	-	-	92,459
Conversion of convertible bonds	-	50,687	192,472	-	-	-	-	-	-	-	243,159
Net loss not recognized as pension cost	-	-	-	-	-	-	(7,171)	-	-	-	(7,171)
Net income for the year ended December 31, 2012	-	-	-	-	1,148,886	-	-	-	-	-	1,148,886
Changes in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	5,028	-	-	5,028
Changes in translation adjustments	-	-	-	-	-	(97,331)	-	-	-	-	(97,331)
BALANCE, DECEMBER 31, 2012	<u>\$ 3,022,423</u>	<u>\$ 75,147</u>	<u>\$ 1,616,549</u>	<u>\$ 749,459</u>	<u>\$ 2,279,958</u>	<u>\$ 167,431</u>	<u>\$ (22,808)</u>	<u>\$ (13,105)</u>	<u>\$ 5,442</u>	<u>\$ -</u>	<u>\$ 7,880,496</u>

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

TXC CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,148,886	\$ 1,050,216
Depreciation	488,708	561,221
Nonoperating loss - idle assets and lease assets	205	386
Amortization	12,697	22,819
Gain on sale of investments	(1,094)	(822)
Investment income recognized under equity method	(359,392)	(358,541)
Gain on disposal of property, plant and equipment	(231)	(10,617)
Valuation loss on financial instruments	25,857	15,845
Reversal of impairment loss	-	(4,873)
Loss on fire damage	625	-
Discount on bonds payable	9,871	9,777
Net changes in net loss not recognized as pension cost	(7,171)	(15,637)
Net changes in deferred income tax	48,277	53,259
Net changes in operating assets and liabilities		
Notes receivable	(188)	1,161
Accounts receivable (related parties included)	(210,634)	(488,496)
Inventories	(116,746)	16,376
Other receivables (related parties included)	79,842	13,802
Other current assets	19,592	(24,544)
Notes payable (related parties included)	(73,999)	20,298
Accounts payable (related parties included)	188,829	267,369
Accrued expenses	(7,916)	(53,345)
Income tax payable	5,751	1,265
Other payables (related parties included)	(2,173)	-
Other current liabilities	9,021	(403)
Accrued pension cost	4,679	19,843
Net cash provided by operating activities	<u>1,263,296</u>	<u>1,096,359</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial instruments at fair value through profit or loss	-	(10,500)
Proceeds from disposal of financial instruments at fair value through profit or loss	(3,674)	65,221
Acquisitions of available-for-sale financial assets	(30,000)	(90,000)
Proceeds from disposal of available-for-sale financial assets	61,094	60,268
Acquisition of financial assets carried cost	(7,797)	(148,767)
Acquisition of investments accounted for by equity method	(190,802)	(157,727)
Acquisition of property, plant and equipment	(494,351)	(1,058,015)
Proceeds from disposal of property, plant and equipment	26,847	23,721
Purchase of assets leased to others	-	(187)
Decrease in refundable deposits	15	2,651
Increase in deferred charges	(5,863)	(24,822)
Net cash used in investing activities	<u>(644,531)</u>	<u>(1,338,157)</u>

(Continued)

TXC CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	\$ (159,087)	\$ (85,409)
Increase in long-term loans	572,250	354,750
Proceeds from exercise of employee stock options	92,459	91,034
Increase in guarantee deposits received	15,165	3,547
Cash dividends	<u>(664,934)</u>	<u>(740,763)</u>
Net cash used in financing activities	<u>(144,147)</u>	<u>(376,841)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	474,618	(618,639)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>537,594</u>	<u>1,156,233</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,012,212</u>	<u>\$ 537,594</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 19,511</u>	<u>\$ 13,939</u>
Income tax paid	<u>\$ 55,789</u>	<u>\$ 54,447</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term debt	<u>\$ 448,938</u>	<u>\$ 227,750</u>
Conversion of convertible bonds	<u>\$ 243,159</u>	<u>\$ 587</u>
Investment for machinery and equipment	<u>\$ -</u>	<u>\$ 8,074</u>

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

(Concluded)

TXC CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

The Corporation specializes in five categories of products such as high quality Quartz Unite Crystal, Automotive Crystal, Crystal Oscillator (CXO) Surface Acoustic Wave (SAW) Filter, and Timing Module (TM), and provides complete solution in frequency devices and modules, and design service to fully satisfy various needs of the customers.

On August 26, 2002, the Corporation's shares began to be traded on the Taiwan Stock Exchange.

As of December 31, 2012 and 2011, the Corporation had 1,028 and 1,025 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

For readers' convenience, 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 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.

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.

Accounting Estimates

Under above 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, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

Current/Noncurrent Assets and Liabilities

Current assets include cash and 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 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: Bonds - at prices quoted by the Taiwan GreTai Securities Market, and 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 the same with 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.

Fair value of financial assets at the balance sheet date is determined as follows: Open-end mutual funds - at net asset values.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Impairment of Accounts Receivable

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 and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, idle assets, leased 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 first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings.

Inventories

Inventories consist of raw materials, supplies and spare parts, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

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, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost plus revaluation increment less accumulated depreciation. 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 follows: buildings - 4 to 51 years; machinery and equipment - 4 to 15 years; transportation equipment - 3 to 6 years; office equipment - 2 to 6 years; assets leased to others - 4 to 61 years.

Property, plant and equipment and assets leased to others still in use beyond their original estimated useful lives are further depreciated over their new 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.

Convertible Bonds

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 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 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.

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.

Income Tax

The Corporation applies the intra-period and inter-period allocation methods to 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 allowance is 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.

If the Corporation can control the timing of the reversal of a temporary difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

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.

Stock-based Compensation

Employee stock options granted between January 1, 2004 and December 31, 2007 were 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.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity.

Revenue Recognition

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 are realizable. The Corporation does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the customers 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2012.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Corporation are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. The adoption did not have effect on the net income for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	2011
Cash on hand	\$ 652	\$ 1,098
Checking accounts and demand deposits	664,560	353,496
Time deposits	-	140,000
Cash equivalents		
Repurchase agreements collateralized by bonds	<u>347,000</u>	<u>43,000</u>
	<u>\$ 1,012,212</u>	<u>\$ 537,594</u>

The interest rates of repurchase agreements collateralized by bonds were 0.8%-0.825% and 0.76% for the years ended December 31, 2012 and 2011.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2012	2011
<u>Financial assets at FVTPL</u>		
Convertible bonds	\$ <u>-</u>	\$ <u>3,922</u>
<u>Financial liabilities at FVTPL</u>		
Forward exchange contracts	\$ <u>26,019</u>	\$ <u>7,758</u>

The Corporation entered into derivative contracts during the years ended December 31, 2012 and 2011 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 or cash flows.

Outstanding forward contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2012</u>			
Sell	USD/NTD	January 2, 2013 to March 26, 2013	USD24,500/NTD714,837
Sell	USD/JPY	January 4, 2013 to March 5, 2013	USD19,000/JPY1,561,562
Buy	JPY/NTD	January 10, 2013 to February 20, 2013	JPY160,000/NTD58,484
<u>December 31, 2011</u>			
Sell	USD/NTD	January 3, 2012 to April 9, 2012	USD55,000/NTD1,656,290
Sell	USD/JPY	January 4, 2012 to March 9, 2012	USD21,000/JPY1,629,455
Sell	NTD/JPY	January 4, 2012 to February 6, 2012	NTD141,889/JPY360,000

Net loss on financial instruments held for trading for the years ended December 31, 2012 and 2011 was \$25,857 thousand and \$15,845 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Mutual funds	\$ <u>46,895</u>	\$ <u>71,867</u>

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2012	2011
Notes receivable, third parties	\$ 518	\$ 360
Less: Allowance for doubtful accounts	<u>(3)</u>	<u>(33)</u>
	<u>\$ 515</u>	<u>\$ 327</u>
Accounts receivable, third parties	\$ 2,988,689	\$ 2,783,280
Accounts receivable, related parties	<u>54,795</u>	<u>48,086</u>
	3,043,484	2,831,366
Less: Allowance for doubtful accounts, third parties	(19,226)	(17,796)
Allowance for doubtful accounts, related parties	<u>(85)</u>	<u>(31)</u>
	<u>\$ 3,024,173</u>	<u>\$ 2,813,539</u>

Movements of allowance for doubtful accounts were as follows:

	Years Ended December 31			
	2012		2011	
	Notes Receivable	Accounts Receivable	Notes Receivable	Accounts Receivable
Balance, beginning of year	\$ 33	\$ 17,827	\$ 8	\$ 17,827
Add (deduct): Provision for (reversal of) doubtful accounts	(30)	1,677	25	-
Deduct: Amounts written off	<u>-</u>	<u>(193)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 3</u>	<u>\$ 19,311</u>	<u>\$ 33</u>	<u>\$ 17,827</u>

8. INVENTORIES

	December 31	
	2012	2011
Raw materials	\$ 143,955	\$ 116,924
Supplies and spare parts	38,547	45,789
Work in process	237,584	162,837
Finished goods	257,249	294,333
Merchandise	330,830	302,721
Goods in transit	<u>14,802</u>	<u>872</u>
	<u>\$ 1,022,967</u>	<u>\$ 923,476</u>

As of December 31, 2012 and 2011, the allowance for inventory devaluation was \$32,507 thousand and \$31,949 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 was \$7,769,177 thousand and \$7,259,694 thousand, respectively, which included \$18,366 thousand and \$33,097 thousand, respectively, due to write-downs of inventories and loss on physical inventory.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2012	2011
Domestic emerging market stocks	\$ 54,997	\$ 47,200
Domestic unquoted common stocks	101,000	101,000
Overseas unquoted common stocks	<u>97,245</u>	<u>97,245</u>
	<u>\$ 253,242</u>	<u>\$ 245,445</u>

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

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted companies				
Taiwan Crystal Technology International Ltd.	\$ 3,470,395	100	\$ 3,188,189	100
TXC Technology Inc.	11,378	100	12,942	100
TXC Japan Corporation	11,517	100	14,863	100
Taiwan Crystal Technology International (HK) Limited	<u>287,040</u>	100	<u>111,473</u>	100
	<u>\$ 3,780,330</u>		<u>\$ 3,327,467</u>	

The Corporation invested in Taiwan Crystal Technology International (HK) Limited in June 2011. The purpose of the investment is to reinvest in TXC (Chongqing) Corporation. In 2012, the Corporation increased its capital by cash in the amount of \$190,802 thousand (US\$6,480 thousand).

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

	Years Ended December 31	
	2012	2011
Taiwan Crystal Technology International Ltd.	\$ 373,818	\$ 354,557
TXC Technology Inc.	(1,082)	2,308
TXC Japan Corporation	(1,449)	2,843
Taiwan Crystal Technology International (HK) Limited	<u>(11,895)</u>	<u>(1,167)</u>
	<u>\$ 359,392</u>	<u>\$ 358,541</u>

11. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2012			
	Cost	Revaluation Increment	Accumulated Depreciation	Carrying Value
Land	\$ 598,145	\$ 8,954	\$ -	\$ 607,099
Land improvements	151	-	103	48
Buildings	1,469,923	-	273,620	1,196,303
Machinery and equipment	2,241,611	-	826,782	1,414,829
Office equipment	90,318	-	55,747	34,571
Prepayments for equipment	<u>141,848</u>	<u>-</u>	<u>-</u>	<u>141,848</u>
	<u>\$ 4,541,996</u>	<u>\$ 8,954</u>	<u>\$ 1,156,252</u>	<u>\$ 3,394,698</u>

	December 31, 2011			
	Cost	Revaluation Increment	Accumulated Depreciation	Carrying Value
Land	\$ 598,145	\$ 8,954	\$ -	\$ 607,099
Land improvements	593	-	520	73
Buildings	1,598,916	-	359,937	1,238,979
Machinery and equipment	3,732,866	-	2,286,686	1,446,180
Transportation equipment	2,557	-	2,557	-
Office equipment	141,243	-	102,599	38,644
Prepayments for equipment	<u>119,998</u>	<u>-</u>	<u>-</u>	<u>119,998</u>
	<u>\$ 6,194,318</u>	<u>\$ 8,954</u>	<u>\$ 2,752,299</u>	<u>\$ 3,450,973</u>

There was no interest capitalized in 2012 and 2011.

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

See Note 25 for collateral on loans.

12. OTHER ASSETS

Leased to Others

	December 31, 2012		
	Book Value	Accumulated Depreciation	Carrying Value
Land	\$ 2,602	\$ -	\$ 2,602
Buildings	<u>7,917</u>	<u>(3,712)</u>	<u>4,205</u>
	<u>\$ 10,519</u>	<u>\$ (3,712)</u>	<u>\$ 6,807</u>

	December 31, 2011		
	Book Value	Accumulated Depreciation	Carrying Value
Land	\$ 2,602	\$ -	\$ 2,602
Buildings	<u>11,632</u>	<u>(6,598)</u>	<u>5,034</u>
	<u>\$ 14,234</u>	<u>\$ (6,598)</u>	<u>\$ 7,636</u>

Idle Assets

Idle assets are land, building and equipment retired from active use.

	December 31	
	2012	2011
Book value	\$ 283	\$ 4,038
Accumulated impairment	<u>(283)</u>	<u>(4,038)</u>
	<u>\$ -</u>	<u>\$ -</u>

13. SHORT-TERM LOANS

	December 31			
	2012		2011	
	Interest Rate	Amounts	Interest Rate	Amounts
	%		%	
Unsecured bank loans	0.96-1.024	<u>\$ 135,332</u>	0.60-1.25	<u>\$ 294,419</u>

14. BONDS PAYABLE

	December 31	
	2012	2011
Third unsecured domestic convertible bonds	\$ 556,100	\$ 799,400
Less: Discount on bonds payable	(21)	(10,033)
Less: Current portion	<u>(556,079)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 789,367</u>

Third Unsecured Domestic Convertible Bonds

On January 11, 2010, the Corporation issued third unsecured domestic convertible bonds with an aggregate value of \$800,000 thousand. According to Statement of Financial Accounting Standards No. 36, "Disclosure and Presentation of Financial Instruments," these unsecured domestic convertible bonds were separated into convertible options, equity, and bonds payable. Other details of the bond issuance are summarized as follows:

- Issue date: January 11, 2010.
- Total issue amount: \$800,000 thousand.

- c. Issue price: 100%.
- d. Par value: \$100 thousand.
- e. Coupon rate: 0%.
- f. Repayment term: The bonds are repayable on January 11, 2013 upon the maturity of the bonds.
- g. Conversion right: Holder can request for conversion of the bonds to the Corporation's common stock.
- h. Conversion period: From February 12, 2010 to January 1, 2013.
- i. Conversion price: The original conversion price per share is \$57.6. 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. The conversion price per share is \$48 on December 31, 2012.
- j. Redemption of bonds
 - 1) Redemption on the maturity date: On the maturity date, the Corporation will redeem the bonds at the principal amounts.
 - 2) Early redemption on the maturity date:
 - a) During the period of time between one month after issuance and the 40th day before maturity, if the closing price of the Corporation's shares reaches 30% of the conversion price for 30 consecutive trading days, the Corporation may redeem the remaining bonds at a price of their book value.
 - b) During the period of time between one month after issuance and the 40th day before maturity, when over 90% of the bonds had been redeemed, bought back or converted, the Corporation may redeem the remaining bonds at a price of their book value.
- k. Converted bonds: As of December 31, 2012, bonds with a book value of \$243,900 thousand had been converted into 5,080 thousand common shares.

15. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31	
		2012	2011
Secured bank loans	Maturity on July 24, 2013, repayable from July 2008 in quarterly installments	\$ 43,688	\$ 101,938
Secured bank loans	Maturity on July 24, 2013, repayable from April 2009 in quarterly installments	5,250	12,250
Secured bank loans	Maturity on August 17, 2016, repayable from November 2012 in quarterly installments	562,500	600,000
Unsecured bank loans	Maturity on October 13, 2016, repayable from January 2013 in quarterly installments	500,000	-
Unsecured bank loans	Repayable at maturity on July 26, 2014	200,000	-
Unsecured bank loans	Repayable at maturity on August 20, 2014	100,000	-

(Continued)

Nature of Loans	Repayment Period	December 31	
		2012	2011
Unsecured bank loans	Repayable at maturity on June 15, 2014	\$ 100,000	\$ 100,000
Unsecured bank loans	Maturity on October 28, 2015, repayable from October 2011 in quarterly installment	375,000	500,000
		<u>1,886,438</u>	<u>1,314,188</u>
Less current portion		<u>(448,938)</u>	<u>(227,750)</u>
		<u>\$ 1,437,500</u>	<u>\$ 1,086,438</u>
Interest rate (%)		1,10%-1.28%	0.9%-1.107% (Concluded)

See Note 25 for collaterals on long-term loans.

16. ACCRUED EXPENSES

	December 31	
	2012	2011
Payroll	\$ 36,070	\$ 32,229
Bonus	44,765	125,811
Bonus to employees, directors and supervisors	144,759	132,203
Commission	58,234	65,249
Others	<u>187,606</u>	<u>123,858</u>
	<u>\$ 471,434</u>	<u>\$ 479,350</u>

17. PENSION PLANS

The pension plan under the Labor Pension Act (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 \$22,867 thousand and \$23,626 thousand for the years ended December 31, 2012 and 2011, respectively.

