TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

These English financial statements and report of independent accountants were translated from the financial statements and report of independent accountants originally prepared in Chinese.

<u>Report of Independent Accountants</u>

T9030PWCR05000529

To the Board of Directors and Stockholders of Transcend Information, Inc.

We have audited the accompanying consolidated balance sheets of Transcend Information, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, wholly-owned subsidiaries, which statements reflect total assets of NT$514,135 thousand and NT$492,748 thousand, both constituting 6 percent of the related consolidated totals, as of December 31, 2005 and 2004, respectively, and total revenues of NT$2,715,755 thousand and NT$3,170,814 thousand, constituting 16 percent and 21 percent of the related consolidated totals, for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the “Rules Governing Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Transcend Information, Inc. and subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with the "The Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

March 15, 2006
Taipei, Taiwan
Republic of China

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or audit standards generally accepted in the Republic of China, and their applications in practice.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 983,135	$ 1,624,249
Short-term investments (Notes 4(2) and 11)	1,244,047	1,791,779
Notes receivable	14,332	21,372
Accounts receivable – third parties, net (Note 4(3))	1,320,454	1,181,208
Accounts receivable – related parties (Notes 5 and 11)	285,225	108,655
Inventories, net (Note 4(4))	2,019,348	1,081,166
Other current assets (Note 4(9))	179,193	141,175
	6,045,734	5,949,604
Long-term Investment (Notes 4(5) and 11)		
Investment accounted for under the cost method	1,125	7,453
Other financial assets-noncurrent (Note 6)	3,285	-
Property, Plant and Equipment, net (Notes 4(6) and 6)		
Cost		
Land	852,159	740,741
Buildings	856,008	778,636
Machinery	159,080	82,555
Transportation equipment	11,581	7,082
Furniture and fixtures	59,052	55,476
Miscellaneous equipment	5,051	4,786
Total	1,942,931	1,669,276
Less: accumulated depreciation	(197,275)	(131,703)
Prepayments on equipment	108,351	13,826
	1,854,007	1,551,399
Intangible Assets		
Other intangible assets	37,308	-
	37,308	-
Other Assets		
Refundable deposits	4,366	4,493
Deferred expenses	4,760	-
Deferred income tax assets – noncurrent (Note 4(9))	-	1,980
Other assets, net (Note 4(7))	51,274	239,336
	60,400	245,809
TOTAL ASSETS	$ 8,001,859	$ 7,754,265

	2005	2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans (Note 4(8))	$ 102,048	$ 229,689
Notes payable	64,250	22,656
Accounts payable	497,238	419,653
Income tax payable (Note 4(9))	157,175	158,478
Accrued expenses	169,520	125,957
Current portion of long-term liabilities (Notes 4(10) and (11))	269,721	19,892
Other current liabilities	41,499	122,459
	1,301,451	1,098,784
Long-term Liabilities		
Bonds payable (Note 4(10))	-	800,678
Long-term bank loans (Note 4(11))	42,420	65,545
	42,420	866,223
Other Liabilities		
Accrued pension liabilities (Note 4(12))	21,082	18,422
Deferred income tax liabilities-noncurrent (Note 4(9))	1,030	-
Others	274	1,469
	22,386	19,891
Total Liabilities	1,366,257	1,984,898
Stockholders' Equity		
Capital stock		
Common stock (Note 4(13))	3,183,778	2,782,277
Capital reserve		
Paid-in capital in excess of par value (Note 4(14))	868,020	357,315
Capital surplus from business combination	59,655	59,655
Retained earnings		
Legal reserve (Note 4(15))	696,021	507,623
Special reserve (Note 4(16))	857	-
Unappropriated earnings (Note 4(16))	1,842,253	2,063,354
Other adjustments		
Cumulative translation adjustment	(14,982)	(857)
Total Stockholders' Equity	6,635,602	5,769,367
Commitments and contingent Liabilities (Notes 4(8)) and 7)		
Significant Subsequent Events (Note 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 8,001,859	$ 7,754,265

The accompanying notes are an integral part of these consolidated financial statements.
See the report of independent accountants dated March 15, 2006.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

	2005	2004
Operating revenue		
Sales (Note 5)	$ 17,160,005	$ 15,319,059
Less: Sales returns	(232,245)	(363,732)
Sales allowances	(5,926)	(8,515)
Net sales	16,921,834	14,946,812
Operating costs		
Cost of sales (Note 4(18))	(14,315,178)	(12,175,394)
Gross profit	2,606,656	2,771,418
Operating expenses (Note 4(18))		
Selling	(573,240)	(524,531)
General	(201,683)	(183,266)
Research and development	(72,633)	(60,104)
Operating expenses	(847,556)	(767,901)
Operating income	1,759,100	2,003,517
Non-operating income		
Interest income	26,212	26,525
Gain on disposal of investments	21,324	18,537
Exchange gain – net	-	109,834
Other income	23,879	30,847
Non-operating income	71,415	185,743
Non-operating expenses		
Interest expense	(7,482)	(6,899)
Other investment loss	(6,328)	-
Exchange loss – net	(57,723)	-
Other expenses	(10,139)	(2,829)
Non-operating expenses	(81,672)	(9,728)
Income before income tax expense	1,748,843	2,179,532
Income tax expense (Note 4(9))	(295,576)	(295,559)
Consolidated net income	$ 1,453,267	$ 1,883,973
Attributable to:		
Equity holder of the Company	$ 1,453,267	$ 1,883,973

	2005 Before income tax	2005 After income tax	2004 Before income tax	2004 After income tax
Basic earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 5.51	$ 4.58	$ 7.14	$ 6.17
Diluted earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 5.43	$ 4.51	$ 6.78	$ 5.86

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

See the report of independent accountants dated March 15, 2006.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings			Cumulative	
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Total
2004							
Balance at January 1, 2004	$ 2,261,000	$ 130,660	$ 364,776	$ 4,274	$ 1,600,058	$ 4,946	$ 4,365,714
Appropriations of earnings:							
Legal reserve	-	-	142,847	-	(142,847)	-	-
Special reserve	-	-	-	(4,274)	4,274	-	-
Stock dividends	452,200	-	-	-	(452,200)	-	-
Cash dividends	-	-	-	-	(791,350)	-	(791,350)
Employees' bonus	19,285	-	-	-	(38,570)	-	(19,285)
Cumulative translation adjustment	-	-	-	-	-	(5,803)	(5,803)
Conversion of bonds payable to capital stock	49,792	286,310	-	-	-	-	336,102
Consolidated net income for 2004	-	-	-	-	1,883,973	-	1,883,973
Reversal of current dividend payable	-	-	-	-	16	-	16
Balance at December 31, 2004	2,782,277	416,970	507,623	-	2,063,354	(857)	5,769,367
2005							
Appropriations of earnings:							
Legal reserve	-	-	188,398	-	(188,398)	-	-
Special reserve	-	-	-	857	(857)	-	-
Stock dividends	286,823	-	-	-	(286,823)	-	-
Cash dividends	-	-	-	-	(1,147,290)	-	(1,147,290)
Employees' bonus	20,400	-	-	-	(51,000)	-	(30,600)
Cumulative translation adjustment	-	-	-	-	-	(14,125)	(14,125)
Conversion of bonds payable capital stock	94,278	510,705	-	-	-	-	604,983
Consolidated net income for 2005	-	-	-	-	1,453,267	-	1,453,267
Balance at December 31, 2005	$ 3,183,778	$ 927,675	$ 696,021	$ 857	$ 1,842,253	($ 14,982)	$ 6,635,602