The Corporation has set up appointed manager’s pension fund and contributes monthly an amount of not less than 8% of the appointed manager’s monthly salaries and wages to the Bank of Taiwan. Such pension costs were \$1,030 thousand and \$701 thousand for the years ended December 31, 2012 and 2011, 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 in the Bank of Taiwan in the committee’s name. The Corporation recognized pension costs of \$4,028 thousand and \$8,146 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2012	2011
Service cost	\$ 1,919	\$ 2,379
Interest cost	1,234	1,544
Projected return on plan assets	(835)	(1,325)
Amortization	<u>1,710</u>	<u>5,548</u>
Net pension cost	<u>\$ 4,028</u>	<u>\$ 8,146</u>

b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2012 and 2011

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	\$ (8,399)	\$ (5,171)
Non-vested benefit obligation	<u>(58,182)</u>	<u>(50,116)</u>
Accumulated benefit obligation	(66,581)	(55,287)
Additional benefit based on future salaries	<u>(13,364)</u>	<u>(12,461)</u>
Projected benefit obligation	(79,945)	(67,748)
Fair value of plan assets	<u>52,553</u>	<u>45,938</u>
Funded status	(27,392)	(21,810)
Unrecognized net transitional obligation	-	-
Unrecognized net gain	36,172	28,098
Additional liability	<u>(22,808)</u>	<u>(15,637)</u>
Accrued pension cost	<u>\$ (14,028)</u>	<u>\$ (9,349)</u>
Vested benefit	<u>\$ (9,515)</u>	<u>\$ (5,863)</u>

c. Actuarial assumptions as of December 31, 2012 and 2011:

	December 31	
	2012	2011
Discount rate used in determining present values	1.875%	2.000%
Future salary increase rate	2.000%	2.000%
Expected rate of return on plan assets	1.875%	2.000%

	Years Ended December 31	
	2012	2011
d. Contributions to the fund	<u>\$ 6,520</u>	<u>\$ 3,940</u>
e. Payments from the fund	<u>\$ 375</u>	<u>\$ 22,970</u>

18. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital was \$5,000,000 thousand and \$4,000,000 thousand at December 31, 2012 and 2011 (\$10.00 par value per share). As of December 31, 2012 and 2011, the Corporation's issued capital stock was \$3,022,423 thousand divided into 302,242 thousand shares, at NT\$10.00 par value each. Exercised stock options in the amount of \$24,460 thousand and convertible bonds in the amount of \$50,687 thousand have not been registered; therefore they are classified into advance receipts for common stock.

Employee Stock Options

In December 2007, 8,000 options 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 is adjusted accordingly.

Information related to employee stock option plans was as follows:

	Years Ended December 31			
	2012		2011	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of year	2,627	\$ 39.7	4,954	\$ 42.9
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	(2,446)	37.8	(2,122)	42.9
Options expired	<u>(181)</u>	-	<u>(205)</u>	-
Balance, end of year	<u>-</u>	-	<u>2,627</u>	39.7
Options exercisable, end of year	<u>-</u>		<u>2,627</u>	

Options granted during the year 2007 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Grant-date share price (NT\$)	58.8
Exercise price (NT\$)	58.8
Expected volatility	43.5%
Expected life (years)	3.875 years
Risk-free interest rate	2.42%
Expected dividend yield	-

The pro forma information for the years ended December 31, 2012 and 2011 assuming employee stock options granted before January 1, 2008 were accounted for under SFAS No. 39 is as follows:

	2012	2011
Net income	<u>\$ 1,148,886</u>	<u>\$ 1,050,216</u>
After income tax basic earnings per share (NT\$)	<u>\$3.79</u>	<u>\$3.48</u>

In their meeting on June 13, 2012, the stockholders approved a restricted stock plan for employees with a total amount of NT\$20,000 thousand, consisting of 2,000 thousand shares, and authorized the board of directors to determine the issue prices of the restricted shares when they are issued. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vested conditions are as follows:

- a. The employees should not sell, pledge, transfer, donate or in any other way dispose of these shares.
- b. The employees holding these shares are not entitled to receive cash and stock dividends.
- c. The employees holding these shares have no voting right.

If an employee fails to meet the vesting conditions, the Corporation will recall or buy back his/her restricted shares for cancellation.

As of December 31, 2012, the Corporation had not yet issued any restricted shares to employees.

Capital Surplus

Capital surplus comprised of the following:

	December 31	
	2012	2011
Issuance of common shares	\$ 325,830	\$ 325,830
Conversion of bonds	977,028	772,417
Exercise of employee stock options	285,946	217,947
Conversion options	<u>27,745</u>	<u>39,884</u>
	<u>\$ 1,616,549</u>	<u>\$ 1,356,078</u>

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Corporation's paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

Appropriation of Earnings and Dividend Policy

Under the Corporation's Articles of Incorporation, the Corporation should appropriate 10% of its net income less any prior years' deficit as legal reserve. The remaining amount may be fully retained or partially retained and partially distributed for dividends, upon the stockholders' approval, according to the following percentages.

- a. Employee bonus - not less than 3%
- b. Directors and supervisors' remuneration - not more than 2%
- c. Stock bonuses to employees include subsidiaries' employees who meet certain criteria set by the stockholders' meetings.

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.

For the years ended December 31, 2012 and 2011, the bonus to employees was \$124,079 thousand and \$113,317 thousand, respectively, and the remuneration to directors and supervisors was \$20,680 thousand and \$18,886 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 12% and 2%, respectively, of net income (net of the bonus and remuneration). Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' 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.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share in the income tax paid by the Corporation.

The appropriations of earnings for 2011 and 2010 had been approved in the stockholders' meetings on June 13, 2012 and June 10, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2011	For Fiscal Year 2010	For Fiscal Year 2011	For Fiscal Year 2010
Legal reserve	\$ 105,021	\$ 119,018	\$ -	\$ -
Cash dividends	664,934	740,763	2.2	2.5
Stock dividends	-	59,261	-	0.2

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the shareholders' meetings on June 13, 2012 and June 10, 2011, respectively, were as follows:

	Years Ended December 31			
	2011		2010	
	Cash	Stock	Cash	Stock
Bonus to employees	\$ 113,317	\$ -	\$ 160,674	\$ -
Remuneration to directors and supervisors	18,886	-	21,423	-

	Years Ended December 31			
	2011		2010	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in shareholders' meetings	\$ 113,317	\$ 18,886	\$ 160,674	\$ 21,423
Amounts recognized in respective financial statements	<u>113,317</u>	<u>18,886</u>	<u>160,674</u>	<u>21,423</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There are no differences between the approved amounts of the bonus to employees and the remuneration to directors and supervisors and the accrual amounts reflected in the financial statements for the year ended December 31, 2011 and 2010.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

19. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2012:</u> None				
<u>Year ended December 31, 2011</u>				
For transfer to employees	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury stock nor exercise stockholders' rights on these shares, such as rights to dividends and to vote.

20. INCOME TAX

A reconciliation of income tax expense based on income before income tax at the statutory rate and income tax expense was as follows:

	Years Ended December 31	
	2012	2011
Income tax expense at the statutory rate	\$ 213,979	\$ 197,045
Tax effect on adjusting items:		
Permanent differences	(61,983)	(60,361)
Temporary differences	3,659	(7,400)
Tax-exempt income for five years	(57,373)	(41,590)
		(Continued)

	Years Ended December 31	
	2012	2011
Additional 10% income tax on unappropriated earnings	\$ 28,026	\$ 27,114
Investment tax credits used	<u>(63,154)</u>	<u>(57,404)</u>
Current income tax expense	63,154	57,404
Deferred income tax expenses (benefit)		
Temporary difference	(14,877)	9,831
Investment tax credits	63,154	43,428
Effect of law changes on deferred income tax	-	-
Adjustment for prior years' tax	<u>(1,614)</u>	<u>(1,691)</u>
	<u><u>\$ 109,817</u></u>	<u><u>\$ 108,972</u></u>
		(Concluded)

Deferred income tax assets (liabilities) were as follows:

	2012	2011
Current		
Deferred income tax assets		
Unrealized allowance for loss on inventories	\$ 5,527	\$ 5,431
Unrealized exchange losses	2,051	250
Unrealized valuation loss on financial instrument	4,423	1,319
Others	<u>220</u>	<u>-</u>
	12,221	7,000
Less: Valuation allowance	<u>-</u>	<u>-</u>
	<u>12,221</u>	<u>7,000</u>
Deferred income tax liabilities		
Unrealized exchange gain	<u>(6,524)</u>	<u>(5,386)</u>
	<u><u>\$ 5,697</u></u>	<u><u>\$ 1,614</u></u>
Noncurrent		
Deferred income tax assets		
Accrued pension cost	\$ 517	\$ 940
Impairment loss	-	3,312
Investment tax credits	25,045	73,457
Others	<u>-</u>	<u>213</u>
	25,562	77,922
Less: Valuation allowance	<u>-</u>	<u>-</u>
	25,562	77,922
Deferred income tax liabilities		
Investment income recognized on overseas equity-method investments	<u>(124,436)</u>	<u>(124,436)</u>
	<u><u>\$ (98,874)</u></u>	<u><u>\$ (46,514)</u></u>

As of December 31, 2012, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 62,163	\$ 25,045	2014-2016
	Research and development expenditures	40,300	-	-
		<u>\$ 102,463</u>	<u>\$ 25,045</u>	

As of December 31, 2012, profits attributable to the following expansion and construction projects were exempted from income tax for five years:

Expansion and Construction Project	Tax-exempt Year
Acquisition of equipment in 2005	2010 to 2014
Acquisition of equipment in 2009	2014 to 2018

The Corporation's income tax returns through 2007 have been examined and approved by the tax authorities.

Information about integrated income tax was as follows:

	December 31	
	2012	2011
Balance of ICA	<u>\$ 67,545</u>	<u>\$ 57,779</u>
	2012 (Estimate)	2011 (Actual)
The creditable ratio for distribution	5.73%	5.98%
	December 31	
	2012	2011
Unappropriated earnings generated before January 1, 1998	\$ -	\$ -
Unappropriated earnings generated on and after January 1, 1998	<u>2,279,958</u>	<u>1,901,027</u>
	<u>\$ 2,279,958</u>	<u>\$ 1,901,027</u>

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Expense Item	Years Ended December 31					
	2012			2011		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel						
Salary	\$ 426,933	\$ 299,765	\$ 726,698	\$ 419,954	\$ 320,276	\$ 740,230
Pension	16,910	11,015	27,925	16,664	15,809	32,473
Insurance	32,898	16,277	49,175	32,094	17,318	49,412
Others	-	-	-	-	-	-
Depreciation	402,473	86,235	488,708	458,917	102,304	561,221
Amortization	958	11,739	12,697	238	22,581	22,819

22. EARNINGS PER SHARE (EPS)

	Years Ended December 31			
	2012		2011	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (NT\$)				
From continuing operations	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Income for the year	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Diluted earnings per share (NT\$)				
From continuing operations	<u>\$ 3.93</u>	<u>\$ 3.58</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>
Income for the year	<u>\$ 3.93</u>	<u>\$ 3.58</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	Amounts (Numerator)		Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2012</u>					
Net income	<u>\$ 1,258,703</u>	<u>\$ 1,148,886</u>			
Basic EPS (NT\$)					
Income for the year attributable to common stockholders	\$ 1,258,703	\$ 1,148,886	303,070	<u>\$ 4.15</u>	<u>\$ 3.79</u>
Effect of dilutive potential common stock					
Employee stock option	-	-	514		
Convertible bonds	9,871	8,193	16,589		
Bonus to employees	<u>-</u>	<u>-</u>	<u>2,595</u>		
Diluted EPS					
Income for the year attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 1,268,574</u>	<u>\$ 1,157,079</u>	<u>322,768</u>	<u>\$ 3.93</u>	<u>\$ 3.58</u>

(Continued)

	Amounts (Numerator)		Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before	After		Before	After
	Income Tax	Income Tax		Income Tax	Income Tax
<u>Year ended December 31, 2011</u>					
Net income	<u>\$ 1,159,188</u>	<u>\$ 1,050,216</u>			
Basic EPS (NT\$)					
Income for the year attributable to common stockholders	\$ 1,159,188	\$ 1,050,216	301,703	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Effect of dilutive potential common stock					
Employee stock option	-	-	489		
Convertible bonds	9,777	8,115	15,867		
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,266</u>		
Diluted EPS					
Income for the year attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 1,168,965</u>	<u>\$ 1,058,331</u>	<u>321,325</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>
				(Concluded)	

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

23. FINANCIAL INSTRUMENTS

Fair values of financial instruments:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Financial assets at FVTPL, current	\$ -	\$ -	\$ 3,922	\$ 3,922
Available-for-sale financial assets, current	46,895	46,895	71,867	71,867
Financial assets carried at cost	253,242	-	245,445	-
<u>Financial liabilities</u>				
Financial liabilities at FVTPL, current	26,019	26,019	7,758	7,758
Bonds payable	556,079	556,079	789,367	789,367
Long-term debt (including current portion)	1,886,438	1,886,438	1,314,188	1,314,188

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

- a. The above financial instruments do not include cash and cash equivalents, notes and accounts receivable, notes and accounts payable and short-term loans. 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, available-for-sale and derivatives 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 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 values of long-term loans and bonds payable are estimated using the present value of future cash flows discounted by the interest rates.
- e. The fair value of domestic convertible bonds is estimated using the present value of cash flows, discounted at the risk-free interest rate upon issuing of bonds and at prevailing interest rate after taking into account risk premiums.

Fair value of financial assets and liabilities based on quoted market prices or valuation techniques were as follows:

	Quoted Market Price		Valuation Techniques Incorporating Estimates and Assumptions	
	December 31		December 31	
	2012	2011	2012	2011
<u>Assets</u>				
Financial assets at FVTPL, current	\$ -	\$ 3,922	\$ -	\$ -
Available-for-sale financial assets, current	46,895	71,867	-	-
<u>Liabilities</u>				
Financial liabilities at FVTPL, current	-	-	26,019	7,758
Bonds payable (including current portion)	-	-	556,079	789,367
Long-term debt (including current portion)		-	1,886,438	1,314,188

Valuation losses gains brought by changes in fair value of financial instruments determined using valuation techniques were \$25,857 thousand and \$15,845 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about financial risks was as follows:

- a. Market risk: The Corporation's market risk refers to the uncertainties due to exchange rate fluctuations. Gains or losses on forward exchange contracts are likely to offset the gains or losses on foreign-currency assets or liabilities. 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 counterparties breached contracts. The counterparties 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.
- d. Cash flow interest rate risk: The Corporation's short term and long term loans are floating-rate loans. When the market interest rate increases by one percentage point, the Corporation's cash outflow will increase by \$20,218 thousand a year.

24. RELATED-PARTY TRANSACTIONS

Related parties and their relationships with the Corporation:

Related Party	Relationship with the Corporation
Tai-Shing Electronics Components Corporation (Tai-Shing)	Chairman is the Corporation's general manager
TXC Technology Inc.	Equity-method investee
TXC Japan Corporation	Equity-method investee
Taiwan Crystal Technology International Ltd. (TCTI)	Equity-method investee
Growing Profits Trading Ltd. (GPT)	Subsidiary's equity-method investee
TXC (Ningbo) Corporation (NGB)	Subsidiary's equity-method investee
TXC (Chongqing) Corporation (CKG)	Subsidiary's equity-method investee
TXC (HK) Limited (TXC HK)	Subsidiary's equity-method investee
TSE Technology (Ningbo) Co., Ltd. (TSE Technology)	Subsidiary's equity-method investee
Ningbo Jingyu Company Limited (Ningbo Jingyu)	Subsidiary's equity-method investee

Significant transactions with related parties:

Sales

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
NGB	\$ 198,436	2	\$ 130,241	1
Tai-Shing	31,563	-	25,474	-
TXC Technology Inc.	2,792	-	1,080	-
TXC Japan Corporation	1,651	-	7,721	-
CKG	858	-	-	-
TXC HK	-	-	120	-
	<u>\$ 235,300</u>	<u>2</u>	<u>\$ 164,636</u>	<u>1</u>

Purchases

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
NGB	\$ 2,417,255	34	\$ 2,309,451	39
GPT	105,376	1	35,809	1
TXC Japan Corporation	12,888	-	12,973	-
Tai-Shing	27	-	9	-
Ningbo Jingyu	23,982	-	-	-
TSE Technology	<u>248</u>	<u>-</u>	<u>183</u>	<u>-</u>
	<u>\$ 2,559,776</u>	<u>35</u>	<u>\$ 2,358,425</u>	<u>40</u>

Consulting Fee

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
TXC Technology Inc.	\$ 50,578	50	\$ 45,307	47
TXC Japan Corporation	<u>51,854</u>	<u>50</u>	<u>50,523</u>	<u>53</u>
	<u>\$ 102,432</u>	<u>100</u>	<u>\$ 95,830</u>	<u>100</u>

Other Expenses

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Tai-Shing	\$ 3,128	-	\$ 1,972	-
TXC Technology Inc.	405	-	64	-
TXC Japan Corporation	<u>79</u>	<u>-</u>	<u>155</u>	<u>-</u>
	<u>\$ 3,612</u>	<u>-</u>	<u>\$ 2,191</u>	<u>-</u>

In 2012 and 2011, the selling price and purchasing price were not significantly different from those with third parties, except those for NGB, GPT, CKG, Ningbo Jingyu and TXC HK whose trading price depends on its function within the group.

Consulting fee was paid to related parties for agency service.

Receivable from and Payable to Related Parties

		December 31			
		2012		2011	
Item	Related Party	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Accounts receivable	NGB	\$ 42,870	1	\$ 41,314	2
	Tai-Shing	10,551	-	6,183	-
	TXC Technology Inc.	517	-	115	-
	CKG	857	-	-	-
	TXC Japan Corporation	<u>-</u>	<u>-</u>	<u>474</u>	<u>-</u>
		<u>\$ 54,795</u>	<u>1</u>	<u>\$ 48,086</u>	<u>2</u>
Notes payable	Tai-Shing	<u>\$ -</u>	<u>-</u>	<u>\$ 285</u>	<u>-</u>
Accounts payable	NGB	\$ 688,074	47	\$ 576,326	46
	Ningbo Jingyu	1,086	-	-	-
	Tai-Shing	2,054	-	-	-
	TXC Japan Corporation	1,732	-	-	-
	GPT	<u>34,524</u>	<u>2</u>	<u>19,528</u>	<u>1</u>
		<u>\$ 727,470</u>	<u>49</u>	<u>\$ 595,854</u>	<u>47</u>
Other payable	Tai-Shing	\$ 12	-	\$ -	-
	TXC Japan Corporation	<u>74</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 86</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

The collection term and payment term to related parties were not significantly different from third parties.

Other Receivables

		December 31			
		2012		2011	
Related Party		Amount	% to Total Account Balance	Amount	% to Total Account Balance
NGB		<u>\$ 33,069</u>	<u>54</u>	<u>\$ 50,869</u>	<u>57</u>

As of December 31, 2012 and 2011, other receivables were that the Corporation purchase machinery and equipment for NGB.

Property Transactions

Year ended December 31, 2012

The Corporation sold machinery with a net book value of \$26,550 thousand for \$26,550 thousand to NGB.

The Corporation purchased computer from Tai-Shing for \$692 thousand.

Year ended December 31, 2011

The Corporation sold machinery with a net book value of \$3,166 thousand for \$3,166 thousand to NGB.

The Corporation purchased machinery from NGB for \$727 thousand.

The Corporation purchased computer from Tai-Shing for \$564 thousand.

Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2012	2011
Salaries	\$ 12,170	\$ 10,507
Incentives and special compensation	7,511	2,150
Professional fee	1,440	1,440
Bonus	<u>25,880</u>	<u>26,886</u>
	<u>\$ 47,001</u>	<u>\$ 40,983</u>

25. MORTGAGED OR PLEDGED ASSETS

	December 31	
	2012	2011
Property, plant and equipment		
Land	\$ 573,770	\$ 573,770
Buildings, net	<u>1,193,664</u>	<u>1,236,306</u>
	<u>\$ 1,767,434</u>	<u>\$ 1,810,076</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, unused letters of credit amounted to approximately JPY189,462 thousand and EUR99 thousand.

As of December 31, 2012, the Corporation's commitments were as follows:

Commitment	Total Dollars Amount of Contract	Dollars Paid	Dollars Unpaid
Mechanical and electrical engineering	<u>\$ 96,131</u>	<u>\$ 55,456</u>	<u>\$ 40,675</u>

27. SUBSEQUENT EVENTS

For acquisition of property, plant and equipment and repayment of loans, on January 7, 2013, the Corporation issued fourth unsecured domestic convertible bonds with an aggregate value of \$800,000 thousand.

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

The Corporation has provided the operating segment financial information in consolidated financial statements.

29. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

Significant foreign-currency financial asset and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 119,729	29.136	\$ 3,488,436	\$ 99,906	30.29	\$ 3,024,885
JPY	148,631	0.3375	50,163	287,359	0.3905	112,214
Investment accounted for by entity method						
USD	129,352	29.136	3,768,813	110,337	30.29	3,342,096
JPY	34,125	0.3375	11,517	38,062	0.3905	14,863
<u>Financial liabilities</u>						
Monetary items						
USD	39,464	29.136	1,149,819	35,481	30.29	1,074,712
JPY	1,176,234	0.3375	396,979	1,395,595	0.3905	544,980

30. ADDITIONAL DISCLOSURES

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

- Financing provided: None.
- Endorsement/guarantee provided: None.
- Marketable securities held: Tables 1 and 5 (attached).
- Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Tables 2 and 6 (attached).
- Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Table 7 (attached).
- Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- Total purchases from or sales to related parties of at least \$100 million or 20% of the paid-in capital: Tables 3 and 8 (attached).
- Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 9 (attached).
- Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 4 (attached).

- j. Derivative transactions: Please refer to Note 5 and Table 10 (attached).
- k. Information on investment in Mainland China: Table 11 (attached).

TABLE 1**TXC CORPORATION****MARKETABLE SECURITIES HELD****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars or U.S. Dollars)**

Holding Company	Marketable Securities Type and Issuer/Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units	Carrying Amount	Percentage of Ownership	Market Value or Net Asset Value	
TXC Corporation	<u>Mutual fund</u>							
	Shin Kong Cross Strait Selective Fund	None	Available-for-sale financial assets	2,691	\$ 25,668	-	\$ 25,668	
	Shin Kong China Growth Fund	None	"	2,177	21,227	-	21,227	
					<u>\$ 46,895</u>			
	<u>Stock</u>							
	Taiwan Crystal Technology International Ltd.	Subsidiary	Investment accounted for by the equity method	42,835	\$ 3,470,395	100	None	
	TXC Technology Inc.	"	"	300	11,378	100	"	
	TXC Japan Corporation	"	"	2	11,517	100	"	
	Taiwan Crystal Technology International (HK) Limited	"	"	10,094	287,040	100	"	
					<u>\$ 3,780,330</u>			
	Marson Technology Co., Ltd.	None	Financial assets carried at cost - noncurrent	414	\$ 3,000	5	"	
	Win Win Precision Technology Co., Ltd.	"	"	1,300	54,997	3	"	
	Guandong Failong Crystal Technology Co., Ltd.	"	"	RMB 10,096	46,478	8	"	
	UPI Semiconductor Corp.	"	"	2,000	98,000	2	"	
	Si-Time Corporation	"	"	1,750	50,767	1	"	
					<u>\$ 253,242</u>			

TABLE 2

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
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counterparty	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Equity in Net Gain (Loss) (Note)	Ending Balance	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)		Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TXC Corporation	Taiwan Crystal Technology International (HK) Limited	Investments accounted for using equity method	Related parties	Subsidiary	3,614	\$ 111,473	6,480	\$ 190,802	-	\$ -	\$ -	\$ -	\$ (15,235)	10,094	\$ 287,040

Note: The investment loss recognized under equity method and the charge in translation adjustments were included in equity in net gain (loss).

TABLE 3

TXC CORPORATION

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or 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	TXC (Ningbo) Corporation	Subsidiary	Purchase	\$ 2,417,255	34	Note	Its trading price depends on its function within the group.	-	\$ (688,074)	(47)	
	TXC (Ningbo) Corporation	Subsidiary	Sales	198,436	2	"	"	-	42,870	1	
	Growing Profit Trading Ltd.	Subsidiary	Purchase	105,376	1	"	"	-	(34,524)	(2)	

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

TABLE 4

TXC CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				December 31, 2012	December 31, 2011	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
TXC Corporation	Taiwan Crystal Technology International Ltd.	WESTERN SAMOA	Investment	\$ 1,390,461 (US\$ 42,835)	\$ 1,390,461 (US\$ 42,835)	42,835	100	\$ 3,470,395	\$ 378,203	\$ 373,818	Difference from upstream transactions \$4,385 thousand
	TXC Technology Inc.	U.S.A.	Marketing activities	9,879 (US\$ 300)	9,879 (US\$ 300)	300	100	11,378	(1,082)	(1,082)	
	TXC Japan Corporation	Japan	Marketing activities	6,172 (JPY 21,000)	6,172 (JPY 21,000)	2	100	11,517	(1,449)	(1,449)	
	Taiwan Crystal Technology International (HK) Limited	Hong Kong	Investment	298,776 (US\$ 10,094)	107,974 (US\$ 3,614)	10,094	100	287,040	(11,895)	(11,895)	
Taiwan Crystal Technology International Ltd.	Growing Profit Trading Ltd.	B.V.I.	International trading	1,691 (US\$ 50)	1,691 (US\$ 50)	50	100	193,578 (US\$ 6,644)	76,155 (US\$ 2,575)	76,155 (US\$ 2,575)	
	TXC (Ningbo) Corporation	Ningbo	Manufacture and sales of electronics products	1,487,211 (US\$ 45,835)	1,487,211 (US\$ 45,835)	US\$ 45,835	100	3,310,471 (US\$ 113,621)	301,975 (US\$ 10,211)	301,975 (US\$ 10,211)	
TXC (Ningbo) Corporation	TXC (HK) Limited	Hong Kong	International trading	846 (HK\$ 200)	846 (HK\$ 200)	HK\$ 200	100	11,675 (RMB 2,519)	127 (RMB 27)	127 (RMB 27)	
	TXC (Chongqing) Corporation	Chongqing	Manufacture and sales of electronics products	201,823 (RMB 42,710)	48,072 (RMB 10,000)	RMB 42,710	100	189,820 (RMB 40,954)	(19,285) (RMB -4,116)	(7,714) (RMB -1,647)	
	Chongqing All Sun Company Limited	Chongqing	Market activities	321,644 (RMB 66,00)	38,458 (RMB 8,000)	RMB 66,000	40	305,423 (RMB 65,895)	55 (RMB 12)	55 (RMB 12)	
	Ningbo Jingyu Company Limited	Ningbo	International trading	4,807 (RMB 1,000)	4,807 (RMB 1,000)	RMB 1,000	100	6,426 (RMB 1,386)	1,849 (RMB 395)	1,849 (RMB 395)	
Taiwan Crystal Technology International (HK) Limited	TXC (Chongqing) Limited	Chongqing	Manufacture and sales of electronics products	298,362 (US\$ 10,080)	107,560 (US\$ 3,600)	US\$ 10,080	60	287,040 (US\$ 9,853)	(19,285) (RMB -4,116)	(11,571) (RMB -2,469)	Note
	TXC Europe SRL	Europe	Market activities	414 (EUR 10)	414 (EUR 10)	EUR 10	100	- (US\$ -)	(407) (US\$ -14)	(407) (US\$ -14)	

Note: TXC Europe SRL applied for cancellation of registration in 2012. As of December 31, 2012, it has not yet received the approval from the government.

TABLE 5

TXC CORPORATION

MARKETABLE SECURITIES HELD FOR ITS INVESTEES
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Holding Company	Marketable Securities Type and Issuer/Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units	Carrying Amount	Percentage of Ownership	Market Value or Net Asset Value	
Taiwan Crystal Technology International Ltd.	<u>Stock</u> Growing Profit Trading Ltd.	Subsidiary	Investment accounted for by the equity method	US\$ 50	\$ 193,578 (US\$ 6,644)	100	None	
	TXC (Ningbo) Corporation	"	"	US\$ 45,835	3,310,471 (US\$ 113,621)	100	"	
TXC (Ningbo) Corporation	TXC (HK) Limited	"	"	HK\$ 200	11,675 (RMB 2,519)	100	"	
	TSE Technology (Ninbo) Co., Ltd.	"	"	RMB 6,828	45,950 (RMB 9,831)	23	"	
	TXC (Chongqing) Corporation	"	"	RMB 42,710	189,820 (RMB 40,954)	40	"	
	Chongqing All Sun Co., Ltd.	"	"	RMB 66,000	305,423 (RMB 65,895)	100	"	
	Ningbo Jingyu Company Limited	"	"	RMB 1,000	6,426 (RMB 1,386)	100	"	
Taiwan Crystal Technology International (HK) Limited	TXC (Chongqing) Corporation	"	"	US\$ 10,080	287,040 (US\$ 9,853)	60	"	
	TXC Europe SRL			EUR 10	-	-	"	

TABLE 6

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 FOR ITS INVESTEEES
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counterparty	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Equity in Net Gain (Loss) (Note)	Ending Balance	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)		Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TXC (Ningbo) Corporation	TXC (Chongqing) Corporation	Investments accounted for using equity method	Related parties	Subsidiary	-	\$ 47,545	-	\$ 153,751	-	\$ -	\$ -	\$ -	\$ (11,476)	-	\$ 189,820
Taiwan Crystal Technology International (HK) Limited	TXC (Chongqing) Corporation	Investments accounted for using equity method	"	Subsidiary	-	111,056	-	190,802	-	-	-	-	(14,818)	-	287,040
TXC (Ningbo) Corporation	Chongqing All Sun Company Limited	Investments accounted for using equity method	"	Subsidiary	-	37,896	-	274,186	-	-	-	-	(6,659)	-	305,423

Note: The investment loss recognized under equity method and the charge in translation adjustments were included in equity in net gain (loss).

TABLE 7

TXC CORPORATION AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counterparty	Nature of Relationship	Prior Transaction of Related Counterparty				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Chongqing All Sun Company Limited	Land	June 2012 - July 2012	\$ 200,435	Normal	Chongqing Government	None	-	-	-	\$ -	Bargain by buyer and seller	Real estate development and sell	-

TABLE 8

TXC CORPORATION

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR ITS INVESTEEES
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or 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 (Ningbo) Corporation	Growing Profits Trading Ltd.	Subsidiary	Purchase	\$ 447,973	26	Note	Its trading price depends on its function within the group	Note	\$ (119,024)	(23)	

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

TABLE 9

TXC CORPORATION

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2012
(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 Year	Allowance for Bad Debts
					Amounts	Action Taken		
TXC (Ningbo) Corporation	TXC Corporation	Ultimate parent	\$ 688,074	3.82	\$ -	-	\$ 487,562 (US\$ 16,734)	\$ -
Growing Profits Trading Ltd.	TXC (Ningbo) Corporation	Subsidiary	119,024	4.28	-	-	30,796 (US\$ 1,057)	-

TABLE 10**TXC CORPORATION****DERIVATIVE TRANSACTIONS OF INVESTEEs OVER WHICH THE CORPORATION HAS A CONTROLLING INTEREST****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars or U.S. Dollars)**

NGB entered into derivative transactions during the year ended December 31, 2012 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward contracts as of December 31, 2012:

	Currency	Maturity	Contract Amount (In Thousands)
<u>December 31, 2012</u>			
Sell	USD/RMB	2013.01.30-2013.04.26	US\$17,500/RMB110,115

TABLE 11

TXC CORPORATION

**INFORMATION ON INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)**

1. Name of the investees in Mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in Mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2012 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (US\$ in Thousand)	Percentage of Ownership	Investment Income (Loss) Recognized (Note)	Carrying Amount as of December 31, 2012	Accumulated Inward Remittance of Earnings as of December 31, 2012
					Outflow	Inflow					
TXC (Ningbo) Corporation	Manufacturing and sales of crystal and crystal oscillator	\$ 1,487,211 (US\$ 45,835)	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	\$ 1,427,630 (US\$ 44,000)	\$ -	\$ -	\$ 1,427,630 (US\$ 44,000)	100	\$ 301,975 (US\$ 10,211)	\$ 3,310,471 (US\$ 113,621)	\$ 256,146 (US\$ 7,897)
Guandong Failong Crystal Technology Co., Ltd.	Manufacturing and sales of new electronic components	580,947 (RMB 126,194)	Direct investment of the Corporation in Mainland China	46,478 (RMB 10,096)	-	-	46,478 (RMB 10,096)	8	-	46,478 (RMB 10,096)	-
TSE Technology (Ningbo) Co., Ltd.	Manufacturing and sales of electronic devices and hardware components	139,177 (RMB 29,723)	Other investment of the Corporation Mainland China	-	-	-	-	23	9,365 (RMB 1,999)	45,950 (RMB 9,831)	-
TXC (Chongqing) Corporation	Manufacturing and sales of electronic devices and hardware components	500,185 (RMB 106,842)	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	107,560 (US\$ 3,600)	190,802 (US\$ 6,480)	-	298,362 (US\$ 10,080)	100	(19,285) (RMB -4,116)	476,860 (RMB 102,364)	
Chongqing All Suns Company Limited	Real estate intermediary service, real estate management and electronic product wholesale	312,644 (RMB 66,000)	Other investment of the Corporation Mainland China	-	-	-	-	100	55 (RMB 12)	305,423 (RMB 65,895)	
Ningbo Jingyu Company Limited	Purchasing and selling electronic component	4,807 (RMB 1,000)	Other investment of the Corporation Mainland China	-	-	-	-	100	1,849 (RMB 395)	6,426 (RMB 1,386)	

(Continued)

Accumulated Investment in Mainland China as of December 31, 2012 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment
\$ 1,772,470 (US\$ 55,560)	\$ 1,832,878 (US\$ 57,395)	\$ 4,728,297 (Note)

Note: The investment in Mainland China is limited to 60% of stockholders’ equity or consolidated stockholders’ equity whichever is higher.

2. Significant direct or indirect transactions with the investees, prices and terms of payment, unrealized gain or loss:

Company Name	Related arty	Nature of Relationship	Transaction Details				Accounts/Notes Receivable/Payable		Unrealized Gain or Loss	
			Purchase/Sale	Price	Payment Term	Compared with Terms of Third Parties	Balance	%		
TXC Corporation	NGB	Subsidiary	Purchase	\$2,417,255	Its trading price depends on its function within the group	Similar with third parties	Its trading price depends on its function within the group	\$ (688,074)	(47)	\$ 33,877
			Sale	198,436	//	Similar with third parties	//	42,870	1	-
GPT	NGB	Subsidiary	Sale	447,973	//	Similar with third parties	//	119,024	26	-

3. Endorsements guarantees or collateral directly or indirectly provided to the investees: None
4. Financings directly or indirectly provided to the investees: None
5. Other transactions that significantly impacted current year’s profit or loss or financial position: None

(Concluded)

SCHEDULE 1**TXC CORPORATION****CASH AND CASH EQUIVALENTS****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars, and Foreign Currency)**

Item		Amount
Cash		
Cash on hand	Including US\$5 thousand @29.136; JPY353 thousand @0.3375; HK\$4 thousand @3.7586; and RMB58 thousand @4.6741	\$ 652
Cash in banks		
Checking accounts and demand deposits		184,546
Foreign-currency deposits	Including US\$15,057 thousand @29.136; JPY121,886 thousand @0.3375; and HK\$45 thousand @3.7586	480,014
Cash equivalents		
Repurchase agreements collateralized by bonds	Due date 2012.12.13-2013.2.22, interest rate at 0.8%-0.825%	347,000
		<u>\$ 1,012,212</u>

SCHEDULE 2**TXC CORPORATION****ACCOUNTS RECEIVABLE****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Explanation	Amount
Related parties		
NGB	For goods	\$ 42,870
CKG	"	857
Tai-Shing	"	10,551
TXC Technology Inc.	"	<u>517</u>
		54,795
Less: Allowance for doubtful accounts		<u>(85)</u>
		<u>54,710</u>
Third parties		
A Company	For goods	249,759
B Company	"	165,744
C Company	"	147,321
Others (Note)	"	<u>2,425,865</u>
		2,988,689
Less: Allowance for doubtful accounts		<u>(19,226)</u>
		<u>2,969,463</u>
		<u>\$ 3,024,173</u>

Note: Each of the accounts was less than 5% of the total account balance.

TXC CORPORATION**INVENTORIES****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Explanation	Cost	Market Value (Note)
Raw materials		\$ 150,580	\$ 143,955
Supplies and spare parts		39,045	38,547
Work in process		241,382	237,584
Finished goods		275,110	257,249
Merchandise		334,555	330,830
Goods in transit		<u>14,802</u>	<u>14,802</u>
		1,055,474	<u>\$ 1,022,967</u>
Less allowance for loss		<u>(32,507)</u>	
		<u>\$ 1,022,967</u>	

Note: The market value is based on net realizable value.