The accompanying notes are an integral part of these consolidated financial statements.
See the report of independent accountants dated March 15, 2006.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2005	2004
Cash flows from operating activities		
Consolidated net income	$ 1,453,267	$ 1,883,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of short-term investments	(21,324)	(18,537)
Bad debt expenses	6,369	19,636
Provision for (recovery of) decline in market value and obsolescence of inventories	8,239	(211)
Permanent decline in market value of long-tem investments	6,328	-
Depreciation	55,242	48,904
(Gain) loss on disposal of property, plant and equipment	(37)	861
Recovery of decline in net realizable value of idle assets	-	(9,973)
Unrealized exchange loss (gain) on bonds payable	57,250	(52,171)
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(315,145)	(260,906)
(Increase) decrease in inventories	(946,421)	161,354
Increase in deferred income tax assets and liabilities	(14,080)	(8,977)
Increase in other current assets	(35,053)	(32,597)
Increase in notes and accounts payable	119,179	106,590
Decrease in income tax payable	(1,303)	(128,931)
Increase in accrued expenses	43,563	54,683
(Decrease) increase in other current liabilities	(80,960)	55,811
Increase in accrued pension liabilities	2,660	2,593
Net cash provided by operating activities	337,774	1,822,102

(Continued on next page)

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

See the report of independent accountants dated March 15, 2006.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINNED)

FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2005	2004
Cash flows from investing activities		
Decrease (increase) in short-term investments – net	$ 569,056	($ 422,124)
Increase in other financial assets-noncurrent	(3,285)	-
Additions to property, plant and equipment	(170,783)	(68,500)
Proceeds from disposal of property, plant and equipment	1,032	18,792
Increase in other intangible assets	(37,308)	-
Decrease in refundable deposits	127	-
Increase in deferred expenses	(4,760)	-
Decrease in other assets – net	-	8,203
Net cash provided by (used in) investing activities	354,079	(463,629)
Cash flows from financing activities		
Decrease in short-term bank loans – net	(127,641)	(45,035)
Decrease in commercial paper payable – net	-	(100,000)
Repayment of long-term bank loans	(26,241)	(21,824)
Payment of cash dividends	(1,147,290)	(790,531)
Payment of employees' bonus	(36,600)	(23,137)
(Decrease) increase in guarantee deposits received	(1,195)	184
Net cash used in financing activities	(1,332,967)	(980,343)
Net (decrease) increase in cash	(641,114)	378,130
Cash and cash equivalents at beginning of year	1,624,249	1,246,119
Cash and cash equivalents at end of year	$ 983,135	$ 1,624,249
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 7,310	$ 7,012
Income taxes	$ 316,318	$ 433,058
Financing activities which have no effect on cash flows:		
Unpaid cash dividends and employees' bonus	$ -	$ 803
Conversion of bonds payable to capital stock	$ 604,983	$ 336,102

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

See the report of independent accountants dated March 15, 2006.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT AS INDICATED)

1. HISTORY AND ORGANIZATION

1) Transcend Information, Inc. (the "Company") was incorporated under the Company Law of the Republic of China (R.O.C.) in August 1989. As of December 31, 2005, the Company's authorized and total contributed capital were $4,278,000 and $3,183,778, respectively. The main activities of the Company are the manufacture, processing and sale of computer software, hardware, peripheral equipment and computer components.

The Securities and Futures Commission of the Republic of China had approved the Company's shares to be listed on the Taiwan Stock Exchange and the shares started trading on May 3, 2001. As of December 31, 2005, the Company had approximately 850 employees.

2) Consolidated subsidiaries:

Name	Relationship	Main activities	Ownership percentage as of December 31, 2005
Saffire Investment Ltd. (Saffire)	Note a	Investments holding company	100%
Transcend Japan Inc. (Transcend Japan)	〃	Wholesaler of computer memory modules and peripheral products	〃
Transcend Information UK Limited (Transcend UK)	Notes a and e	〃	〃
Memhiro Pte. Ltd. (Memhiro)	Note b	Investments holding company	〃
Transcend Information Inc. (Transcend USA)	Note c	Wholesaler of computer memory modules and peripheral products	〃
Transcend Information Europe B.V. (Transcend Europe)	〃	〃	〃

Name	Relationship	Main activities	Ownership percentage as of December 31, 2005
Transcend Information Trading GmbH, Hamburg (Transcend Germany)	Note c	Wholesaler of computer memory modules and peripheral products	100%
Transcend Information (Shanghai), Ltd.	Notes c and e	Manufacture, processing and sale of computer software, hardware, peripheral equipment and computer components	〃
Transcend Information Maryland Inc. (Transcend MD)	Notes d and e	Wholesaler of computer memory modules and peripheral products	〃

Note : a. Subsidiaries of the Company.
b. Subsidiary of Saffire.
c. Subsidiaries of Memhiro.
d. Indirectly owned subsidiary of Memhiro.
e. Newly consolidated subsidiaries in 2005.

3) Non-consolidated subsidiaries: None.

4) Adjustment and approach for difference of accounting period and policy of subsidiaries: None.

5) Special operating risk of foreign subsidiaries: None.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China. The Company's significant accounting policies are summarized below:

1) Basis for preparation of consolidated financial statements

Effective January 1, 2005, all majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. The income (loss) of the subsidiaries is included in the consolidated statement of income effective the date on which the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries.

Significant inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated.

2) Translation of foreign subsidiaries' financial statements

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical exchange rates, except for beginning retained earnings which is stated at the carrying amount of the prior year. Profit and loss accounts are translated at the average exchange rate prevailing during the year.

The resulting translation differences are included in the stockholders' equity account as "Cumulative Translation Adjustments".

3) Translation of foreign currency transactions

The accounts of the Company and the consolidated subsidiaries are maintained in their respective functional currencies. Transactions arising in foreign currencies are translated into their respective functional currencies at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into their respective functional currencies at the exchange rates prevailing at the balance sheet date. Foreign exchange gains or losses are included in the current year's net income.

4) Derivative financial instruments

A. Foreign Currency Forward Contracts

Forward exchange contracts in the form of hedges are recorded and translated using the exchange rates prevailing at the contract date. Discounts or premiums on the forward exchange contracts are amortized over the contract period. The balance at period-end is translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet date, and any translation difference is recognized in the current year's net income.

B. Option Contracts

Premiums on option contracts are recorded at cost. Unrealized gains and losses on option contracts entered into for hedging purposes for existing assets and liabilities are carried at market value; option contracts entered into for hedging purposes for expected transaction risks are deferred and recognized as income (loss) at settlement date. Option contracts entered into for trading purposes are carried at market value.

5) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and with maturity dates that do not present significant risk of changes in value due to changes in interest rates.

6) Short-term investments

Short-term investments are stated at the lower of cost or market value, cost is determined using the moving average method. Any excess of aggregate cost over the market value is recorded as unrealized loss. Subsequent recovery in market value is recognized to the extent of the original cost and is reflected under non-operating income.

7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience and the evaluation of the collectibility of accounts, notes and other receivables, taking into account the aging analysis of receivables.