TXC CORPORATION

**CHANGES IN FINANCIAL ASSETS AT COST - NONCURRENT
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars and Shares)**

	Beginning Balance		Increase		Decrease		Ending Balance			Market Price or Net Asset Value		Valuation Method	Pledge or Security
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	% of Ownership	Amount	Unit Price	Amount		
Cost method													
Emerging market company													
Win Win Precision Technology Co., Ltd.	1,144	\$ 47,200	156	\$ 7,797	-	\$ -	1,300	3	\$ 54,997	-	\$ -	Cost method	None
Unlisted company													
Marson Technology Ltd.	414	3,000	-	-	-	-	414	5	3,000	-	-	Cost method	None
Guandong Failong Crystal Technology Co., Ltd.	-	46,478	-	-	-	-	-	8	46,478	-	-	Cost method	None
Power Intellect Co., Ltd.	2,000	98,000	-	-	-	-	2,000	2	98,000	-	-	Cost method	None
Si-Time	1,750	<u>50,767</u>	-	<u>-</u>	-	<u>-</u>	1,750	1	<u>50,767</u>	-	-	Cost method	None
		<u>\$ 245,445</u>		<u>\$ 7,797</u>		<u>\$ -</u>			<u>\$ 253,242</u>				

TXC CORPORATION

CHANGES IN INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

YEAR ENDED DECEMBER 31, 2012

(In Thousands of New Taiwan Dollars and Shares)

	Beginning Balance		Increase		Decrease		Equity in Investees Gain (Loss)	Ending Balance			Market Price or Net Asset Value		Valuation Method	Pledge or Security
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	% of Ownership	Amount	Unit Price	Amount		
Not listed company														
Taiwan Crystal Technology International Ltd.	42,835	\$ 3,188,189	-	\$ -	-	\$ -	\$ 282,206 (Note 1)	42,835	100	\$ 3,470,395	-	\$ 3,504,272 (Note 6)	Equity method	None
TXC Technology Inc.	300	12,942	-	-	-	-	(1,564) (Note 2)	300	100	11,378	-	11,378	Equity method	None
TXC Japan Corporation	2	14,863	-	-	-	-	(3,346) (Note 3)	2	100	11,517	-	11,517	Equity method	None
Taiwan Crystal Technology International (HK) Limited	3,614	111,473	6,480	190,802	-	-	(15,235) (Note 4)	10,094	100	287,040	-	287,040	Equity method	None
		<u>\$ 3,327,467</u>		<u>\$ 190,802</u>		<u>\$ -</u>	<u>\$ 262,061</u>			<u>\$ 3,780,330</u>		<u>\$ 3,814,207</u>		

Note 1: Included investment income recognized under equity method \$373,818 thousand and loss on cumulative translation adjustments \$91,612 thousand.

Note 2: Included investment loss recognized under equity method \$1,082 thousand and loss on cumulative translation adjustments \$482 thousand.

Note 3: Included investment loss recognized under equity method \$1,449 thousand and loss on cumulative translation adjustments \$1,897 thousand.

Note 4: Included investment loss recognized under equity method \$11,895 thousand and loss on cumulative translation adjustments \$3,340 thousand.

Note 5: The above are unlisted companies, and have no market price.

Note 6: Because of unrealized gain \$33,877 thousand, there is difference between net value and investments accounted for by equity method.

TXC CORPORATION

CHANGES IN PROPERTY, PLANT AND EQUIPMENT
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

Item	Beginning Balance	Changes for the Period			Ending Balance	Pledge or Security
		Increase	Decrease	Reclassification		
Cost						
Land	\$ 598,145	\$ -	\$ -	\$ -	\$ 598,145	Note 25
Land improvements	593	-	-	(442)	151	
Buildings	1,598,916	71,707	75,935	(124,765)	1,469,923	Note 25
Machinery and equipment	3,732,866	384,143	94,478	(1,780,920)	2,241,611	
Transportation equipment	2,557	-	-	(2,557)	-	
Office equipment	141,243	16,651	2,315	(65,261)	90,318	
Prepayments for equipment	<u>119,998</u>	<u>21,850</u>	<u>-</u>	<u>-</u>	<u>141,848</u>	
	<u>\$ 6,194,318</u>	<u>\$ 494,351</u>	<u>\$ 172,728</u>	<u>\$ (1,973,945)</u>	<u>\$ 4,541,996</u>	
Revaluation increment						
Land - revaluation increment	<u>\$ 8,954</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,954</u>	
Accumulated depreciation						
Land improvements	\$ 520	\$ 25	\$ -	\$ (442)	\$ 103	
Buildings	359,937	84,122	42,955	(127,484)	273,620	
Machinery and equipment	2,286,686	384,169	66,152	(1,777,921)	826,782	
Transportation equipment	2,557	-	-	(2,557)	-	
Office equipment	<u>102,599</u>	<u>20,392</u>	<u>2,209</u>	<u>(65,035)</u>	<u>55,747</u>	
	<u>\$ 2,752,299</u>	<u>\$ 488,708</u>	<u>\$ 111,316</u>	<u>\$ (1,973,439)</u>	<u>\$ 1,156,252</u>	

TXC CORPORATION**SHORT-TERM LOANS****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Creditor	Nature of Loan	Amount	Due Date	Interest Rate %	Pledge or Security
DBS Bank	Usance letter of credit	\$ 69,455	Six months	0.98%	-
Bank of Taiwan	"	54,132	"	1.024%	-
ANZ Bank	"	<u>11,745</u>	"	0.96%	-
		<u>\$ 135,332</u>			

TXC CORPORATION**ACCOUNTS PAYABLE****DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Explanation	Amount
Related parties		
NGB	Payment for goods	\$ 688,074
GPT	"	34,524
Tai-Shing	"	2,054
TXC Japan Corporation	"	1,732
Ningbo Jingyu	"	<u>1,086</u>
		<u>727,470</u>
Third parties		
Zhejiang East	"	101,100
River Electronic	"	66,126
Tongfang Guoxin	"	57,401
Panasonic	"	44,342
Others (Note)	"	<u>457,038</u>
		<u>726,007</u>
		<u>\$ 1,453,477</u>

Note: Each of the accounts was less than 5% of the total account balance.

TXC CORPORATION

BONDS PAYABLE
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

Bond Type	Trustees	Date of Issuance	Payment Terms	Interest Rate	Amount				Unamortized Premium (Discount)	Carrying Value	Repayment Method	Securities
					Issuance Amount	Conversion	Redemption	Ending Balance				
3 rd unsecured domestic convertible bonds	Chinatrust	2010.1.11-2013.1.11	-	-	\$ 800,000	\$ 243,900	\$ -	\$ 556,100	\$ (21)	\$ 556,079	Note 14	None
Add: (Asset) liability component of convertible bonds - noncurrent										(556,079)		
										<u>\$ -</u>		

TXC CORPORATION

LONG-TERM LOANS

DECEMBER 31, 2012

(In Thousands of New Taiwan Dollars)

	Repayment Period	Repayment Method	Interest Rate %	Amount		Total Amount	Pledge or Security
				Current Portion	Noncurrent Portion		
Bank of Taiwan	2008.07.30-2013.07.24	Repayable from July 2008 in quarterly installment	1.155	\$ 43,688	\$ -	\$ 43,688	Note 25
	2009.04.24-2013.07.24	Repayable from April 2009 in quarterly installment	1.155	5,250	-	5,250	Note 25
	2010.10.29-2015.10.28	Repayable from October 2011 in quarterly installment	1.200	125,000	250,000	375,000	-
	2012.08.06-2016.10.13	Repayable from January 2013 in quarterly installment	1.255	125,000	375,000	500,000	-
China Trust	2012.07.26-2014.07.26	Repayable upon maturity	1.280	-	200,000	200,000	-
Hua Nan Bank	2011.08.17-2016.08.17	Repayable from November 2012 in quarterly installment	1.250	150,000	412,500	562,500	Note 25
	2012.06.15-2014.06.15	Repayable upon maturity	1.100	-	100,000	100,000	-
	2012.08.20-2014.08.20	Repayable upon maturity	1.250	-	100,000	100,000	-
				<u>\$ 448,938</u>	<u>\$ 1,437,500</u>	<u>\$ 1,886,438</u>	

TXC CORPORATION**OPERATING REVENUES****YEAR ENDED DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Amount
Quartz Crystal Products	\$ 9,545,111
New Energy Products	<u>62,610</u>
	9,607,721
Less sales returns	(23,147)
Less sales allowances	<u>(107,093)</u>
	<u>\$ 9,477,481</u>

TXC CORPORATION**COST OF SALES****YEAR ENDED DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Amount
Direct materials	
Beginning materials	\$ 162,713
Add: Material purchase	1,685,467
Add: Adjustment items	(244,755)
Ending materials	<u>(182,502)</u>
	1,420,923
Sell supplies	1,681
Direct labor	280,824
Overhead	<u>1,019,640</u>
Manufacturing cost	2,723,068
Beginning work in process	162,837
Add: Purchases	166,380
Add: Adjustment items	(5,637)
Ending work in process	(237,584)
Sell raw materials and semi-finished goods	<u>10,058</u>
Finished goods cost	2,819,122
Beginning finished goods	294,333
Add: Purchases	6,515
Less: Adjustment items	(83,075)
Ending finished goods	<u>(257,249)</u>
Production cost	<u>2,779,646</u>
Beginning merchandise inventory	302,721
Add: Purchase	5,121,157
Add: Adjustment items	(17,114)
Ending merchandise inventory	<u>(316,028)</u>
Purchase cost	<u>5,090,736</u>
Loss on Physical Inventory	669
Processing trading	<u>(101,874)</u>
	<u><u>\$ 7,769,177</u></u>

TXC CORPORATION**OVERHEAD EXPENSES****YEAR ENDED DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Explanation	Amount
Indirect labor	Including salary and wages, pension, food stipend, employee benefits, and insurance etc.	\$ 214,458
Indirect materials		162,369
Depreciation		402,473
Utilities		82,456
Maintenance expense		66,454
Others		<u>91,430</u>
		<u>\$ 1,019,640</u>

TXC CORPORATION**OPERATING EXPENSES****YEAR ENDED DECEMBER 31, 2012****(In Thousands of New Taiwan Dollars)**

Item	Explanation	Sales and Marketing	General and Administration	Research and Development
Salary		\$ 58,465	\$ 86,875	\$ 154,425
Depreciation		834	24,396	61,005
Research expense		-	-	47,000
Commission		80,284	-	-
Import and export expense		46,845	2	18
Others		<u>164,373</u>	<u>81,882</u>	<u>35,381</u>
		<u>\$ 350,801</u>	<u>\$ 193,155</u>	<u>\$ 297,829</u>

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of TXC Corporation as of and for the year ended December 31, 2012, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, TXC Corporation and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TXC CORPORATION

By

PAUL LIN
Chairman

March 25, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
TXC Corporation

We have audited the accompanying consolidated balance sheets of TXC Corporation and subsidiaries (the "Corporation") as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TXC Corporation and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 25, 2013

Notice to Readers

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

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

ASSETS	2012		2011	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,570,747	12	\$ 1,211,234	10
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	-	-	7,240	-
Available-for-sale financial assets - current (Notes 2 and 6)	46,895	-	71,867	1
Notes receivable, net (Notes 2, 3 and 7)	17,220	-	30,945	-
Accounts receivable, net (Notes 2, 3 and 7)	3,453,853	27	3,096,920	26
Accounts receivable - related parties, net (Notes 2, 3, 7 and 24)	10,466	-	6,152	-
Other receivable	69,397	1	53,070	-
Other receivables - related parties, net (Note 24)	582	-	577	-
Inventories, net (Notes 2 and 8)	1,476,562	11	1,160,036	10
Deferred income tax assets - current (Notes 2 and 20)	7,741	-	3,542	-
Other current assets	<u>83,805</u>	<u>1</u>	<u>85,503</u>	<u>1</u>
Total current assets	<u>6,737,268</u>	<u>52</u>	<u>5,727,086</u>	<u>48</u>
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	45,950	-	48,657	-
Financial assets carried at cost - noncurrent (Notes 2 and 10)	<u>253,242</u>	<u>2</u>	<u>245,445</u>	<u>2</u>
Total long-term investments	<u>299,192</u>	<u>2</u>	<u>294,102</u>	<u>2</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 25)				
Cost				
Land	598,145	5	598,145	5
Land improvements	151	-	593	-
Buildings	2,068,029	16	2,221,785	19
Machinery and equipment	4,954,393	38	6,448,849	54
Transportation equipment	13,778	-	16,172	-
Office equipment	188,643	1	225,429	2
Land - revaluation increment	<u>8,954</u>	<u>-</u>	<u>8,954</u>	<u>-</u>
Cost and revaluation increment	7,832,093	60	9,519,927	80
Less accumulated depreciation	(2,582,559)	(20)	(3,956,880)	(33)
Construction in progress and prepayments for equipment	<u>484,963</u>	<u>4</u>	<u>126,599</u>	<u>1</u>
Total property, plant and equipment	<u>5,734,497</u>	<u>44</u>	<u>5,689,646</u>	<u>48</u>
INTANGIBLE ASSETS				
Land right (Note 25)	<u>115,024</u>	<u>1</u>	<u>117,530</u>	<u>1</u>
OTHER ASSETS				
Assets leased to others (Notes 2, 12 and 25)	58,553	1	56,926	1
Refundable deposits	4,205	-	2,462	-
Deferred income tax assets - noncurrent (Notes 2 and 20)	3,256	-	1,659	-
Other (Note 2)	<u>44,207</u>	<u>-</u>	<u>53,910</u>	<u>-</u>
Total other assets	<u>110,221</u>	<u>1</u>	<u>114,957</u>	<u>1</u>
TOTAL	<u>\$ 12,996,202</u>	<u>100</u>	<u>\$ 11,943,321</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 13)	\$ 290,749	2	\$ 360,623	3
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	26,907	-	7,758	-
Notes payable (Note 2)	-	-	73,714	1
Notes payable - related parties (Notes 2 and 24)	-	-	285	-
Accounts payable (Note 2)	1,415,403	11	1,197,496	10
Accounts payable - related parties (Notes 2 and 24)	2,295	-	-	-
Income tax payable (Notes 2 and 20)	71,726	1	59,290	1
Accrued expenses (Note 16)	519,358	4	612,877	5
Other payable - related parties (Note 24)	12	-	-	-
Current portion of bonds payable (Notes 2 and 14)	556,079	4	-	-
Current portion of long-term loans (Note 15)	493,006	4	273,185	2
Other current liabilities	<u>70,229</u>	<u>-</u>	<u>38,143</u>	<u>-</u>
Total current liabilities	<u>3,445,764</u>	<u>26</u>	<u>2,623,371</u>	<u>22</u>
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 14)	-	-	789,367	6
Long-term loans (Note 15)	<u>1,525,637</u>	<u>12</u>	<u>1,298,468</u>	<u>11</u>
Total long-term liabilities	<u>1,525,637</u>	<u>12</u>	<u>2,087,835</u>	<u>17</u>
RESERVES				
Reserve for land value increment tax (Notes 2 and 11)	<u>3,512</u>	<u>-</u>	<u>3,512</u>	<u>-</u>
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	14,028	-	9,349	-
Deferred tax liability - noncurrent (Notes 2 and 20)	98,874	1	46,514	1
Guarantee deposits received	<u>27,891</u>	<u>-</u>	<u>12,340</u>	<u>-</u>
Total other liabilities	<u>140,793</u>	<u>1</u>	<u>68,203</u>	<u>1</u>
Total liabilities	<u>5,115,706</u>	<u>39</u>	<u>4,782,921</u>	<u>40</u>
STOCKHOLDERS' EQUITY (Note 18)				
Capital stock				
Common stock	3,022,423	23	3,022,423	25
Advance receipts for common stock	<u>75,147</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total capital stock	<u>3,097,570</u>	<u>24</u>	<u>3,022,423</u>	<u>25</u>
Capital surplus	<u>1,616,549</u>	<u>13</u>	<u>1,356,078</u>	<u>12</u>
Retained earnings				
Legal reserve	749,459	6	644,438	5
Unappropriated earnings	<u>2,279,958</u>	<u>17</u>	<u>1,901,027</u>	<u>16</u>
Total retained earnings	<u>3,029,417</u>	<u>23</u>	<u>2,545,465</u>	<u>21</u>
Other equity (Note 2)				
Cumulative translation adjustments	167,431	1	264,762	2
Net loss not recognized as pension cost	(22,808)	-	(15,637)	-
Unrealized loss on financial instruments	(13,105)	-	(18,133)	-
Unrealized revaluation increment	<u>5,442</u>	<u>-</u>	<u>5,442</u>	<u>-</u>
Total other equity	<u>136,960</u>	<u>1</u>	<u>236,434</u>	<u>2</u>
Total stockholders' equity	<u>7,880,496</u>	<u>61</u>	<u>7,160,400</u>	<u>60</u>
TOTAL	<u>\$ 12,996,202</u>	<u>100</u>	<u>\$ 11,943,321</u>	<u>100</u>

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUE (Note 2)	\$ 11,069,155	101	\$ 9,961,104	101
LESS: SALES RETURNS	(33,567)	-	(15,639)	-
LESS: SALES ALLOWANCES	<u>(107,093)</u>	<u>(1)</u>	<u>(48,124)</u>	<u>(1)</u>
NET OPERATING REVENUE	10,928,495	100	9,897,341	100
OPERATING COSTS	<u>(8,420,200)</u>	<u>(77)</u>	<u>(7,496,695)</u>	<u>(76)</u>
GROSS PROFIT	<u>2,508,295</u>	<u>23</u>	<u>2,400,646</u>	<u>24</u>
OPERATING EXPENSES				
Selling expenses	(449,277)	(4)	(460,181)	(4)
General and administrative expenses	(378,749)	(3)	(325,641)	(3)
Research and development expenses	<u>(422,614)</u>	<u>(4)</u>	<u>(463,303)</u>	<u>(5)</u>
Total operating expenses	<u>(1,250,640)</u>	<u>(11)</u>	<u>(1,249,125)</u>	<u>(12)</u>
OPERATING INCOME	<u>1,257,655</u>	<u>12</u>	<u>1,151,521</u>	<u>12</u>
NONOPERATING INCOME AND GAINS				
Interest income	14,195	-	14,612	-
Investment income recognized under equity method (Note 9)	9,365	-	11,658	-
Dividend revenue	3,954	-	4,031	-
Gain on disposal of property, plant and equipment	2,953	-	10,784	-
Gain on sale of investments	1,094	-	822	-
Exchange gain	51,912	-	43,675	-
Miscellaneous income	<u>75,715</u>	<u>1</u>	<u>59,437</u>	<u>1</u>
Total nonoperating income and gains	<u>159,188</u>	<u>1</u>	<u>145,019</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	(35,555)	(1)	(31,154)	(1)
Loss on disposal of property, plant and equipment	(3,802)	-	(3,265)	-
Impairment loss	(22,430)	-	(19,942)	-
Valuation loss on financial assets	-	-	(78)	-
Valuation loss on financial liabilities	(26,747)	-	(12,627)	-
Miscellaneous expenses	<u>(25,690)</u>	<u>-</u>	<u>(16,264)</u>	<u>-</u>
Total nonoperating expenses and losses	<u>(114,224)</u>	<u>(1)</u>	<u>(83,330)</u>	<u>(1)</u>

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2012</u>		<u>2011</u>	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,302,619	12	\$ 1,213,210	12
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(153,733)</u>	<u>(1)</u>	<u>(162,994)</u>	<u>(1)</u>
NET INCOME	<u>\$ 1,148,886</u>	<u>11</u>	<u>\$ 1,050,216</u>	<u>11</u>
	<u>2012</u>		<u>2011</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 22)				
Basic	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Diluted	<u>\$ 3.93</u>	<u>\$ 3.58</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>

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

(Concluded)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus	Retained Earnings		Others Equity					
	Common Stock	Advance Receipts for Common Stock		Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Total
BALANCE, JANUARY 1, 2011	\$ 2,971,831	\$ -	\$ 1,302,853	\$ 525,420	\$ 1,850,021	\$ 3,716	\$ -	\$ (3,235)	\$ 5,442	\$ (127,233)	\$ 6,528,815
Appropriation of 2010 earnings											
Legal reserve	-	-	-	119,018	(119,018)	-	-	-	-	-	-
Stock dividends	59,261	-	-	-	(59,261)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(740,763)	-	-	-	-	-	(740,763)
Retirement of treasury stock	(30,000)	-	(17,065)	-	(80,168)	-	-	-	-	127,233	-
Exercise of employee stock options	21,220	-	69,814	-	-	-	-	-	-	-	91,034
Conversion of convertible bonds	111	-	476	-	-	-	-	-	-	-	587
Change in net loss not recognized as pension cost	-	-	-	-	-	-	(15,637)	-	-	-	(15,637)
Net income for the year ended December 31, 2011	-	-	-	-	1,050,216	-	-	-	-	-	1,050,216
Changes in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	(14,898)	-	-	(14,898)
Changes in translation adjustments	-	-	-	-	-	261,046	-	-	-	-	261,046
BALANCE, DECEMBER 31, 2011	3,022,423	-	1,356,078	644,438	1,901,027	264,762	(15,637)	(18,133)	5,442	-	7,160,400
Appropriation of 2011 earnings											
Legal reserve	-	-	-	105,021	(105,021)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(664,934)	-	-	-	-	-	(664,934)
Exercise of employee stock options	-	24,460	67,999	-	-	-	-	-	-	-	92,459
Conversion of convertible bonds	-	50,687	192,472	-	-	-	-	-	-	-	243,159
Net loss not recognized as pension cost	-	-	-	-	-	-	(7,171)	-	-	-	(7,171)
Net income for the year ended December 31, 2012	-	-	-	-	1,148,886	-	-	-	-	-	1,148,886
Changes in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	5,028	-	-	5,028
Changes in translation adjustments	-	-	-	-	-	(97,331)	-	-	-	-	(97,331)
BALANCE, DECEMBER 31, 2012	<u>\$ 3,022,423</u>	<u>\$ 75,147</u>	<u>\$ 1,616,549</u>	<u>\$ 749,459</u>	<u>\$ 2,279,958</u>	<u>\$ 167,431</u>	<u>\$ (22,808)</u>	<u>\$ (13,105)</u>	<u>\$ 5,442</u>	<u>\$ -</u>	<u>\$ 7,880,496</u>

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

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,148,886	\$ 1,050,216
Depreciation	838,549	881,607
Nonoperating loss - idle assets and lease assets	13,669	9,319
Amortization	26,075	31,541
Investment income recognized under equity method	(9,365)	(11,658)
Cash dividends received from equity method investees	10,767	-
Gain on sale of investments	(1,094)	(822)
Loss (gain) on disposal of property, plant and equipment	849	(7,519)
Valuation loss on financial instruments	26,747	12,705
Impairment loss	22,430	19,942
Loss on fire damage	625	-
Discount on bonds payable	9,871	9,777
Net changes in net loss not recognized as pension cost	(7,171)	(15,637)
Net changes in deferred income tax	46,564	49,672
Net changes in operating assets and liabilities		
Notes receivable (related parties included)	13,725	(25,278)
Accounts receivable (related parties included)	(361,247)	(321,545)
Inventories	(333,781)	(32,336)
Other receivables (related parties included)	35,094	38,437
Other current assets	1,698	(47,295)
Notes payable (related parties included)	(73,999)	20,298
Accounts payable (related parties included)	220,202	(59,017)
Accrued expenses	(5,952)	(24,864)
Income tax payable	12,436	(10,835)
Other payables (related parties included)	12	-
Other current liabilities	32,086	(23,061)
Accrued pension cost	4,679	19,843
Net cash provided by operating activities	<u>1,672,355</u>	<u>1,563,490</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial instruments at fair value through profit or loss	-	(10,500)
Proceeds from disposal of financial instruments at fair value through profit or loss	(440)	67,238
Acquisitions of available-for-sale financial assets	(30,000)	(90,000)
Proceeds from disposal of available-for-sale financial assets	61,094	60,268
Acquisition of financial assets carried at cost	(7,797)	(148,767)
Acquisitions of property, plant and equipment	(1,135,305)	(1,308,083)
Proceeds from disposal of property, plant and equipment	27,943	25,642
(Increase) decrease in refundable deposits	(1,743)	2,525
Purchase of assets leased to others	-	(187)
Acquisition of land right	(18,963)	(101,385)
Increase in deferred charges	<u>(14,036)</u>	<u>(42,827)</u>
Net cash used in investing activities	<u>(1,119,247)</u>	<u>(1,546,076)</u>

(Continued)

TXC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	\$ (69,874)	\$ (77,465)
Increase in guarantee deposits received	15,551	3,624
Increase in long-term loans	446,990	342,763
Proceeds from exercise of employee stock options	92,459	91,034
Cash dividends	<u>(664,934)</u>	<u>(740,763)</u>
Net cash used in financing activities	<u>(179,808)</u>	<u>(380,807)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(13,787)</u>	<u>56,064</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	359,513	(307,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,211,234</u>	<u>1,518,563</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,570,747</u>	<u>\$ 1,211,234</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 25,418</u>	<u>\$ 21,313</u>
Income tax paid	<u>\$ 100,674</u>	<u>\$ 123,200</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Conversion of convertible bonds	<u>\$ 243,159</u>	<u>\$ 587</u>
Current portion of long-term debt	<u>\$ 493,006</u>	<u>\$ 273,185</u>

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

(Concluded)

TXC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

TXC specializes in five categories of products such as high quality Quartz Unite Crystal, Automotive Crystal, Crystal Oscillator (CXO) Surface Acoustic Wave (SAW) Filter, and Timing Module (TM), and provides complete solution in frequency devices and modules, and design service to fully satisfy various needs of the customers.

On August 26, 2002, TXC's shares began to be traded on the Taiwan Stock Exchange.

As of December 31, 2012 and 2011, TXC and its subsidiaries had 2,518 and 2,291 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

For readers' convenience, the accompanying consolidated 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 consolidated financial statements shall prevail.

The 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. Significant accounting policies are summarized as follows:

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 7 "Consolidated Financial Statements" and include the financial statements of TXC, its direct and indirect subsidiaries with at least 50% shareholding, and other investees in which it has controlling interest.

The consolidated entities were as follows:

Investor	Investee	Business Nature	Percentage of Ownership at December 31		Note
			2012	2011	
TXC Corporation	Taiwan Crystal Technology International Limited (TCTI)	Investment holding	100%	100%	a
	TXC Technology, Inc.	Marketing activities	100%	100%	b
	TXC Japan Corporation	Marketing activities	100%	100%	c
	Taiwan Crystal Technology International (HK) Limited (TCTI-HK)	Investment holding	100%	100%	g
Taiwan Crystal Technology International Limited	Growing Profits Trading Ltd. (GPT)	International trading	100%	100%	d
	TXC (Ningbo) Corporation (NGB)	Manufacture and sales of electronic products	100%	100%	e

(Continued)

Investor	Investee	Business Nature	Percentage of Ownership at December 31		Note
			2012	2011	
TXC (Ningbo) Corporation	TXC (HK) Limited (TXC HK)	International trading	100%	100%	f
	TXC (Chongqing) Corporation (Chongqing)	Manufacture and sales of electronic products	40%	30%	h
	Chongqing All Sun Company Limited (Chongqing All sun)	Marketing activities	100%	100%	i
	Ningbo Jingyu Company Limited (Ningbo Jingyu)	Purchasing and selling electronic component	100%	100%	j
Taiwan Crystal Technology International (HK) Limited	TXC (Chongqing) Corporation (Chongqing)	Manufacture and sales of electronic products	60%	70%	h
	TXC Europe SRL	Marketing activities	100%	100%	k

(Concluded)

- a. Taiwan Crystal Technology International Limited 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 Yokohama, Japan.
- d. Growing Profits Limited was incorporated on March 9, 1999 in the British Virgin Islands.
- e. TXC (Ningbo) Corporation was incorporated on March 12, 1999 in Ningbo, China.
- f. TXC (HK) Limited was incorporated on March 31, 2008 in Hong Kong Special Administrative Region, China.
- g. Taiwan Crystal Technology International (HK) Limited was incorporated on July 16, 2010 in Hong Kong Special Administrative Region, China.
- h. TXC (Chongqing) Corporation was incorporated on October 11, 2010 in Chongqing, China.
- i. Chongqing All Sun Corporation was incorporated on February 10, 2011 in Chongqing, China.
- j. Ningbo Jingyu Company Limited was incorporated on September 7, 2011 in Ningbo, China.
- k. TXC Europe SRL was incorporated on November 14, 2011 in Europe and applied for cancellation of registration in 2012. As of December 31, 2012, it has not yet received the approval from the government.

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

Foreign Currencies

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Shareholders' equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of shareholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

Non-derivative foreign-currency transactions are recorded at the rates of exchange in effect when the transactions occur. Exchange differences arising from the 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.

Accounting Estimates

Under above 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, income tax, pension cost, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

Current/Noncurrent Assets and Liabilities

Current assets include cash and 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 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: Bonds - at prices quoted by the Taiwan GreTai Securities Market, and 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 the same with 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.

Fair value of financial assets at the balance sheet date is determined as follows: Open-end mutual funds - at net asset values.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Impairment of Accounts Receivable

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 and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, idle assets, leased 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 first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings.

Inventories

Inventories consist of raw materials, supplies and spare parts, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

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, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost plus revaluation increment less accumulated depreciation. 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 follows: buildings - 2 to 55 years; machinery and equipment - 3 to 14 years; transportation equipment - 3 to 8 years; office equipment - 2 to 6 years; assets leased to others - 4 to 61 years.

Property, plant and equipment and assets leased to others still in use beyond their original estimated useful lives are further depreciated over their new 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.

Convertible Bonds

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 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 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.

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.

Income Tax

The Corporation applies the intra-period and inter-period allocation method to 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 is 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.

If the Corporation can control the timing of the reversal of a temporary difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

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.

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

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

TXC (H.K.) Limited and TCTI-HK are subject to income tax at the rate of 17.5% on income generated in Hong Kong; otherwise, income tax rate is 0%.

According to "Enterprise Income Tax Law of the People's Republic of China", enterprises within the territory of the People's Republic of China are subject to income tax at the rate of 25%. For State-encouraged new technology and high technology enterprises such as NGB, income tax rate is reduced to 15%.

Stock-based Compensation

Employee stock options granted between January 1, 2004 and December 31, 2007 were 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.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction from shareholders' equity.

Revenue Recognition

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 are realizable. The Corporation does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the customers 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2012.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Corporation are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. The adoption did not have effect on the net income for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	2011
Cash on hand	\$ 998	\$ 1,458
Checking accounts and demand deposits	1,127,754	1,026,776
Time deposits	94,995	140,000
Cash equivalents		
Repurchase agreements collateralized by bonds	<u>347,000</u>	<u>43,000</u>
	<u>\$ 1,570,747</u>	<u>\$ 1,211,234</u>

The interest rates of repurchase agreements collateralized by bonds were 0.8%-0.825% and 0.76% for the years ended December 31, 2012 and 2011.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2012	2011
<u>Financial assets at FVTPL</u>		
Forward exchange contracts	\$ -	\$ 3,318
Convertible bonds	<u>-</u>	<u>3,922</u>
	<u>\$ -</u>	<u>\$ 7,240</u>
<u>Financial liabilities at FVTPL</u>		
Forward exchange contracts	<u>\$ 26,907</u>	<u>\$ 7,758</u>

The Corporation entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures due 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 or cash flows.

Outstanding forward contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2012</u>			
Sell	USD/NTD	January 2, 2013 to March 26, 2013	USD24,500/NTD714,837
Sell	USD/JPY	January 4, 2013 to March 5, 2013	USD19,000/JPY1,561,562
Buy	JPY/NTD	January 10, 2013 to February 20, 2013	JPY160,000/NTD58,484
Sell	USD/RMB	January 30, 2013 to April 26, 2013	USD17,500/RMB110,115
<u>December 31, 2011</u>			
Sell	USD/NTD	January 3, 2012 to April 9, 2012	USD55,000/NTD1,656,290
Sell	USD/JPY	January 4, 2012 to March 9, 2012	USD21,000/JPY1,629,455
Sell	NTD/JPY	January 4, 2012 to February 6, 2012	NTD141,889/JPY360,000
Sell	USD/RMB	January 5, 2012 to May 29, 2012	USD23,000/RMB146,059

Net losses on financial instruments held for trading for the years ended December 31, 2012 and 2011 were \$26,747 thousand and \$12,705 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Mutual funds	<u>\$ 46,895</u>	<u>\$ 71,867</u>

7. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2012	2011
Notes receivable, third parties	\$ 17,223	\$ 30,978
Less: Allowance for doubtful accounts	<u>(3)</u>	<u>(33)</u>
	<u>\$ 17,220</u>	<u>\$ 30,945</u>
Accounts receivable, third parties	\$ 3,474,882	\$ 3,121,283
Accounts receivable, related parties	<u>10,551</u>	<u>6,183</u>
	3,485,433	3,127,466
Less: Allowance for doubtful accounts, third parties	(21,029)	(24,363)
Allowance for doubtful accounts, related parties	<u>(85)</u>	<u>(31)</u>
	<u>\$ 3,464,319</u>	<u>\$ 3,103,072</u>

Movements of allowance for doubtful accounts were as follows:

	Years Ended December 31			
	2012		2011	
	Notes Receivable	Accounts Receivable	Notes Receivable	Accounts Receivable
Balance, beginning of year	\$ 33	\$ 24,394	\$ 8	\$ 23,908
Add (deduct): Provision for (reversal of) doubtful accounts	(30)	(2,915)	25	-
Deduct: Amounts written off	-	(193)	-	-
Add (deduct): Effect of exchange rate changes	-	(172)	-	486
Balance, end of year	<u>\$ 3</u>	<u>\$ 21,114</u>	<u>\$ 33</u>	<u>\$ 24,394</u>

8. INVENTORIES

	December 31	
	2012	2011
Raw materials	\$ 236,125	\$ 221,584
Supplies and spare parts	53,017	56,312
Work in process	297,817	191,649
Finished goods	373,686	404,539
Merchandise	315,482	285,952
Prepayment for land purchases	<u>200,435</u>	<u>-</u>
	<u>\$ 1,476,562</u>	<u>\$ 1,160,036</u>

Prepayment for land purchases is the payment made by Chongqing All Sum to acquire the land use right in Chongqing Gao-Shing District to develop and sell real estate. As of December 31, 2012, the price has been paid and the transfer of ownership is in process.

As of December 31, 2012 and 2011, the allowance for inventory devaluation was \$42,131 thousand and \$41,848 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 were \$8,420,200 thousand and \$7,496,695 thousand, respectively, which included \$21,885 thousand and \$36,514 thousand, respectively, due to write-downs of inventories and loss on physical inventory.

9. INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted companies				
TSE Technology (Ningbo) Co., Ltd.	<u>\$ 45,950</u>	23	<u>\$ 48,657</u>	23

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

	December 31	
	2012	2011
TSE Technology (Ningbo) Co., Ltd.	<u>\$ 9,365</u>	<u>\$ 11,658</u>

10. FINANCIAL ASSETS CARRIED AT COST

	Years Ended December 31	
	2012	2011
Domestic emerging market stocks	\$ 54,997	\$ 47,200
Domestic unquoted common stocks	101,000	101,000
Overseas unquoted common stocks	<u>97,245</u>	<u>97,245</u>
	<u>\$ 253,242</u>	<u>\$ 245,445</u>

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

11. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2012			
	Cost	Revaluation Increment	Accumulated Depreciation	Carrying Value
Land	\$ 598,145	\$ 8,954	\$ -	\$ 607,099
Land improvements	151	-	103	48
Buildings	2,068,029	-	415,229	1,652,800
Machinery and equipment	4,954,393	-	2,038,085	2,916,308
Transportation equipment	13,778	-	7,511	6,267
Office equipment	188,643	-	121,631	67,012
Prepayments for equipment	178,715	-	-	178,715
Construction in progress	<u>306,248</u>	<u>-</u>	<u>-</u>	<u>306,248</u>
	<u>\$ 8,308,102</u>	<u>\$ 8,954</u>	<u>\$ 2,582,559</u>	<u>\$ 5,734,497</u>

	December 31, 2011			
	Cost	Revaluation Increment	Accumulated Depreciation	Carrying Value
Land	\$ 598,145	\$ 8,954	\$ -	\$ 607,099
Land improvements	593	-	520	73
Buildings	2,221,785	-	478,007	1,743,778
Machinery and equipment	6,448,849	-	3,306,162	3,142,687
Transportation equipment	16,172	-	10,660	5,512
Office equipment	225,429	-	161,531	63,898
Prepayments for equipment	120,609	-	-	120,609
Construction in progress	<u>5,990</u>	<u>-</u>	<u>-</u>	<u>5,990</u>
	<u>\$ 9,637,572</u>	<u>\$ 8,954</u>	<u>\$ 3,956,880</u>	<u>\$ 5,689,646</u>

There was no interest capitalized in 2012 and 2011.