8) Inventories

Inventories are stated at the lower of cost or market value based on the aggregate value method. Cost is determined using the weighted average method for the Company, Transcend Japan, Transcend Germany and Transcend Europe and first-in, first-out method for Transcend USA. The market value for raw materials is determined based on the current replacement cost while market values for work in process and finished goods are determined based on net realizable value. Allowance for obsolete inventories is provided when necessary.

9) Long-term investments

Long-term investments in which the Company owns less than 20% of an investee company's voting rights and has no ability to exercise significant influence over the investee company are accounted for under the cost method. If the Company owns at least 20% of an investee company's voting rights, the investment is accounted for using the equity method, unless there is evidence that the Company has no ability to exercise significant influence over the investee company, in which case it is accounted for under the cost method. The excess of the acquisition cost over the investee company's net asset value is amortized over 5 years.

10) Property, plant and equipment

A. Property, plant and equipment are stated at cost. Interest incurred during the construction or installation of the assets is capitalized.

B. Depreciation is provided using the straight-line method over the estimated useful lives of the assets plus one year as salvage value. Fully depreciated assets still in use are depreciated based on the salvage value over the remaining useful lives of the assets. The estimated useful lives are 2 to 55 years for buildings and 2 to 13 years for the other property, plant and equipment.

C. Transcend USA calculates depreciation using the straight-line method for buildings and the double declining balance method for the other property, plant and equipment. The estimated useful life of property, plant and equipment is 7 years, except for buildings, the estimated useful life of which is 2 to 55 years.

D. Significant renewals or betterments are capitalized and depreciated accordingly. Maintenance and repairs are charged to expense as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current income.

11) Intangible assets

Intangible assets include royalties paid for land use right and are amortized over the contract period using the straight-line method.

12) Convertible bonds

A. Upon conversion, the book value of bonds, interest payable on redemption, interest payable, and deferred issuance costs are credited to "Common Stock" at an amount equal to the par value of the shares to be issued, and any excess is credited to capital reserve; no gain or loss is recognized on bond conversion.

B. Convertible bonds with redemption rights are reported as current liabilities or long-term liabilities based on the expiry date of the right of redemption.

13) Pension plan

A. Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 20 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

B. Transcend USA and Transcend Europe have a defined contribution plan covering all regular employees. Monthly contributions to the Plan is based on a fixed percentage of the employees' monthly salaries and wages.

14) Revenue recognition

Revenue is recognized when the earning process is completed and the revenue is realized or realizable. Costs and expenses are recognized when incurred.

15) Income tax

A. Provision for income tax includes deferred income tax on items reported in different periods for tax and financial reporting purposes. Deferred income tax consequences attributable to deductible temporary differences, taxable temporary differences and investment tax credits are recognized as deferred income tax assets or liabilities. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. The deferred income tax assets and liabilities are classified as current and non-current according to the nature of the underlying assets and liabilities and the timing of their expected realization.

B. Over or under provision of prior year's income tax liability is included in the current year's income tax expense.

C. According to SFAS No.12 of R.O.C "Accounting for income tax credit", the Company's income tax credits generated from the acquisition of automation equipment or technology, expenses for research and development, employee training and equity investments are recognized as incurred.

D. The additional 10% corporate income tax on earnings derived on or after January 1, 1998, which are not distributed in the following year is included in the income tax expense in the following year when shareholders resolve to retain the earnings.

16) Asset impairment

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

17) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

Effective January 1, 2005, the Company adopted ROC SFAS No. 35 "Accounting for Asset Impairment". The adoption of SFAS No. 35 had no significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31, 2005	December 31, 2004
Petty cash and cash on hand	$ 346	$ 277
Checking and savings deposits	761,164	1,144,714
Time deposits	188,325	382,094
Bonds purchased with resale agreement	33,300	97,164
	$ 983,135	$ 1,624,249

As of December 31, 2005 and 2004, time deposits over 1 year amounted to $82,125 and $245,010, respectively.

2) Short-term investments

	December 31, 2005	December 31, 2004
Listed stocks	$ -	$ 3,305
Beneficiary certificates	1,026,332	1,584,072
Bonds	217,715	204,402
	$ 1,244,047	$ 1,791,779

3) Accounts receivable

	December 31, 2005	December 31, 2004
Accounts receivable	$1,347,732	$1,202,117
Less: Allowance for doubtful accounts	(27,278)	(20,909)
	$1,320,454	$1,181,208

As of December 31, 2005, the Company reclassified uncollectible accounts receivable in the amount of $10,728 to other assets-others which was fully provided with allowance.

4) Inventories

	December 31, 2005	December 31, 2004
Finished goods	$ 657,518	$ 637,580
Work in process	238,545	141,277
Raw materials	1,108,231	302,585
Inventories in transit	49,991	26,422
	2,054,285	1,107,864
Less: Allowance for decline in market value and inventory obsolescence	(34,937)	(26,698)
	$2,019,348	$1,081,166

5) Long-term investment

Long-term investment is as follows:

Investee company	Percentage of ownership	Book value December 31, 2005	Book value December 31, 2004
Cost method:			
Dramexchange Tech. Inc.	2%	$ 1,125	$ 7,453

6) Property, plant and equipment

Item	December 31, 2005 Original cost	Accumulated depreciation	Book value
Land	$ 852,159	$ -	$ 852,159
Buildings	856,008	(102,650)	753,358
Machinery	159,080	(50,973)	108,107
Transportation equipment	11,581	(5,964)	5,617
Furniture and fixtures	59,052	(34,349)	24,703
Miscellaneous equipment	5,051	(3,339)	1,712
Prepayments on equipment	108,351	-	108,351
	$ 2,051,282	($ 197,275)	$ 1,854,007

Item	December 31, 2004 Original cost	Accumulated depreciation	Book value
Land	$ 740,741	$ -	$ 740,741
Buildings	778,636	(59,313)	719,323
Machinery	82,555	(34,366)	48,189
Transportation equipment	7,082	(5,177)	1,905
Furniture and fixtures	55,476	(29,823)	25,653
Miscellaneous equipment	4,786	(3,024)	1,762
Prepayments on equipment	13,826	-	13,826
	$ 1,683,102	($ 131,703)	$ 1,551,399

7) Other Assets

	December 31, 2005		
Item	Original cost	Accumulated depreciation	Book value
Idle Assets-			
Land	$ 31,500	$ -	$ 31,500
Buildings	41,995	(7,121)	34,874
Furniture and fixtures	1,086	(1,014)	72
Less: Allowance for decline in net realizable value	(15,172)	-	(15,172)
	$ 59,409	($ 8,135)	$ 51,274

	December 31, 2004		
Item	Original cost	Accumulated depreciation	Book value
Rental Assets -			
Land	$ 121,463	$ -	$ 121,463
Buildings	81,429	(15,854)	65,575
Furniture and fixtures	207	(180)	27
Idle Assets-			
Land	31,500	-	31,500
Buildings	41,995	(6,169)	35,826
Furniture and fixtures	1,086	(969)	117
Less: Allowance for decline in net realizable value	(15,172)	-	(15,172)
	$ 262,508	($ 23,172)	$ 239,336

8) Short-term bank loans

	December 31,	
	2005	2004
Short-term loans	$ 102,048	$ 229,689
Annual interest rates	0.76 4.57	0.62 3.04

As of December 31, 2005 and 2004, the Company opened letters of credit to provide guarantees for Transcend Japan in the amount of 0.265 and 0.425 billion, respectively, and for Transcend USA in the amount of US$2 million and US$5 million, respectively.