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

See Note 25 for collaterals on loans.

12. OTHER ASSETS

Leased to Others

December 31, 2012			
	Book Value	Accumulated Impairment	Carrying Value
Land	\$ 2,602	\$ -	\$ 2,602
Buildings	<u>74,449</u>	<u>(18,498)</u>	<u>55,951</u>
	<u>\$ 77,051</u>	<u>\$ (18,498)</u>	<u>\$ 58,553</u>
December 31, 2011			
	Book Value	Accumulated Impairment	Carrying Value
Land	\$ 2,602	\$ -	\$ 2,602
Buildings	<u>72,335</u>	<u>(18,011)</u>	<u>54,324</u>
	<u>\$ 74,937</u>	<u>\$ (18,011)</u>	<u>\$ 56,926</u>

Idle Assets

Idle assets are land, building and equipment retired from active use.

December 31		
	2012	2011
Book value	\$ 36,617	\$ 36,293
Accumulated impairment	<u>(36,617)</u>	<u>(36,293)</u>
	<u>\$ -</u>	<u>\$ -</u>

The part of equipment not used in operating activities was reclassified into idle assets and deducted with valuation loss \$22,430 thousand and \$19,942 thousand for the years ended December 31, 2012 and 2011, respectively.

13. SHORT-TERM LOANS

	December 31			
	2012		2011	
	Interest Rate %	Amounts	Interest Rate %	Amounts
Unsecured bank loans	0.96-2.23	\$ 247,266	0.60-1.25	\$ 294,419
Secured bank loans	0.611-0.616	<u>43,483</u>	1.58-1.867	<u>66,204</u>
		<u>\$ 290,749</u>		<u>\$ 360,623</u>

See Note 25 for details of pledged assets.

14. BONDS PAYABLE

	December 31	
	2012	2011
Third unsecured domestic convertible bonds	\$ 556,100	\$ 799,400
Less: Discount on bonds payable	(21)	(10,033)
Less: Current portion	<u>(556,079)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 789,367</u>

Third Unsecured Domestic Convertible Bonds

On January 11, 2010, the Corporation issued third unsecured domestic convertible bonds with an aggregate value of \$800,000 thousand. According to Statement of Financial Accounting Standards No. 36, "Disclosure and Presentation of Financial Instruments," these unsecured domestic convertible bonds were separated into convertible options, equity, and bonds payable. Other details of the bond issuance are summarized as follows:

- Issue date: January 11, 2010.
- Total issue amount: \$800,000 thousand.
- Issue price: 100%.
- Par value: \$100 thousand.
- Coupon rate: 0%.
- Repayment term: The bonds are repayable on January 11, 2013 upon the maturity of the bonds.
- Conversion right: Holder can request for conversion of the bonds to the Corporation's common stock.
- Conversion period: From February 12, 2010 to January 1, 2013.
- Conversion price: The original conversion price per share is \$57.6. 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. The conversion price per share is \$48 on December 31, 2012.

j. Redemption of bonds

- 1) Redemption on the maturity date: On the maturity date, the Corporation will redeem the bonds of the principal amounts.
- 2) Early redemption on the maturity date:
 - a) During the period of time between one month after issuance and the 40th day before maturity, if the closing price of the Corporation's shares reaches 30% of the conversion price for 30 consecutive trading days, the Corporation may redeem the remaining bonds at a price of their book value.
 - b) During the period of time between one month after issuance and the 40th day before maturity, when over 90% of the bonds had been redeemed, bought back or converted, the Corporation may redeem the remaining bonds at a price of their book value.

- k. Converted bonds: As of December 31, 2012, bonds with a book value of \$243,900 thousand had been converted into 5,080 thousand common shares.

15. LONG-TERM LOANS

Nature of Loans	Repayment Period	December 31	
		2012	2011
Secured bank loans	Maturity on July 24, 2013, repayable from July 2008 in quarterly installments	\$ 43,688	\$ 101,938
Secured bank loans	Maturity on July 24, 2013, repayable from April 2009 in quarterly installments	5,250	12,250
Secured bank loans	Maturity on August 17, 2016, repayable from November 2012 in quarterly installments	562,500	600,000
Unsecured bank loans	Maturity on October 13, 2016, repayable from January 2013 in quarterly installments	500,000	-
Unsecured bank loans	Repayable at maturity on July 26, 2014	200,000	-
Unsecured bank loans	Repayable at maturity on August 20, 2014	100,000	-
Unsecured bank loans	Repayable at maturity on June 15, 2014	100,000	100,000
Unsecured bank loans	Maturity on October 28, 2015, repayable from October 2011 in quarterly installments	375,000	500,000
Unsecured bank loans	Repayable at maturity on February 27, 2014	58,758	60,580
Unsecured bank loans	Repayable at maturity on February 27, 2014	29,379	30,290
Unsecured bank loans	Maturity on December 19, 2013, repayable from December 2011 in quarterly installments	44,068	90,870
Unsecured bank loans	Repayable at maturity on March 31, 2014	-	75,725
Less current portion		<u>(493,006)</u>	<u>(273,185)</u>
		<u>\$ 1,525,637</u>	<u>\$ 1,298,468</u>
Interest rate (%)		1.10%-1.79%	0.90%-2.60%

See Note 25 for collateral on long-term loans.

16. ACCRUED EXPENSES

	December 31	
	2012	2011
Payroll	\$ 69,223	\$ 55,266
Bonus	120,448	189,302
Bonus to employees, directors and supervisors	144,759	132,203
Commission	71,305	70,888
Others	<u>113,623</u>	<u>165,218</u>
	<u>\$ 519,358</u>	<u>\$ 612,877</u>

17. PENSION PLANS

The pension plan under the Labor Pension Act (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 \$22,867 thousand and \$23,626 thousand for the years ended December 31, 2012 and 2011, respectively.

The Corporation has set up appointed manager’s pension fund and contributes monthly an amount of not less than 8% of the appointed manager’s monthly salaries and wages to the Bank of Taiwan. Such pension costs were \$1,030 thousand and \$701 thousand for the years ended December 31, 2012 and 2011, 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 in the Bank of Taiwan in the committee’s name. The Corporation recognized pension costs of \$4,028 thousand and \$8,146 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2012	2011
Service cost	\$ 1,919	\$ 2,379
Interest cost	1,234	1,544
Projected return on plan assets	(835)	(1,325)
Amortization	<u>1,710</u>	<u>5,548</u>
Net pension cost	<u>\$ 4,028</u>	<u>\$ 8,146</u>

- b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2012 and 2011

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	\$ (8,399)	\$ (5,171)
Non-vested benefit obligation	<u>(58,182)</u>	<u>(50,116)</u>
Accumulated benefit obligation	(66,581)	(55,287)
Additional benefit based on future salaries	<u>(13,364)</u>	<u>(12,461)</u>
Projected benefit obligation	(79,945)	(67,748)
Fair value of plan assets	<u>52,553</u>	<u>45,938</u>
Funded status	(27,392)	(21,810)
Unrecognized net transitional obligation	-	-
Unrecognized net gain	36,172	28,098
Additional liability	<u>(22,808)</u>	<u>(15,637)</u>
Accrued pension cost	<u>\$ (14,028)</u>	<u>\$ (9,349)</u>
Vested benefit	<u>\$ (9,515)</u>	<u>\$ (5,863)</u>

- c. Actuarial assumptions as of December 31, 2012 and 2011:

	December 31	
	2012	2011
Discount rate used in determining present values	1.875%	2.000%
Future salary increase rate	2.000%	2.000%
Expected rate of return on plan assets	1.875%	2.000%

	Years Ended December 31	
	2012	2011
d. Contributions to the fund	<u>\$ 6,520</u>	<u>\$ 3,940</u>
e. Payments from the fund	<u>\$ 375</u>	<u>\$ 22,970</u>

18. STOCKHOLDERS' EQUITY

Capital Stock

The Corporation's authorized capital was \$5,000,000 thousand and \$4,000,000 thousand at December 31, 2012 and 2011 (\$10.00 par value per share). As of December 31, 2012 and 2011, the Corporation's issued capital stock was \$3,022,423 thousand divided into 302,242 thousand shares, at NT\$10.00 par value each. Exercised stock options in the amount of \$24,460 thousand and convertible bonds in the amount of \$50,687 thousand have not been registered; therefore, they are classified into advance receipts for common stock.

Employee Stock Options

In December 2007, 8,000 options 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 is adjusted accordingly.

Information related to employee stock option plans was as follows:

	Years Ended December 31			
	2012		2011	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Balance, beginning of year	2,627	\$ 39.7	4,954	\$ 42.9
Options granted	-	-	-	-
Options forfeited	-	-	-	-
Options exercised	(2,446)	37.8	(2,122)	42.9
Options expired	<u>(181)</u>	-	<u>(205)</u>	-
Balance, end of year	<u>-</u>	-	<u>2,627</u>	39.7
Options exercisable, end of year	<u>-</u>		<u>2,627</u>	

Options granted during the year 2007 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

Grant-date share price (NT\$)	58.8
Exercise price (NT\$)	58.8
Expected volatility	43.5%
Expected life (years)	3.875 years
Risk-free interest rate	2.42%
Expected dividend yield	-

The pro forma information for the years ended December 31, 2012 and 2011 assuming employee stock options granted before January 1, 2008 were accounted for under SFAS No. 39 is as follows:

	2012	2011
Net income	<u>\$ 1,148,886</u>	<u>\$ 1,050,216</u>
After income tax basic earnings per share (NT\$)	<u>\$3.79</u>	<u>\$3.48</u>

In their meeting on June 13, 2012, the stockholders approved a restricted stock plan for employees with a total amount of NT\$20,000 thousand, consisting of 2,000 thousand shares, and authorized the board of directors to determine the issue prices of the restricted shares when they are issued. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vested conditions are as follows:

- The employees should not sell, pledge, transfer, donate or in any other way dispose of these shares.
- The employees holding these shares are not entitled to receive cash and stock dividends.
- The employees holding these shares have no voting right.

If an employee fails to meet the vesting conditions, the Corporation will recall or buy back his/her restricted shares for cancellation.

As of December 31, 2012, the Corporation had not yet issued any restricted shares to employees.

Capital Surplus

Capital surplus comprised of the following:

	December 31	
	2012	2011
Issuance of common shares	\$ 325,830	\$ 325,830
Conversion of bonds	977,028	772,417
Exercise of employee stock options	285,946	217,947
Conversion options	<u>27,745</u>	<u>39,884</u>
	<u>\$ 1,616,549</u>	<u>\$ 1,356,078</u>

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Corporation's paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

Appropriation of Earnings and Dividend Policy

Under the Corporation's Articles of Incorporation, the Corporation should appropriate 10% of its net income less any prior years' deficit as legal reserve. The remaining amount may be fully retained or partially retained and partially distributed for dividends, upon the stockholders' approval, according to the following percentages.

- a. Employee bonus - not less than 3%
- b. Directors and supervisors' remuneration - not more than 2%
- c. Stock bonuses to employees include subsidiaries' employees who meet certain criteria set by the stockholders' meetings.

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.

For the years ended December 31, 2012 and 2011, the bonus to employees was \$124,079 thousand and \$113,317 thousand, respectively, and the remuneration to directors and supervisors was \$20,680 thousand and \$18,886 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 12% and 2%, respectively, of net income (net of the bonus and remuneration). Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain stockholders' 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.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share in the income tax paid by the Corporation.

The appropriations of earnings for 2011 and 2010 had been approved in the stockholders' meetings on June 13, 2012 and June 10, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2011	For Fiscal Year 2010	For Fiscal Year 2011	For Fiscal Year 2010
Legal reserve	\$ 105,021	\$ 119,018	\$ -	\$ -
Cash dividends	664,934	740,763	2.2	2.5
Stock dividends	-	59,261	-	0.2

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the shareholders' meetings on June 13, 2012 and June 10, 2011, respectively, were as follows:

	Years Ended December 31			
	2011		2010	
	Cash	Stock	Cash	Stock
Bonus to employees	\$ 113,317	\$ -	\$ 160,674	\$ -
Remuneration to directors and supervisors	18,886	-	21,423	-

	Years Ended December 31			
	2011		2010	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in shareholders' meetings	\$ 113,317	\$ 18,886	\$ 160,674	\$ 21,423
Amounts recognized in respective financial statements	<u>113,317</u>	<u>18,886</u>	<u>160,674</u>	<u>21,423</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There are no differences between the approved amounts of the bonus to employees and the remuneration to directors and supervisors and the accrual amounts reflected in the financial statements for the year ended December 31, 2011 and 2010.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

19. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2012:</u> None				
<u>Year ended December 31, 2011</u>				
For transfer to employees	<u>3,000</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury stock nor exercise stockholders' rights on these shares, such as rights to dividends and to vote.

20. INCOME TAX

A reconciliation of income tax expense based on income before income tax at the statutory rate and income tax expense was as follows:

	Years Ended December 31	
	2012	2011
Income tax expense at the statutory rate	\$ 213,979	\$ 197,045
Tax effect on adjusting items:		
Permanent differences	(61,983)	(60,361)
Temporary differences	3,659	(7,400)
Tax-exempt income for five years	(57,373)	(41,590)
Additional 10% income tax on unappropriated earnings	28,026	27,114
Investment tax credits used	<u>(63,154)</u>	<u>(57,404)</u>
Current income tax expense	63,154	57,404
Subsidiary income tax	43,916	54,022
Deferred income tax expenses (benefit)		
Temporary difference	(14,877)	9,831
Investment tax credits	63,154	43,428
Effect of law changes on deferred income tax	-	-
Adjustment for prior years' tax	<u>(1,614)</u>	<u>(1,691)</u>
	<u>\$ 153,733</u>	<u>\$ 162,994</u>

Deferred income tax assets (liabilities) were as follows:

	2012	2011
Current		
Deferred income tax assets		
Allowance for doubtful account	\$ 600	\$ 985
Unrealized allowance for loss on inventories	6,971	6,374
Unrealized exchange losses	2,051	250

(Continued)

	2012	2011
Unrealized gain on transactions with investees	\$ 4,423	\$ 1,319
Others	<u>220</u>	<u>-</u>
	14,265	8,928
Less: Valuation allowance	<u>-</u>	<u>-</u>
	14,265	8,928
Deferred income tax liabilities		
Unrealized exchange gain	<u>(6,524)</u>	<u>(5,386)</u>
	<u>\$ 7,741</u>	<u>\$ 3,542</u>
Noncurrent		
Deferred income tax assets		
Accrued pension cost	\$ 517	\$ 940
Impairment loss	-	3,312
Investment tax credits	25,045	73,457
Others	<u>-</u>	<u>213</u>
	25,562	77,922
Less: Valuation allowance	<u>-</u>	<u>-</u>
	25,562	77,922
Deferred income tax liabilities		
Investment income recognized on overseas equity-method investments	<u>(124,436)</u>	<u>(124,436)</u>
	<u>\$ (98,874)</u>	<u>\$ (46,514)</u>
Subsidiary deferred income tax assets		
Impairment loss	\$ 5,450	\$ 3,465
Investment income recognized on overseas equity-method investments	<u>(2,194)</u>	<u>(1,806)</u>
	<u>\$ 3,256</u>	<u>\$ 1,659</u>
		(Concluded)

As of December 31, 2012, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 62,163	\$ 25,045	2014-2016
	Research and development expenditures	40,300	-	
		<u>\$ 102,463</u>	<u>\$ 25,045</u>	

As of December 31, 2012, profits attributable to the following expansion and construction projects were exempted from income tax for five years:

<u>Expansion and Construction Project</u>	<u>Tax-Exempt Year</u>
Acquisition of equipment in 2005	2010 to 2014
Acquisition of equipment in 2009	2014 to 2018

The Corporation's income tax returns through 2007 have been examined and approved by the tax authorities.