9) Income tax

	2005	2004
Income tax expense	$ 295,576	$ 295,559
Net change of deferred income tax	14,080	8,977
(Under) over provision of prior year's income tax	(17,566)	1,736
Prepaid income tax	(134,915)	(147,794)
Income tax payable	$ 157,175	$ 158,478

A. As of December 31, 2005 and 2004, the deferred income tax assets and liabilities are as follows:

	December 31,	
	2005	2004
Total deferred income tax assets	$ 32,058	$ 26,546
Total deferred income tax liabilities	$ 10,398	$ 18,966

B. As of December 31, 2005 and 2004, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2005		2004	
Items	Amount	Tax Effect	Amount	Tax Effect
Current:				
Unrealized loss on decline in market value and inventory obsolescence	$ 35,996	$ 8,999	$ 27,640	$ 6,910
Allowance for doubtful accounts	6,136	1,534	5,424	1,356
Unrealized profit on intercompany transactions	25,246	6,312	40,895	10,224
Unrealized exchange loss (gain)	14,130	3,533	(55,300)	(13,825)
Others	9,248	2,312	3,740	935
		22,690		5,600
Noncurrent:				
Pension expense	15,973	3,993	13,313	3,328
Investment income on foreign long-term investments accounted for under the equity method	(41,592)	(10,398)	(20,565)	(5,141)
Unrealized loss on decline in net realizable value of idle assets	15,172	3,793	15,172	3,793
Unrealized permanent decline in market value of long-term investments	6,328	1,582	-	-
		(1,030)		1,980
		$ 21,660		$ 7,580

C. The Company was granted a five-year tax holiday with respect to income derived from its data storage memory and computer peripheral equipment production. The expiry date is as follows:

Approval date and number	Date of tax-exempt related equipment ready for production	Tax-exempt periods	Cost of tax-exempt related equipment
Taipei-City-Chien-One No. 09370306300 on 14th April, 2004	1st January, 2004	1st January, 2004 – 31st December, 2008	$ 35,119
Taipei-City-Chien-One No. 09470339400 on 7th November, 2005	1st October, 2005	1st October, 2005 – 30th September, 2010	76,089

D. For the years ended December 31, 2005 and 2004, the income tax expense included the additional 10% corporate income tax related to the 2004 and 2003 undistributed earnings amounting to $20,940 and $2,109, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2004 and 2003 earnings.

E. The Company's income tax returns for the years through 2002 have been assessed and approved by the Tax Authority.

10) Bonds payable

	December 31,	
	2005	2004
Bonds payable	$ 252,945	$ 800,678
Less: Due within one year	(252,945)	-
	$ -	$ 800,678

In July 2003, the Company issued 0% unsecured Convertible Bonds in the amount of US$35 million at par value due in 2008, which are listed in the Luxembourg Stock Exchange. The significant terms of the Bonds are summarized below:

a) Conversion right: Unless previously redeemed, converted or purchased and cancelled, the Bonds may be converted into common stock of the Company during the conversion period at the conversion price then in effect, determined based on a fixed exchange rate of NT$34.472 (in dollars) : US$1.00 (in dollar).

b) Conversion Period: The Bonds are convertible anytime from August 17, 2003 to June 17, 2008.

c) Conversion Price adjustment: The initial conversion price per share was set at NT$95 (in dollars). After the issuance of the Bonds, the conversion price may be adjusted based on the terms of the contract. As of December 31, 2005, the adjusted conversion price was NT$54.93 (in dollars).

d) Conversion Price reset: The conversion price shall be adjusted downward on February 25, 2005, February 25, 2006, February 25, 2007 and February 25, 2008 (the "Reset Date" and each a "Reset Date") in the event that the average closing price of the Shares on the TSE translated into U.S. Dollars at the then prevailing exchange rate for 20 consecutive Trading Days immediately prior to the relevant Reset Date is lower than the conversion price, converted into U.S. Dollars at the fixed exchange rate of $34.472 (in dollars) : US$1.00 (in dollar); provided that the Reset Price (on a cumulative basis, if applicable) shall not be less than 80% of the initial conversion price after anti-dilution adjustments, if any.

e) Company redemption or purchase:

(1) Redemption at maturity: Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at their principal amount in US Dollars on July 17, 2008.

(2) Redemption at the option of the Company: The Company may, after giving not less than 40 days nor more than 60 days notice to the Bondholders, call all, or part only, of the Bonds on or at any time after January 17, 2005 at their principal amount in the event that the closing price of the Shares on the TSE in U.S. Dollars, calculated at the prevailing exchange rate, for each of the 20 consecutive Trading Days, the last of which occurs not more than 5 days prior to the date upon which notice of such redemption is published, is at least 130% of the Conversion Price in effect on each such Trading Day translated into U.S. Dollars at the fixed exchange rate of NT$34.472 (in dollars) : US$1.00 (in dollar). The Company may, at any time, redeem all of the Bonds, after giving not less than 40 days nor more than 60 days notice to the Bondholders, at their principal amount if at least 90% in principal amount of the Bonds have already been redeemed, converted, or purchased and cancelled.

(3) Redemption at the option of Bondholders: Until and unless previously redeemed, converted or repurchased and cancelled, the Company will, at the Bondholder's option, redeem all or part of the Bondholder's Bonds at their principal amount on January 17, 2005 and July 17, 2006,

respectively. In addition, the Company will, at the option of the holder of any Bond, redeem all but not part of the Bonds held by that Bondholder at their principal amount in the event that the Shares cease being traded or listed on the TSE.

f) As of December 31, 2005, bonds in the amount of US$27,300,000 had been converted into 14,406,975 common shares based on the conversion price per share at date of conversion. The excess of the bond cost over par value of the shares amounting to $797,015 was credited to capital reserve.

11) Long-term loans

	December 31,	
	2005	2004
Long-term loans	$ 59,196	$ 85,437
Less: Due within one year	(16,776)	(19,892)
	$ 42,420	$ 65,545
Annual interest rates	2.29 -4.80	2.29 -4.80

12) Retirement plan

A) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Central Trust of China, the trustee, under the name of the independent retirement fund committee.

B) As of December 31, 2005 and 2004, the balance of the retirement fund with the Central Trust of China was $17,864 and $14,087, respectively.

C) The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2005 and 2004, are as follows:

	2005	2004
Discount rate	3.50%	3.00%
Rate of increase in salary	2.00%	3.00%
Expected return on plan assets	2.50%	3.00%

D) Reconciliation of the plan funded status and the accrued pension liabilities are as follows:

	December 31,	
	2005	2004
Benefit obligation:		
Vested benefit obligation	(\$ 90)	(\$ 45)
Non-vested benefit obligation	(33,704)	(26,289)
Accumulated benefit obligation	(33,794)	(26,334)
Additional benefits based on projected future salaries increase	(15,170)	(19,044)
Projected benefit obligation	(48,964)	(45,378)
The fair value of plan assets	17,864	14,087
Funded status	(31,100)	(31,291)
Unrecognized net transition obligation	21	22
Unrecognized pension loss	9,997	12,818
Accrued pension liabilities	(\$ 21,082)	(\$ 18,451)

E) For the years ended December 31, 2005 and 2004, the details of the Company's net periodic pension costs are as follows:

	December 31,	
	2005	2004
Service cost	\$ 4,981	\$ 4,923
Interest cost	1,361	865
Expected return on plan assets	(485)	(371)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	350	-
Net periodic pension cost	\$ 6,208	\$ 5,418

F) Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employee is terminated. The net pension cost recognized under the New Plan for the year ended December 31, 2005 was $5,291.

13) Capital stock

According to the resolution adopted at the stockholders meeting in June 2005 and as approved by the R.O.C. SFC, the Company issued common stock by capitalizing the unappropriated retained earnings and employees' stock bonus of $307,223, or 30,722 thousand shares, at par value, $10 per share. The registration of this capital increase was completed on August 2, 2005.

14) Capital reserve

In accordance with the ROC Company Law, the Company may use the capital reserve to cover accumulated deficit first; and thereafter may apply to capitalize the capital reserve arising from the paid in capital in excess of par from the issuance of stock and donations. However, according to the ROC SFC regulations, the amount of capital reserve to be capitalized is restricted to 10% of the Company's contributed capital.

15) Legal reserve

According to the ROC Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until the legal reserve has reached 100% of contributed capital. The legal reserve shall be exclusively used to cover accumulated deficit or, if the balance of reserve exceeds 50% of contributed capital, to increase capital not exceeding 50% of reserve balance and shall not be used for any other purpose. The legal reserve as of December 31, 2005 represents the accumulated appropriations through 2004.

16) Special reserve / Retained earnings

A. In accordance with the Company's Articles of Incorporation, the annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve; setting aside an additional special reserve pursuant to regulations; and reserving a certain amount with no effect on the Company's normal operations, no violation of regulation and balance stock dividend policy; thereafter, the board of directors shall propose and the stockholders shall approve to appropriate the amount of the residual earnings to be distributed. When distributing the remaining retained earnings, the Company should distribute at least 3% for employees' bonuses; the amount of dividend to be distributed has to be 50% of the amount available for distribution as dividend and cash dividend shall be at least 5% of the dividend to be distributed.

B. Under Article 41 of ROC Security Exchange Act, in addition to the amount appropriated for legal reserve, the Company should set aside a special reserve from retained earnings if the total of the cumulative translation adjustment and unrealized loss on long-term investments results in a net reduction of the stockholders' equity as of the end of the current year.

C. In 2005, the stockholders approved to distribute $4.0 (in dollar) cash dividends per share and $1.0 (in dollar) stock dividends per share. In 2004, the stockholders approved to distribute $3.5 (in dollar) cash dividends per share and $2.0 (in dollar) stock dividends per share.

D. As of March 15, 2006, the board of directors has not approved the earning distribution proposed by management. The information regarding the board of directors' approval of earning distribution will be posted to the Market Observation Post System of Taiwan Stock Exchange Corporation website when it is available.

E. The amount of the retained earnings distributed in 2004 for employee bonuses and directors' and supervisors' remunerations are as follows:

	The amount of the actual earnings distribution approved by the board of directors and the stockholders
a) The amount of the retained earnings distributed as:	
Employees' cash bonuses	$ 30,600
Employees' stock bonuses	
Shares (in thousands)	2,040
Amounts	$ 20,400
As a percentage of outstanding common shares	0.73
Directors' and supervisors' remunerations	$ -
b) Information regarding earnings per common share (in dollars)	
Original earnings per common share (Note a)	$ 6.85
Adjusted earnings per common share (Note b)	$ 6.67

Note : a. Excludes the number of retroactively adjusted common shares issued on capitalization of earnings, capital reserve and capitalization of employees' dividends in 2004.

b. Adjusted earnings per share = (Net income - Employees' bonus - Remunerations to directors and supervisors)/Weighted average number of outstanding common shares.

F. The Taiwan imputation tax system requires that any undistributed current earnings, on tax basis, of a company derived on or after 1st January, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by the shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as a tax credit against its individual income tax liability effective 1998. The actual creditable tax ratio of distributed earnings in 2004 was 17.54%. As of December 31, 2005, the imputation tax credit account balance was $179,579 and the estimated creditable tax ratio was 18.88%. As of December 31, 2005, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $1,721,156, respectively.

17) Earnings per common share

	For the year ended December 31, 2005				
	Amount		Weighted average number of outstanding common shares (in thousands)	Earnings per common share (in NT dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per common share:					
Consolidated net income	$1,748,843	$1,453,267	317,122	$ 5.51	$ 4.58
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	-	-	4,832		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$1,748,843	$1,453,267	321,954	$ 5.43	$ 4.51

	For the year ended December 31, 2004				
	Amount		Weighted average number of outstanding common shares (in thousands)	Earnings per common share (in NT dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per common share:					
Consolidated net income	$2,179,532	$1,883,973	305,391	$ 7.14	$ 6.17
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	-	-	15,846		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$2,179,532	$1,883,973	321,237	$ 6.78	$ 5.86

The above weighted-average number of outstanding common shares have been adjusted retroactively in proportion to retained earnings and capital reserve capitalized for the years ended December 31, 2005 and 2004.

18) Personnel, depreciation and amortization expenses

The Company's personnel, depreciation and amortization expenses are as follows:

	For the year ended December 31, 2005		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 169,171	$ 426,758	$ 595,929
Insurance	13,135	46,212	59,347
Pension	8,089	4,722	12,811
Others	14,259	11,197	25,456
Depreciation	26,569	28,673	55,242

	For the year ended December 31, 2004		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 130,822	$ 384,784	$ 515,606
Insurance	9,073	46,481	55,554
Pension	2,583	4,199	6,782
Others	10,848	8,150	18,998
Depreciation	19,980	28,924	48,904

5. RELATED PARTY TRANSACTIONS

1) Names of related parties and their relationship with the Company

Name	Relationship with the Company
C-Tech Corporation	The Company's general manager is the chairman of C-Tech.
Transcend (H.K.) Limited (Transcend H.K.)	Substantial related party
Shanghai Transcend Information Inc. (Shanghai Transcend)	〃

2) Significant transactions with related parties

A. Sales

	2005		2004	
	Amount	% of net sales	Amount	% of net sales
C-Tech Corporation	$ 915,292	5	$ 397,063	3
Transcend H.K.	377,428	2	306,476	2
Shanghai Transcend	61,074	-	67,254	-
	$1,353,794	7	$ 770,793	5

The prices and terms to related parties have no significant difference from those to third parties, but the receipts are based on the operating condition of the related parties.

B. Accounts receivable

	December 31, 2005		December 31, 2004	
	Amount	% of accounts receivable	Amount	% of accounts receivable
C-Tech Corporation	$ 169,265	10	$ 64,451	5
Transcend H.K.	85,969	5	14,128	1
Shanghai Transcend	29,991	2	30,076	2
	$ 285,225	17	$ 108,655	8

6. PLEDGED ASSETS

		Book Value	
		December 31,	
Nature of Assets	Nature of liability secured	2005	2004
Property, plant and equipment and other assets	Commercial paper payable, long-term and short-term loans	$1,048,275	$1,095,558
Other financial assets-noncurrent-time deposit	Patent deposit	3,285	-
		$1,052,010	$1,095,558

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2005, in addition to those items disclosed in Note 4(8), the significant commitment and contingent liability is as follows:

The Company has unused letters of credit for purchase of merchandise amounting to $200,000.