Information about integrated income tax was as follows:

	December 31	
	2012	2011
Balance of ICA	<u>\$ 67,545</u>	<u>\$ 57,799</u>
	2012 (Estimate)	2011 (Actual)
The creditable ratio for distribution	5.73%	5.98%
	December 31	
	2012	2011
Unappropriated earnings generated before January 1, 1998	\$ -	\$ -
Unappropriated earnings generated on and after January 1, 1998	<u>2,279,958</u>	<u>1,901,027</u>
	<u>\$ 2,279,958</u>	<u>\$ 1,901,027</u>

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Expense Item	Years Ended December 31					
	2012			2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 640,358	\$ 503,272	\$ 1,143,630	\$ 597,451	\$ 485,223	\$ 1,082,674
Insurance	50,107	31,575	81,682	47,762	29,504	77,266
Pension	16,910	11,015	27,925	16,664	15,809	32,473
Others	6,394	3,633	10,027	3,887	2,748	6,635
Depreciation	724,980	113,569	838,549	753,468	128,139	881,607
Amortization	9,534	16,541	26,075	5,831	25,710	31,541

22. EARNINGS PER SHARE (EPS)

	Years Ended December 31			
	2012		2011	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (NT\$) for the year attributable to common stockholders				
From continuing operations	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Income for the year	<u>\$ 4.15</u>	<u>\$ 3.79</u>	<u>\$ 3.84</u>	<u>\$ 3.48</u>

(Continued)

	Years Ended December 31			
	2012		2011	
	Before Tax	After Tax	Before Tax	After Tax
Diluted earnings per share (NT\$) for the year attributable to common stockholders				
From continuing operations	\$ 3.93	\$ 3.58	\$ 3.64	\$ 3.29
Income for the year	\$ 3.93	\$ 3.58	\$ 3.64	\$ 3.29
				(Concluded)

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	Amounts (Numerator)		Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2012</u>					
Net income	<u>\$ 1,302,619</u>	<u>\$ 1,148,886</u>			
Basic EPS (NT\$)					
Income for the year attributable to common stockholders	\$ 1,258,703	\$ 1,148,886	303,070	<u>\$ 4.15</u>	<u>\$ 3.79</u>
Effect of dilutive potential common stock					
Employee stock option	-	-	514		
Convertible bonds	9,871	8,193	16,589		
Bonus to employees	<u>-</u>	<u>-</u>	<u>2,595</u>		
Diluted EPS					
Income for the year attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 1,268,574</u>	<u>\$ 1,157,079</u>	<u>322,768</u>	<u>\$ 3.93</u>	<u>\$ 3.58</u>
<u>Year ended December 31, 2011</u>					
Net income	<u>\$ 1,213,210</u>	<u>\$ 1,050,216</u>			
Basic EPS (NT\$)					
Income for the year attributable to common stockholders	\$ 1,159,188	\$ 1,050,216	301,703	<u>\$ 3.84</u>	<u>\$ 3.48</u>
Effect of dilutive potential common stock					
Employee stock option	-	-	489		
Convertible bonds	9,777	8,115	15,867		
Bonus to employees	<u>-</u>	<u>-</u>	<u>3,266</u>		
Diluted EPS					
Income for the year attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 1,168,965</u>	<u>\$ 1,058,331</u>	<u>321,325</u>	<u>\$ 3.64</u>	<u>\$ 3.29</u>

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

23. FINANCIAL INSTRUMENTS

Fair values of financial instruments:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at FVTPL, current	\$ -	\$ -	\$ 7,240	\$ 7,240
Available-for-sale financial assets, current	46,895	46,895	71,867	71,867
Financial assets carried at cost	253,242	-	245,445	-
<u>Liabilities</u>				
Financial liabilities at FVTPL, current	26,907	26,907	7,758	7,758
Bonds payable	556,079	556,079	789,367	789,367
Long-term debt (including current portion)	2,018,643	2,018,643	1,571,653	1,571,653

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

- The above financial instruments do not include cash and cash equivalents, notes and accounts receivable, notes and accounts payable and short-term loans. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.
- Fair values of financial instruments designated as at FVTPL, available-for-sale and derivatives 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.
- Financial assets carried at cost 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.
- Fair value of long-term loans and bonds payable are estimated using the present value of future cash flows discounted by the interest rates.
- The fair value of domestic convertible bonds is estimated using the present value of cash flows, discounted at the risk-free interest rate upon issuing of bonds and at prevailing interest rate after taking into account risk premiums.

Fair value of financial assets and liabilities based on quoted market prices or valuation techniques were as follows:

	Quoted Market Price		Valuation Techniques Incorporating Estimates and Assumptions	
	December 31		December 31	
	2012	2011	2012	2011
<u>Assets</u>				
Financial assets at FVTPL, current	\$ -	\$ 3,922	\$ -	\$ 3,318
Available-for-sale financial assets, current	46,895	71,867	-	-
<u>Liabilities</u>				
Financial liabilities at FVTPL, current	-	-	26,907	7,758
Bonds payable (including current portion)	-	-	556,079	789,367
Long-term debt (including current portion)	-	-	2,018,643	1,571,653

Valuation losses brought by changes in fair value of financial instruments determined using valuation techniques were \$26,747 thousand and \$12,705 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about financial risks was as follows:

- 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. The Corporation does not have significant price risk.
- Credit risk:** Credit risk represents the potential loss that would be incurred by the Corporation if the counterparties breached contracts. The counterparties 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.
- 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.
- Cash flow interest rate risk:** The Corporation's short term and long term loans are floating-rate loans. When the market interest rate increases by one percentage point, the Corporation's cash outflow will increase by \$23,094 thousand a year.

24. RELATED-PARTY TRANSACTIONS

The related parties were as follows:

Related Party	Relationship with the Corporation
Tai-Shing Electronics Components Corporation (Tai-Shing)	Chairman is the Corporation's general manager
TSE Technology (Ningbo) Co., Ltd. (TSE Technology)	Subsidiary's equity-method investee
Ling Wan Xing	The general manager of TXC

Significant transactions with related parties:

Sales

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Tai-Shing	<u>\$ 31,563</u>	<u>-</u>	<u>\$ 25,474</u>	<u>-</u>

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

Purchases

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Tai-Shing	\$ 27	-	\$ 9	-
TSE Technology	<u>248</u>	<u>-</u>	<u>891</u>	<u>-</u>
	<u>\$ 275</u>	<u>-</u>	<u>\$ 900</u>	<u>-</u>

Terms of purchases from related parties were similar to those for third parties.

Other Expenses

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
Tai-Shing	<u>\$ 3,128</u>	<u>-</u>	<u>\$ 1,972</u>	<u>-</u>

Rental Income

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
TES Technology	<u>\$ 3,119</u>	<u>-</u>	<u>\$ 2,684</u>	<u>-</u>

Consulting Revenue

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
TSE Technology	<u>\$ 1,706</u>	<u>-</u>	<u>\$ 1,683</u>	<u>-</u>

Commission Revenue

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% to Total Account Balance	Amount	% to Total Account Balance
TSE Technology	<u>\$ -</u>	<u>-</u>	<u>\$ 7,891</u>	<u>-</u>

Receivable from and Payable to Related Parties

Item		December 31			
		2012		2011	
		Amount	% to Total Account Balance	Amount	% to Total Account Balance
Accounts receivable	Tai-Shing	<u>\$10,551</u>	<u>-</u>	<u>\$ 6,183</u>	<u>-</u>
Notes payable	Tai-Shing	<u>\$ -</u>	<u>-</u>	<u>\$ 285</u>	<u>-</u>
Accounts payable	Tai-Shing	<u>\$ 2,054</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
	TSE Technology	<u>241</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 2,295</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Accrued expense	Tai-Shing	<u>\$ 12</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Other receivable	TSE Technology	<u>\$ 582</u>	<u>-</u>	<u>\$ 577</u>	<u>-</u>

The collection term and payment term to related parties were not significantly different from third parties.

Property Transactions

Year ended December 31, 2012

The Corporation purchased computer from Tai-Shing for \$692 thousand.

Year ended December 31, 2011

The Corporation purchased computer from Tai-Shing for \$564 thousand.

Endorsement/Guarantee Provided

As of December 31, 2012, Ling, Wan Xing was a joint guarantor for parts of loans of NGB.

Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2012	2011
Salaries	\$ 21,884	\$ 19,600
Incentives and special compensation	14,180	6,299
Professional fee	1,440	1,440
Bonus	<u>25,880</u>	<u>26,886</u>
	<u>\$ 63,384</u>	<u>\$ 54,225</u>

25. MORTGAGED OR PLEDGED ASSETS

	December 31	
	2012	2011
Property, plant and equipment		
Land	\$ 573,770	\$ 573,770
Buildings, net	1,505,559	1,577,020
Intangible assets - land right	15,303	16,145
Leased assets	<u>45,269</u>	<u>33,950</u>
	<u>\$ 2,139,901</u>	<u>\$ 2,200,885</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Unused letters of credit amounted to approximately JPY189,462 thousand and EUR99 thousand.

As of December 31, 2012, the Corporation's guarantee for loan of its subsidiary was follows:

Commitment	Total Dollars Amount of Contract	Dollars Paid	Dollars Unpaid
Machinery and equipment	<u>\$ 46,971</u>	<u>\$ 34,493</u>	<u>\$ 12,478</u>
Machinery and equipment	<u>US\$ 420</u>	<u>US\$ 336</u>	<u>US\$ 84</u>
Machinery and equipment	<u>EUR 990</u>	<u>EUR 297</u>	<u>EUR 693</u>
Machinery and equipment	<u>RMB 4,898</u>	<u>RMB -</u>	<u>RMB 4,898</u>
Machinery and equipment	<u>US\$ 4,745</u>	<u>US\$ -</u>	<u>US\$ 4,745</u>

27. SUBSEQUENT EVENTS

For acquisition of property, plant and equipment and repayment of loans, on January 7, 2013, the Corporation issued fourth unsecured domestic convertible bonds with an aggregate value of \$800,000 thousand.

28. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or service delivered or provided. The Corporation's reportable segments under SFAS No. 41 are therefore as follows:

Crystal and others.

The Corporation uses the income before tax as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

a. Segment revenues and results

The analysis of the Corporation's revenue from continuing operations by reportable segment was as follows:

	Segment Revenue		Segment Profit	
	Years Ended December 31		Years Ended December 31	
	2012	2011	2012	2011
Crystal	\$ 10,865,885	\$ 9,891,013	\$ 1,284,699	\$ 1,161,864
Others	<u>62,610</u>	<u>6,328</u>	<u>(27,044)</u>	<u>(10,343)</u>
	<u>\$ 10,928,495</u>	<u>\$ 9,897,341</u>	1,257,655	1,151,521
Investment income recognized under equity method			9,365	11,658
Interest income			14,195	14,612
Gain (loss) on disposal of property, plant and equipment			(849)	7,519
Exchange gain			51,912	43,675
Valuation (loss) gain on financial instruments			(26,747)	(12,705)
Other nonoperating income and gains			32,643	28,084
Interest expense			<u>(35,555)</u>	<u>(31,154)</u>
Income before tax			<u>\$ 1,302,619</u>	<u>\$ 1,213,210</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the years ended December 31, 2012 and 2011.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' compensation, investment income or loss recognized under the equity method, gain or loss on disposal of investments accounted for by the equity method, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on sale of investments, exchange gain or loss, valuation gain or loss on financial instruments, interest expense and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

b. Revenue from major products and services

	2012	2011
Crystal	\$ 10,865,885	\$ 9,891,013
Others	<u>62,610</u>	<u>6,328</u>
	<u>\$ 10,928,495</u>	<u>\$ 9,897,341</u>

Assets and liabilities not used by the chief operating decision maker in the allocation of resources and assessment of performance of segments are not disclosed.

c. Geographical information

The Corporation's revenue from continuing operations from external customers and information about its noncurrent assets by geographical location are detailed below:

	Revenue from External Customers December 31		Noncurrent Assets December 31	
	2012	2011	2012	2011
Taiwan	\$ 10,224,677	\$ 9,259,471	\$ 3,325,554	\$ 3,475,945
China	685,054	618,472	2,625,468	2,440,757
Others	<u>18,764</u>	<u>19,398</u>	<u>5,464</u>	<u>3,772</u>
	<u>\$ 10,928,495</u>	<u>\$ 9,897,341</u>	<u>\$ 5,956,486</u>	<u>\$ 5,920,474</u>

Noncurrent assets included property, plant and equipment, intangible assets and other assets but excluded deferred tax assets.

Major Customer Information

Major customer did not account for 10% or more of sales in 2012 and 2011.

29. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

Significant foreign-currency financial assets and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 139,665	29.136	\$ 4,069,285	\$ 108,798	30.29	\$ 3,294,216
JPY	189,653	0.3375	64,014	308,047	0.3905	120,292
RMB	125,804	4.6741	588,022	154,462	4.8072	742,544
Investment accounted for by entity method						
RMB	9,831	4.6741	45,950	10,121	4.8072	48,657

(Continued)

December 31						
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial liabilities</u>						
Monetary items						
USD	\$ 37,404	29.136	\$ 1,089,813	\$ 35,869	30.29	\$ 1,086,380
JPY	1,280,537	0.3375	432,226	1,465,391	0.3905	572,235
RMB	96,253	4.6741	449,896	93,196	4.8072	448,019
						(Concluded)

30. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Corporation's pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

- a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Corporation has set up a project team and made a plan to adopt the IFRSs. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows

Contents of Plan	Responsible Department	Status of Execution
1) Establish the IFRSs taskforce	Office of the chairman	Completed
2) Identify differences between the existing accounting policies and IFRSs	Finance and accounting	Completed
3) Identify consolidated entities under IFRSs	Finance and accounting	Completed
4) Evaluate potential effect to business operations	Finance and accounting	Completed
5) Complete the evaluation of resources and budget needed for IFRSs adoption	Finance and accounting	Completed
6) Internal IFRSs training for employees - First stage	Finance and accounting	Completed
7) Determine IFRSs accounting policies	Finance and accounting	Completed
8) Assessment of the impact of each exemption and option under IFRSs	Finance and accounting, office of the president	Completed

(Continued)

Contents of Plan	Responsible Department	Status of Execution
9) Assessment of changes required in the information system and internal control related to adoption of IFRSs	Finance and accounting	Completed
10) Develop financial statement template under IFRSs	Finance and accounting	Completed
11) Complete evaluation, configuration and testing of the IT systems	Finance and accounting, information technology	Completed
12) Communicate with related parties on the impact of IFRSs adoption	Office of the chairman	In progress
13) Internal IFRSs training for employees - second stage	Finance and accounting	In progress
14) Complete the preparation of the statement of financial position by opening date under IFRSs	Finance and accounting	Completed
15) Complete the manual of IFRSs accounting policies and internal control	Finance and accounting, office of the president	In progress
(Concluded)		

- b. As of December 31, 2012, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and their effects were as follows:

1) Reconciliation of consolidated balance sheet items as of January 1, 2012

Item	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
<u>Assets</u>				
Deferred income tax assets - current	\$ 3,542	\$ (3,542)	\$ -	6) a)
Intangible assets	117,530	(99,745)	17,785	6) e), 6) h)
Long-term prepayments	-	126,599	126,599	6) g)
Long-term prepaid rent	-	117,530	117,530	6) h)
Deferred charges	53,910	(53,910)	-	6) e)
Property, plant and equipment	5,689,646	(99,428)	5,590,218	6) e), 6) g), 5) a)
Deferred income tax assets - noncurrent	1,659	12,040	13,699	6) a), 6) b), 6) c)
<u>Liabilities</u>				
Accrued expenses	612,877	18,588	631,465	6) b)
Accrued pension cost	9,349	16,242	25,591	6) c)
Reserve for land value increment tax	3,512	(3,512)	-	5) a)
<u>Stockholders' equity</u>				
Cumulative translation adjustments	264,762	(264,762)	-	5) c)
Retained earnings	2,545,465	222,793	2,768,258	5) b), 5) c), 6) b), 6) c), 4
Unrealized revaluation increment	5,442	(5,442)	-	5) a)
Net loss not recognized as pension cost	(15,637)	15,637	-	5) b), 6) c)

2) Reconciliation of consolidated balance sheet items as of December 31, 2012

Item	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
<u>Assets</u>				
Deferred income tax assets - current	\$ 7,741	\$ (7,741)	\$ -	6) a)
Intangible assets	115,024	(103,940)	11,084	6) e), 6) h)
Long-term prepaid rent	-	115,024	115,024	6) h)
Long-term prepayments	-	484,963	484,963	6) g)
Deferred charges	44,207	(44,207)	-	6) e)
Property, plant and equipment	5,734,497	(460,794)	5,273,703	6) e), 6) g), 5) a)
Deferred income tax assets - noncurrent	3,256	16,131	19,387	6) a), 6) b), 6) c)
<u>Liabilities</u>				
Accrued expenses	519,358	19,535	538,893	6) b)
Accrued pension cost	14,028	17,394	31,422	6) c)
Reserve for land value increment tax	3,512	(3,512)	-	5) a)
<u>Stockholders' equity</u>				
Cumulative translation adjustments	167,431	(264,762)	(97,331)	5) c)
Retained earnings	3,029,417	213,415	3,242,832	5) b), 5) c), 6) b), 6) c), 4
Unrealized revaluation increment	5,442	(5,442)	-	5) a)
Net loss not recognized as pension cost	(22,808)	22,808	-	5) b), 6) c)

3) Reconciliation of consolidated statement of comprehensive income items for the year ended December 31, 2012

Item	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Operating expenses	\$ (1,250,640)	\$ (91)	\$ (1,250,731)	6) b), 6) c), 6) d)
Others	44,964	849	45,813	6) d)
Income tax expense	(153,733)	(110)	(153,843)	6) b), 6) c)
<u>Other comprehensive income</u>				
Actuarial gains and losses of employee benefits	-	(10,026)	(10,026)	6) c)

4) Special reserve at the date of transition to IFRSs

In accordance with the order VI-1010012865 issued by the FSC on April 6, 2012, at the first-time adoption of IFRSs, in case an entity elects to use exemption options specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences in stockholders' equity to zero by a credit to retained earnings, the same amount from retained earnings will be transferred to special reserve provided that such amount is less than the aggregate amount of IFRS adjustments. If the amount of retained earnings brought by IFRSs adjustments at the first-time adoption of IFRS is less than the total of revaluation increment and cumulative translation differences, the amount transferred to special reserve is limited to the amount of retained earnings from IFRS adjustments. The special reserve will be reversed proportionally as the related assets are used, disposed of or reclassified to other accounts. The Corporation appropriated \$222,793 thousand, the increase in retained earnings from all IFRSs adjustments at the first-time adoption of IFRSs, to special reserve.

5) Exemptions from IFRS 1

IFRS 1, “First-time Adoption of International Financial Reporting Standards,” established the procedures for preparing consolidated financial statements for the first time prepared in accordance with IFRSs. According to IFRS 1, the Corporation is required to determine the accounting policies under IFRSs and retrospectively apply to those accounting policies in its opening balance sheet at the date of transition to IFRSs (January 1, 2012; the transition date); except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional exemptions the Group adopted are summarized as follows:

a) Measurement at cost

At the date of transition to IFRSs, the Corporation should measure property, plant and equipment and intangible properties at cost in accordance with IFRSs. The relevant regulations should be retrospectively adopted.