8. SIGNIFICANT LOSS OR DAMAGE EXPERIENCE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

On 21st February, 2006, the Company got the letter of approbation of No. 09500024490 by INVESTMENT COMMISSION, MOEA to invest US$9.8 million at most in Mainland China.

As of 15th March, 2006, the Company had already invested US$3,000,000 in Mainland China.

10. OTHERS

1) Financial instruments disclosure:

A. Non-derivative financial instruments:

	December 31, 2005		December 31, 2004	
	Book value	Fair value	Book value	Fair value
Assets				
Financial instrument assets with book value equal to fair value	$ 2,737,310	$ 2,737,310	$ 3,039,675	$ 3,039,675
Short-term investments	1,244,047	1,247,518	1,791,779	1,810,118
Long-term investments	1,125	1,125	7,453	7,453
Liabilities				
Financial instrument liabilities with book value equal to fair value	1,336,115	1,336,115	1,865,903	1,865,903
Accrued pension liabilities	21,082	31,100	18,422	31,291

B. Derivative financial instruments:

	December 31, 2005		December 31, 2004	
	Book value	Fair value	Book value	Fair value
Assets				
Forward exchange contracts	$ -	$ 70	$ -	$ -
Liabilities				
Foreign currency option contracts	-	-	35,000	77,916

The related assumptions on the fair values of financial instruments are as follows:

A) Financial assets and liabilities with book value equal to fair value.

The carrying amounts of short-term non-derivative assets and liabilities, which include cash and cash equivalents, receivables, payables and other current liabilities, approximate the fair values due to their short maturities.

B) The fair value of short-term and long-term investments is based on market value, or other financial information, if market value is not available.

C) The fair value of accrued pension liabilities is based on the actuarial pension report, the measurement dates of which were December 31, 2005 and 2004.

D) The fair values of derivative financial instruments are based on the estimated amount the Company will receive or pay if the contract is cancelled at the balance sheet date, including the unrealized gains or losses outstanding at the balance sheet date. Such fair values are estimated using discounted future cash flows.

E) Financial instruments that have balance sheet credit risk:

	December 31, 2005	December 31, 2004
	Guarantee Amount	Guarantee Amount
Guarantee for Transcend Japan	265 million	425 million
Guarantee for Transcend USA	US$ 2 million	US$ 5 million

The Company provided guarantees only to the investees which it has the ability to exercise significant influence. As the Company has the complete control over the credit condition of the investees, collateral was not required. The maximum loss which the Company will incur would be equal to the amounts guaranteed.

2) Information on derivative instruments

As of December 31, 2005 and 2004, the Company's outstanding derivative financial instruments contracts are as follows:

A. Forward exchange contracts

A) Contract amount or nominal principal and credit risk

	December 31, 2005		December 31, 2004	
	Contract amount (Nominal principal)	Credit risk	Contract amount (Nominal principal)	Credit risk
Forward exchange contracts	1,000 thousand	$ -	$ -	$ -

The banks which the Company deal with are all in good credit standing and, therefore, the possibility is low for the banks not to comply with the terms of the contracts. In the event that the banks fail to comply with the contracts, this will not cause any major losses to the Company.

B) Market Risk

The main purpose of the forward contracts is to hedge exchange losses. The exchange gain or loss from rate fluctuation will be hedged by these transactions. Accordingly, no significant market risks are expected.

C) Future cash flow, periods and risk

A. Future cash flow and period:

On 14th March, 2006 the forward contracts cash inflow is expected to be in the amount of US$1,192 thousand and related cash outflow is EUR$1,000 thousand.

B. No significant cash flow risks are expected.

D) Terms, characteristics and purposes of the derivative contracts

The Company entered into forward foreign exchange contracts with banks to hedge the risk on accounts receivable. The Company reviews the hedge strategy periodically.

E) Disclosure

The net future cash flow of the forward foreign exchange contracts is shown as current assets or liabilities.

B. Foreign currency option contracts

A) Contract amount, nominal principal and credit risk

(Amount in thousands)

	December 31, 2005		December 31, 2004	
	Contract amount (Nominal principal)	Credit risk	Contract amount (Nominal principal)	Credit risk
Sale of call option contracts	-	$ -	22,700	$ -
Sale of put option contracts	-	-	7,000	-
Sale of call option contracts	-	-	US$1,000	-
Sale of call option contracts	-	-	US$10,500	-
Sale of put option contracts	-	-	US$21,500	-
Purchase of call option contracts	-	-	7,000	-
Purchase of put option contracts	-	-	4,500	-
Purchase of call option contracts	-	-	US$8,000	-
Purchase of put option contracts	-	-	US$10,500	-

The banks which the Company deal with are all in good credit standing and, therefore, the possibility is low for the banks not to comply with the terms of the contracts.

B) Market risk

The main purpose of the transaction is to hedge exchange loss. The exchange gain or loss from rate fluctuation will be hedged by these transactions. Accordingly, no significant market risks are expected.

C) Future cash flow periods and risk

a. Future cash flow and period: Not applicable.

b. The Company entered into foreign currency option contracts to hedge foreign exchange losses. There is no cash flow risk because the Company's working capital is sufficient to settle the contracts.

D) Term, characteristics and purpose of derivative contracts

For the year ended December 31, 2004			
Contracts	Inception dates	Settlement dates	Settlement rates(dollars)
Sale of call option	2004.10.06~ 2004.12.23	2005.01.03~ 2005.06.22	1.27~1.332 (EUR:US$)
Sale of put option	2004.12.06	2005.01.21~ 2005.03.21	1.326 (EUR:US$)
Sale of call option	2004.12.23	2005.04.27	32.55 (US$:NT$)
Sale of call option	2004.12.02~ 2004.12.14	2005.01.21~ 2005.05.11	103.50~105.70 (US$:YEN)
Sale of put option	2004.10.13~ 2004.12.23	2005.01.18~ 2005.06.27	100~107.30 (US$:YEN)
Purchase of call option	2004.12.06	2005.01.21~ 2005.03.21	1.326 (EUR:US$)
Purchase of put option	2004.10.06~ 2004.10.29	2005.01.03~ 2005.03.21	1.27~1.30 (EUR:US$)
Purchase of call option	2004.10.13~ 2004.12.14	2005.01.21~ 2005.05.11	105.20~107.25 (US$:YEN)
Purchase of put option	2004.12.02~ 2004.12.14	2005.01.21~ 2005.05.11	103.50~105.70 (US$:YEN)

The Company entered into foreign option contracts with banks to hedge the risk of exchange rate fluctuations. The Company reviews the hedge strategy periodically.

E) Disclosure

The foreign currency option contracts entered into for hedging purposes are carried at market value, and are classified as current foreign exchange gains or losses and other current liabilities. As of December 31, 2004, the amount was $35,000.

3) Elimination of transactions between the Company and subsidiaries

Transactions	Transcend Japan	Saffire	Transcend UK	Transcend USA	Transcend Germany	Transcend Europe
A) Elimination of long-term investments	$ 95,909	$ 399,437	($ 885)	$ -	$ -	$ -
B) Elimination of intercompany receivable and payable accounts						
Accounts receivable	554,378	-	-	181,913	185,238	529,625
C) Elimination of income statement accounts						
Sales	1,630,195	-	-	1,288,001	1,216,216	2,744,942
Purchases	-	-	-	15,557	-	-
Unrealized profit on intercompany transactions	17,241	-	-	2,306	3,937	1,762
Realized profit on intercompany transactions	10,595	-	-	4,984	7,365	17,951
Selling expenses	3,162	-	-	-	11,985	13,253
Other revenues	4,716	-	-	3,969	2,590	8,145

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others :

January 1, 2005 – December 31, 2005

Name of the company	Name of the borrowers	Accounts used to record such lending	The maximum balance for the year ended December 31, 2005	Ending balance	Interest rate	Reason for lending	Amount of sales to (purchases from) the borrower for the year ended December 31, 2005	Reason for short-term lending	Bad debts allowance provided	Collateral and its value	Credit limit for the respective borrower	Ceiling of fund financing for the borrower
Saffire	Memhiro	Due from subsidiary	US$1,250,000	US$1,250,000	-	For short-term lending	-	To maintain working capital	-	-	US$ 7,500,000	Note a

Note : a. The policy on the ceiling of credit limits for all borrowers and for each individual borrower from Saffire Investment Ltd. shall not exceed the total contributed capital (US$7,500 thousand).

B. Endorsements and guarantees for others:

January 1, 2005 – December 31, 2005

Name of the company	Name of parties being guaranteed	Relationship with the Company	Ceiling of guarantee for single party (Note c)	Maximum outstanding guarantee amount for the year ended December 31, 2005	Outstanding guarantee amount at December 31, 2005	Amount of guarantee with collateral placed	Ratio of accumulated guarantee amount to net worth value of the Company (%)	Ceiling of the outstanding guarantee for the respective party (Note c)
Transcend Taiwan	Transcend Information Inc.	Note b	$ 1,327,120	US$5,000,000	US$2,000,000	-	1%	$6,635,602 40% $2,654,241
〃	Transcend Japan Inc.	Note a	〃	425,000,000	265,000,000	-	1%	〃

Note :a. The Company owns more than 50% voting rights of the investee company.

b. The Company and its subsidiaries own more than 50% voting rights of the investee company.

c. The policy on the ceiling of total outstanding guarantee and guarantee for single party is 40% and 20% of the Company’s net worth, respectively. The Company’s net worth at December 31, 2005 was $6,635,602.

C. Marketable securities at December 31, 2005:(Individually disclosed securities over $60,000)

				December 31, 2005			
Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	Number of shares or units	Book value	Percentage of company's ownership	Market value or net worth per share
Transcend Taiwan	Beneficiary certificates						
	ABN Amro Bond Fund	-	Short-term investments	22,318,298.35	$ 329,682	-	$ 331,677
	NITC Bond Fund	-	〃	1,663,483.43	268,958	-	269,953
	JF (TAIWAN) First Bond Fund	-	〃	14,095,729	193,685	-	195,461
	Forsyth Alternative Income, etc	-	〃	-	234,007	-	232,033
					1,026,332		1,029,124
	Bonds						
	Credit Suisse 3 Month Euribo	-	〃	2,000	77,960	-	78,350
	PSC ECB	-	〃	-	139,755		140,044
					217,715		218,394
					$ 1,244,007		$ 1,247,298
	Stocks						
	Transcend Japan	The Company's subsidiary	Long-term investments	6,400	$ 95,909	100	$ 95,909
	Saffire	〃	〃	11,300,000	399,437	100	399,437
	Transcend UK	〃	〃	50,000	(885)	100	(885)
	Dramexchange Tech Inc.	-	〃	158,599	1,125	2	-
	Add: credit balance of long-term investment reclassified to other liabilities		Other liabilities		885		
					$ 496,471		
Saffire	Stocks						
	Memhiro	The Company's subsidiary	Long-term investments	16,607,000	$10,866 thousand	100	$10,866 thousand
Memhiro	Stocks						
	Transcend Shanghai	The Company's subsidiary	Long-term investments	-	$ 9,800 thousand		$ 9,800 thousand
	Transcend USA	〃	〃	625,000	1,514 thousand	100	1,514 thousand
	Transcend Europe	〃	〃	100	699 thousand	100	699 thousand
	Transcend Germany	〃	〃	-	(2)thousand	100	(2)thousand
					$12,011 thousand		$12,011 thousand
Transcend Europe	Transcend Maryland	The Company's subsidiary	Long-term investments	200,000	$ 169 thousand	100	$ 169 thousand

D. Accumulated additions and disposals of one single marketable securities exceeding $100,000 or 20% of total contributed capital:

January 1, 2005 –December 31, 2005

					Beginning balance		Addition		Disposal				Ending balance	
Name of the company	Name of the securities	General ledger accounts	Counterparty	Relationship with the Company	Number of shares (thousand units)	Amount	Number of shares (thousand units)	Amount	Number of shares (thousand units)	Sales Price	Book value	Gain (loss) from disposal	Number of shares (thousand units)	Amount
Transcend Taiwan	CS Money Market Fund (LUX)-Euro	Short-term investments	–	–	9	$ 136,251	-	$ -	9	$ 139,209	$ 136,251	$ 2,958	-	$ -
	NAM Short Term Fixed Income Fund	″	–	–	380	161,676	251	105,584	631	268,068	267,260	808	-	-
	Truswell Bond fund	″	–	–	7,387	91,692	12,694	158,500	20,081	251,628	250,192	1,436	-	-
	PCA Bond fund	″	–	–	-	-	8,545	130,000	8,545	130,308	130,000	308	-	-
	PCA Well Pool Fund	″	–	–	12,290	150,000	-	-	12,290	15,090	150,902	902	-	-
	NITC Bond Fund	″	–	–	1,785	284,230	4,397	710,000	4,519	729,002	725,273	3,729	1,663	268,957
	ABN Amro Bond Fund	″	–	–	26,298	384,020	33,874	501,000	37,854	559,000	555,338	3,662	22,318	329,682
	JF (TAIWAN) First Bond Fund	″	–	–	18,287	249,760	16,684	230,000	20,875	288,000	286,075	1,925	14,096	193,685
	Homerun Bond fund	″	–	–	-	-	14,918	205,000	14,918	205,691	205,000	691	-	-
	NITC TAIWAN Bond Fund	″	–	–	-	-	22,208	307,000	22,208	307,549	307,000	549	-	-
	PARADIGM Pion Fund	″	–	–	-	-	9,589	100,000	9,589	100,642	100,000	642	-	-

E. Additions of real estate exceeding $100,000 or 20% of total contributed capital : None.

F. Disposals of real estates exceeding $100,000 or 20% of total contributed capital : None.

G. Purchases and sales with related parties exceeding $100,000 or 20% of contributed capital:

January 1, 2005 – December 31, 2005

			Description of the transactions				Description of and reasons for difference in transaction terms compared to non-related party transactions		Accounts or notes receivable (payable)	
Name of the Company	Name of the counterparty	Relationship	Purchases (sales)	Amount	% of total purchases (sales)	Credit terms	Unit price	Credit terms	Balance	% of total accounts or notes receivable (payable)
Transcend Taiwan	Transcend Japan	The Company's subsidiary	Sales	($1,630,195)	10	Based on operating condition	No significant difference from those to third parties	Based on operating Condition	$ 554,378	26
〃	Transcend Europe	Subsidiary of Memhiro	〃	(2,744,942)	17	〃	〃	〃	529,625	25
〃	Transcend USA	〃	〃	(1,288,001)	8	〃	〃	〃	181,913	8
〃	Transcend Germany	〃	〃	(1,216,216)	7	〃	〃	〃	185,238	9
〃	Transcend H.K.	Substantial related party	〃	(337,428)	2	〃	〃	〃	29,991	1
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	(915,292)	5	Monthly,O/A 15 days	〃	〃	169,265	8
Transcend Japan	Transcend Taiwan	Parent Company	Purchases	1,630,195	100	Based on operating condition	〃	〃	(554,378)	99
Transcend Europe	〃	〃	〃	2,744,942	100	〃	〃	〃	(529,625)	100
Transcend USA	〃	〃	〃	1,288,001	100	〃	〃	〃	(181,913)	100
Transcend Germany	〃	〃	〃	1,216,216	99	〃	〃	〃	(185,238)	98
Transcend H.K.	〃	Substantial related party	〃	377,428	100	〃	〃	〃	(29,991)	100
C-Tech Corporation	〃	C-Tech Corporation's chairman is the Company's general manager	〃	915,292	100	Monthly,O/A 15 days	〃	〃	(169,265)	100