As of January 1, 2012 and December 31, 2012, the amounts reclassified from land - revaluation increment in the amount of \$8,954 thousand was credited to reserve for land value increment tax were \$3,512 thousand and unrealized revaluation increment \$5,442 thousand.

b) Employee benefits

The Corporation elected to recognize all cumulative actuarial gains and losses relating to employee benefits in unappropriated earnings at the date of transition to IFRSs.

c) Cumulative translation differences

The Corporation elected to reset the cumulative translation differences \$264,762 thousand to zero at the date of transition to IFRSs, and the reversal has been used to offset accumulated earnings.

6) Notes to the reconciliation of the significant differences

The Group had assessed the material differences and the effects, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

a) Classifications of deferred income tax asset/liability and valuation allowance

Under ROC GAAP, 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, it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset or liability is classified as noncurrent asset or liability.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from current deferred income tax assets to non-current assets were \$7,741 thousand and \$3,542 thousand, respectively.

b) Employee benefits - accumulated compensated absences

Accumulated compensated absences account is not addressed in existing ROC GAAP; thus, the Corporation has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods.

As of December 31, 2012 and January 1, 2012, the IFRS adjustment increased accrued expenses by \$19,535 thousand and \$18,588 thousand, respectively; deferred income tax assets - noncurrent increased by \$3,258 thousand and \$3,078 thousand, respectively. Retained earnings decreased by \$16,277 thousand and \$15,510 thousand, respectively. Salaries and income tax expense for the year ended December 31, 2012 increased by \$947 thousand and decreased by \$180 thousand, respectively.

c) Employee benefits-defined benefit plans

The Corporation had previously applied an actuarial valuation on its defined benefit obligation and recognized the related pension cost and retirement benefit obligation in conformity with ROC GAAP. Under IFRSs, the Group should carry out actuarial valuation on defined benefit obligation in accordance with IAS No. 19, "Employee Benefits."

In addition, under ROC GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which requires in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees.

Under IAS No. 19, "Employee Benefits," the Corporation elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

At the transition date, the Corporation performed the actuarial valuation under IAS No. 19 - "Employee Benefits," and recognized the valuation difference directly in retained earnings under the requirement of IFRS 1. As of December 31, 2012 and January 1, 2012, the IFRSs adjustment increased accrued pension cost by \$17,394 thousand and \$16,242 thousand, decreased net loss not recognized as pension cost by \$22,808 thousand and \$15,637 thousand, increased deferred income tax assets - noncurrent by \$5,132 thousand and \$5,420 thousand, and decreased retained earnings by \$35,070 thousand and \$26,459 thousand, respectively. Salaries, income tax expenses and actuarial gains and losses decreased by \$1,705 thousand, increased by \$290 thousand, and increased by \$10,026 thousand, respectively.

d) Classification of line items in the consolidated statement of comprehensive income

Under IFRSs, based on the nature of operating transactions, gain on disposal of property, plant and equipment of \$849 thousand was reclassified to operating expenses.

e) Classification of deferred charges

Under ROC GAAP, deferred charges are classified under other assets. Under IFRSs, the items in deferred charges are classified as property, plant and equipment, intangible assets and prepayments - noncurrent (recorded under other assets) according to their nature.

As of December 31, 2012, the amounts reclassified from deferred charges to property, plant and equipment and intangible assets were \$33,123 thousand and \$11,084 thousand, respectively. As of January 1, 2012, the amounts reclassified from deferred charges to property, plant and equipment and intangible assets were \$36,125 thousand and \$17,785 thousand, respectively.

f) Classification of investment property

Under ROC GAAP, the property that is held by a lessor under an operating lease is classified under property, plant and equipment. Under IFRSs, the property held to earn rentals or for capital appreciation or both should be classified as investment property.

g) Prepayments for equipment

Under IFRSs, prepayments for equipment should be classified to other assets. As of December 31, 2012 and January 1, 2012, the amounts were \$484,963 thousand and \$126,599 thousand, respectively.

h) Land use rights

Under ROC GAAP, land use rights are classified under intangible assets. Under IAS No 17 - "Leases," land use rights are classified as long-term prepaid rent.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from land use rights to other current assets and prepayments - noncurrent were \$115,024 thousand and \$117,530 thousand, respectively.

- c. The Group has prepared the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

31. 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: None.
- c. Marketable securities held: Table 1 (attached).
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: None.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Table 3 (attached).
- f. Disposal of individual real estate 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: None.

- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 2 (attached).
- j. Derivative transactions: Please refer to Notes 5.
- k. Information investment in Mainland China: Table 4 (attached).
- l. Intercompany relationships and significant intercompany transactions: Table 5 (attached).
- m. List of the subsidiaries: Note 2 and Table 6 (attached).
- n. Changes in the subsidiaries: Table 7 (attached).

TABLE 1

TXC CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Holding Company	Marketable Securities Type and Issuer/Name	Security Issuer's Relationship with the Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units	Carrying Amount	Percentage of Ownership	Market Value or Net Asset Value	
TXC Corporation	<u>Mutual fund</u>							
	Shin Kong Cross Strait Selective Fund	None	Available-for-sale financial assets	2,691	\$ 25,668	-	\$ 25,668	
	Shin Kong China Growth Fund	None	"	2,177	<u>21,227</u>	-	21,227	
					<u>\$ 46,895</u>			
	<u>Stock</u>							
	Marson Technology Co., Ltd.	None	Financial assets carried at cost - noncurrent	414	\$ 3,000	5	None	
	Win Win Precision Technology Co., Ltd.	"	"	1,300	54,997	3	"	
	Guandong Failong Crystal Technology Co., Ltd.	"	"	RMB 10,096	46,478	8	"	
	UPI Semiconductor Corp.	"	"	2,000	98,000	2	"	
	Si-Time Corporation	"	"	1,750	<u>50,767</u>	1	"	
					<u>\$ 253,242</u>			
NGB	TSE Technology co.	Subsidiary	Investment accounted for by the equity method	RMB 6,828	<u>\$ 45,950</u>	23	"	

TABLE 2

TXC CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				December 31, 2012	December 31, 2011	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
TXC Corporation	Taiwan Crystal Technology International Ltd.	Western Samoa	Investment	\$ 1,390,461 (US\$ 42,835)	\$ 1,390,461 (US\$ 42,835)	42,835	100	\$ 3,470,395	\$ 378,203	\$ 373,818	Difference from upstream transactions \$4,385 thousand
	TXC Technology Inc.	U.S.A.	Marketing activities	9,879 (US\$ 300)	9,879 (US\$ 300)	300	100	11,378	(1,082)	(1,082)	
	TXC Japan Corporation	Japan	Marketing activities	6,172 (JPY 21,000)	6,172 (JPY 21,000)	2	100	11,517	(1,449)	(1,449)	
	Taiwan Crystal Technology International (HK) Limited	Hong Kong	Investment	298,776 (US\$ 10,094)	107,974 (US\$ 3,614)	10,094	100	287,040	(11,895)	(11,895)	
Taiwan Crystal Technology International Ltd.	Growing Profit Trading Ltd.	B.V.I.	International trading	1,691 (US\$ 50)	1,691 (US\$ 50)	50	100	193,578 (US\$ 6,644)	76,155 (US\$ 2,575)	76,155 (US\$ 2,575)	
	TXC (Ningbo) Corporation	Ningbo	Manufacture and sales of electronics products	1,487,211 (US\$ 45,835)	1,487,211 (US\$ 45,835)	US\$ 45,835	100	3,310,471 (US\$ 113,621)	301,975 (US\$ 10,211)	301,975 (US\$ 10,211)	
TXC (Ningbo) Corporation	TXC (HK) Limited	Hong Kong	International trading	846 (HK\$ 200)	846 (HK\$ 200)	HK\$ 200	100	11,675 (RMB 2,519)	127 (RMB 27)	127 (RMB 27)	
	TXC (Chongqing) Corporation	Chongqing	Manufacture and sales of electronics products	201,823 (RMB 42,710)	48,072 (RMB 10,000)	RMB 42,710	100	189,820 (RMB 40,954)	(19,285) (RMB 4,116)	(7,714) (RMB 1,647)	
	Chongqing All Sun Company Limited	Chongqing	Market activities	321,644 (RMB 66,000)	38,458 (RMB 8,000)	RMB 66,000	40	305,423 (RMB 65,895)	55 (RMB 12)	55 (RMB 12)	
	Ningbo Jingyu Company Limited	Ningbo	International trading	4,807 (RMB 1,000)	4,807 (RMB 1,000)	RMB 1,000	100	6,426 (RMB 1,386)	1,849 (RMB 395)	1,849 (RMB 395)	
Taiwan Crystal Technology International (HK) Limited	TXC (Chongqing) Limited	Chongqing	Manufacture and sales of electronics products	298,362 (US\$ 10,080)	107,560 (US\$ 3,600)	US\$ 10,080	60	287,040 (US\$ 9,853)	(19,285) (RMB -4,116)	(11,571) (RMB -2,469)	Note
	TXC Europe SRL	Europe	Market activities	414 (EUR 10)	414 (EUR 10)	EUR 10	100	- (US\$ -)	(407) (US\$ -14)	(407) (US\$ -14)	

Note: TXC Europe SRL applied for cancellation of registration in 2012. As of December 31, 2012, it has not yet received the approval from the government.

TABLE 3

TXC CORPORATION AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counterparty	Nature of Relationship	Prior Transaction of Related Counterparty				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
Chongqing All Sun Company Limited	Land	June 2012 - July 2012	\$ 200,435	Normal	Chongqing Government	None	-	-	-	\$ -	Bargain by buyer and seller	Real estate development and sell	-

TABLE 4

TXC CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2012

(In Thousands of New Taiwan Dollars or U.S. Dollars)

1. Name of the investees in Mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in Mainland China:

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2012 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (US\$ in Thousand)	Percentage of Ownership	Investment Income (Loss) Recognized (Note)	Carrying Amount as of December 31, 2012	Accumulated Inward Remittance of Earnings as of December 31, 2012
					Outflow	Inflow					
TXC (Ningbo) Corporation	Manufacturing and sales of crystal and crystal oscillator	\$ 1,487,211 (US\$ 45,835)	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	\$ 1,427,630 (US\$ 44,000)	\$ -	\$ -	\$ 1,427,630 (US\$ 44,000)	100	\$ 301,975 (US\$ 10,211)	\$ 3,310,471 (US\$ 113,621)	\$ 256,146 (US\$ 7,897)
Guandong Failong Crystal Technology Co., Ltd.	Manufacturing and sales of new electronic components	580,947 (RMB 126,194)	Direct investment of the Corporation in Mainland China	46,478 (RMB 10,096)	-	-	46,478 (RMB 10,096)	8	-	46,478 (RMB 10,096)	-
TSE Technology (Ningbo) Co., Ltd.	Manufacturing and sales of electronic devices and hardware components	139,177 (RMB 29,723)	Other investment of the Corporation Mainland China	-	-	-	-	23	9,365 (RMB 1,999)	45,950 (RMB 9,831)	-
TXC (Chongqing) Corporation	Manufacturing and sales of electronic devices and hardware components	500,185 (RMB 106,842)	Indirect investment of the Corporation in Mainland China through the Corporation's subsidiary in a third region	107,560 (US\$ 3,600)	190,802 (US\$ 6,480)	-	298,362 (US\$ 10,080)	100	(19,285) (RMB 4,116)	476,860 (RMB 102,364)	-
Chongqing All Suns Company Limited	Real estate intermediary service, real estate management and electronic product wholesale	312,644 (RMB 66,000)	Other investment of the Corporation Mainland China	-	-	-	-	100	55 (RMB 12)	305,423 (RMB 65,895)	-
Ningbo Jingyu Company Limited	Purchasing and selling electronic component	4,807 (RMB 1,000)	Other investment of the Corporation Mainland China	-	-	-	-	100	1,849 (RMB 395)	6,426 (RMB 1,386)	-

(Continued)

Accumulated Investment in Mainland China as of December 31, 2012 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment
\$ 1,772,470 (US\$ 55,560)	\$ 1,832,878 (US\$ 57,395)	\$ 4,728,297 (Note)

Note: The investment in Mainland China is limited to 60% of stockholders’ equity or consolidated stockholders’ equity whichever is higher.

2. Significant direct or indirect transactions with the investees, prices and terms of payment, unrealized gain or loss:

Company Name	Related arty	Nature of Relationship	Transaction Details				Accounts/Notes Receivable/Payable		Unrealized Gain or Loss
			Purchase/Sale	Price	Payment Term	Compared with Terms of Third Parties	Balance	%	
TXC Corporation	NGB	Subsidiary	Purchase	\$2,417,255	Its trading price depends on its function within the group.	Similar with third parties	\$ (688,074)	(47)	\$ 33,877
			Sale	198,436		Similar with third parties	42,870	1	-
GPT	NGB	Subsidiary	Sale	447,973	"	Similar with third parties	119,024	26	-

3. Endorsements guarantees or collateral directly or indirectly provided to the investees: None

4. Financings directly or indirectly provided to the investees: None

5. Other transactions that significantly impacted current year’s profit or loss or financial position: None

(Concluded)

TABLE 5**TXC CORPORATION AND SUBSIDIARIES**
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
Year ended December 31, 2012

No.	Company Name	Counterparty	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets (%)
0	TXC Corporation	TXC Technology, Inc.	1	Sales	\$ 2,792	-	-
				Other expense - consulting expense	50,578	-	-
				Other expense	405	-	-
				Accounts receivable	517	-	-
		TXC Japan Corporation	1	Sales	1,651	-	-
				Other expense - consulting expense	51,854	-	-
				Other expense	79	-	-
				Purchase	12,888	-	-
		TXC (Ningbo) Corporation	1	Accounts payable	1,732	-	-
				Other receivable	74	-	-
				Sales	198,436	-	2
				Purchase	2,417,255	-	22
		TXC (Chongqing) Corporation	1	Accounts receivable	42,870	-	-
				Accounts payable	688,074	-	5
				Sales	858	-	-
				Accounts receivable	857	-	-
1	TXC (Ningbo) Corporation	Growing profits Trading Ltd.	3	Purchase	105,376	-	1
				Accounts payable	34,524	-	-
		Ningbo Jingyu Company Limited	3	Purchase	23,982	-	-
				Accounts payable	1,086	-	-
		TXC (Chongqing) Corporation	1	Sales	447,973	-	4
				Accounts receivable	119,024	-	1
				Sales	43,357	-	-
				Accounts receivable	9,381	-	-
				Rental income	56	-	-
				Other receivable	94,484	-	1

(Continued)

Year ended December 31, 2011

No.	Company Name	Counterparty	Natural of Relationship (Note 1)	Intercompany Transactions			
				Accounts	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets (%)
0	TXC Corporation	TXC Technology, Inc.	1	Sales	\$ 1,080	-	-
				Other expense - consulting expense	45,307	-	1
				Other expense	64	-	-
				Accounts receivable	115	-	-
		TXC Japan Corporation	1	Sales	7,721	-	-
				Other expense - consulting expense	50,523	-	1
				Other expense	155	-	-
				Purchase	12,973	-	-
		TXC (NGB) Corporation	1	Accounts receivable	474	-	-
				Sales	130,241	-	1
				Purchase	2,309,451	-	23
				Accounts receivable	41,314	-	-
		TXC (H.K.) Limited Growing Profits Trading Ltd.	1	Accounts payable	576,326	-	5
				Other receivable	50,869	-	-
				Sales	120	-	-
				Purchase	35,809	-	-
				Accounts payable	19,528	-	-
1	Growing Profits Trading Ltd.	TXC (NGB) Corporation	3	Sales	210,818	-	2
				Accounts receivable	90,658	-	1
2	TXC (NGB) Corporation	TXC (H.K.) Limited	3	Sales	923	-	-
				Rental revenue	29	-	-
		Ningbo Jingyu Company Limited	1	Other receivable	29	-	-
				Other receivable	269	-	-
		TXC (Chongqing) Corporation	1	Other receivable		-	-

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

Note 2: In 2012 and 2011, the selling price and purchasing price were not significantly different from those with third parties, except those for NGB, GPT, and TXC (HK) Limited which use cost-adjusted price according to the agreed terms.

(Concluded)

TABLE 6**TXC CORPORATION AND SUBSIDIARIES****LIST OF SUBSIDIARIES
DECEMBER 31, 2012**

Investee Company	Nature of Relationship	Business Nature	Percentage of Ownership
TCTI	Subsidiary, over 50% shareholding	Investment holding	100%
TXC Technology, Inc.	Subsidiary, over 50% shareholding	Marketing activities	100%
TXC Japan Corporation	Subsidiary, over 50% shareholding	Marketing activities	100%
TCTI-HK	Subsidiary, over 50% shareholding	Investment holding	100%
GPT	TCTI's subsidiary, over 50% shareholding	International trading	100%
NGB	TCTI's subsidiary, over 50% shareholding	Manufacture and sale of electronic products	100%
TXC HK	NGB's subsidiary, over 50% shareholding	International trading	100%
Chongqing All Sun	NGB's subsidiary, over 50% shareholding	Marketing activities	100%
Ningbo Jingyu	NGB's subsidiary, over 50% shareholding	Purchasing and selling electronic component	100%
TSE Technology	NGB's equity-method investor, 23% shareholding	Purchasing and selling electronic component	23%
Chongqing	TCTI-HK's subsidiary, over 50% shareholding	Manufacture and sale of electronic products	100%
TXC Europe SRL	TCTI-HK's subsidiary, over 50% shareholding	Marketing activities	100%

TABLE 7**TXC CORPORATION AND SUBSIDIARIES****CHANGES IN THE SUBSIDIARIES****DECEMBER 31, 2012**

Consolidated Subsidiaries at Beginning of Year	Addition	Disposal	Consolidated Subsidiaries at End of Year
TCTI	-	-	TCTI
TXC Technology, Inc.	-	-	TXC Technology, Inc.
TXC Japan Corporation	-	-	TXC Japan Corporation
TCTI-HK	-	-	TCTI-HK
GPT	-	-	GPT
NGB	-	-	NGB
TXC (HK)	-	-	TXC (HK)
Chongqing All Sun	-	-	Chongqing All Sun
Ningbo Jingyu	-	-	Ningbo Jingyu
TSE Technology	-	-	TSE Technology
Chongqing	-	-	Chongqing
TXC Europe SRL	-	-	TXC Europe SRL