H. Receivables from related parties exceeding $100,000 or 20% of contributed capital as of December 31, 2005

Name of the company	Name of the counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Overdue receivables Amount	Overdue receivables Action adopted for overdue accounts	Subsequent collections	Bad debts allowance provided
Transcend Taiwan	Transcend Japan	Subsidiary of the Company	$ 554,378	3.24	$ -	-	$ 271,363	$ -
	Transcend Europe	Subsidiary of Memhiro	529,625	4.80	-	-	508,204	-
	Transcend USA	〃	181,913	10.79	-	-	181,913	-
	Transcend Germany	〃	185,238	6.15	-	-	174,363	-
	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	169,265	7.81	-	-	129,198	-

I. Transactions of financial instruments: Refer to Note 10.

2) Related information of investee companies as of December 31, 2005:

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount		Holding Status			Net income (loss) of investee Company	Recognized investment income (loss)	Relationship with the Company
				December 31, 2005	December 31, 2004	Shares	Percentage	Book value			
Transcend Taiwan	Transcend Japan	1-8-5, Kuramae, Tokyo, 111-0051, Japan	Wholesaler of computer memory modules and peripheral products	$ 89,103	$ 89,103	6,400	100	$ 95,909	7,897,267	$ 2,309	Subsidiary of the Company
	Saffire Investment Ltd.	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, B.V.I.	Investments holding company	378,359	51,930	11,300,000	100	399,437	$ 692,815	22,501	〃
	Transcend UK	Unit 2, Quad tech, Boundaryway, Hemel Hempstead, Hertfordshive, United Kindom	Wholesaler of computer memory modules and peripheral products	2,883	-	50,000	100	(885)	(65,610)	(3,803)	〃
Saffire	Memhiro Pte Ltd.	10 Hoe Chiang Rd, #17-02 Keppel Towers, Singapore 089315	〃	332,861	6,432	16,607,000	100	$10,865,916	$ 695,132		Subsidiary of Saffire Investment Ltd.
Memhiro	Transcend USA	1645 N Brian St. Orange, CA 92867, U.S.A.	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100	$ 1,514,326	$ 179,888		Subsidiary of Memhiro Pte Ltd.
	Transcend Europe	Cairostraat 40, 3047 BC, Rotterdam, the Netherlands	〃	1,693	1,693	100	100	$ 699,285	329,139		〃
	Transcend Germany	Fughafenstrasse 54, 22335 Hamburg, Germany	〃	2,288	2,288	-	100	($ 1,877)	86,035		〃
	Transcend Shanghai	1, Central Avenue, Shanghai Fengpu Export Processing Zone, Fengxian District, Shanghai, China	Manufacturer and seller of computer memory modules, storage products and disks	326,429	-	-	100	$ 9,800,000	-		〃
Transcend Europe	Transcend Maryland	BWI Technology Park, 514 Progress Dr Suite Q-R, Linthicum, MD 21090, USA	Wholesaler of computer memory modules and peripheral products	6,570	-	200,000	100	$ 169,011	($ 30,989)		Subsidiary of Transcend Europe

3) Information on Mainland China investments for the year ended December 31, 2005

Investee in Mainland China	Main activities	Paid-in capital	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2005	Amount remitted to Mainland China during the year	Amount remitted back to Taiwan during the year	Accumulated amount of remittance to Mainland China as of December 31, 2005	Ownership held by the Company (direct and indirect)	Investment income (loss) recognized by the Company for the year	Book value of investments in Mainland China as of December 31, 2005	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2005
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	US$9,800,000	Note A	US$ -	US$9,800,000	US$ -	US$9,800,000	100%	$ -	$ 326,429	$ -

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2005	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
US$9,800,000	US$9,800,000	$ 2,490,681

Note A: The Company remits funds from Taiwan to a subsidiary located outside of Taiwan. The funds received by such subsidiary are then invested in the investee company located in Mainland China.

4) Significant inter-company transactions
January 1, 2005 – December 31, 2005

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account	Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Europe	1	Sales	$ 2,744,942	There is no significant difference in unit price from these to third parties, but credit terms are based on operating condition	16%
〃	〃	Transcend Japan	〃	〃	1,630,195	〃	10%
〃	〃	Transcend USA	〃	〃	1,288,001	〃	8%
〃	〃	Transcend Germany	〃	〃	1,216,216	〃	7%
〃	〃	Transcend Europe	〃	Accounts Receivable	529,625	〃	7%
〃	〃	Transcend Japan	〃	〃	554,378	〃	7%
〃	〃	Transcend USA	〃	〃	181,913	〃	2%
〃	〃	Transcend Germany	〃	〃	185,238	〃	2%

January 1, 2004 – December 31, 2004

				Transaction			
Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Europe	1	Sales	$ 2,994,891	There is no significant difference in unit price from these to third parties, but credit terms are based on operating condition	20%
〃	〃	Transcend Japan	〃	〃	1,482,164	〃	10%
〃	〃	Transcend USA	〃	〃	1,508,846	〃	10%
〃	〃	Transcend Germany	〃	〃	1,392,953	〃	9%
〃	〃	Transcend Europe	〃	Accounts Receivable	614,282	〃	8%
〃	〃	Transcend Japan	〃	〃	449,582	〃	6%
〃	〃	Transcend USA	〃	〃	56,871	〃	1%
〃	〃	Transcend Germany	〃	〃	206,400	〃	3%

Note 1: Transaction information between parent company and subsidiaries should he noted in the first column, the number is written as below:
A. Parent company: 0
B. Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:
A. Parent company to subsidiary.
B. Subsidiary to parent company.
C. Subsidiary to subsidiaries.

Note 3: For balance sheet accounts, it's calculated by consolidated assets, for income statement accounts, it's calculated by consolidated revenue.

12. FINANCIAL REPORTING ON BUSINESS SEGMENTS

1) Financial information by business segments: Not applicable as the Company and its investees are engaged only in one industry.

2) Financial information by geographic areas: Not applicable as there are no operations located outside of the R.O.C.

3) Information about the Company's export sales:

Areas	2005	2004
Europe	$ 7,131,110	$ 6,541,956
Asia	4,183,275	3,471,360
America	1,430,775	1,676,156
Others	434,277	617,283
Total	$ 13,179,437	$ 12,306,755

4) Information about important customers

There is no sale to a single customer constituting more than 10% of the Company's consolidated net sales in 2005 and 2004.