TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

T9030PWCR06000527

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, 2006 and 2005, 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 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$903,490 thousand and NT$514,135 thousand, constituting 7 percent and 6 percent of the related consolidated totals, as of December 31, 2006 and 2005, respectively, and total revenues of NT$3,791,581 thousand and NT$2,715,755 thousand, constituting 14 percent and 16 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 the 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 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.

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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, 2006 and 2005, 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 by Securities Issuers", Business Entity Accounting Law, "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China.

PricewaterhouseCoopers

March 14, 2007
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)

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 1,546,413	$ 983,135
Financial assets at fair value through profit or loss - current(Notes 4(2),10 and 11)	1,089,424	1,244,047
Notes receivable	14,911	14,332
Accounts receivable – third parties, net (Note 4(3))	2,437,932	1,320,454
Accounts receivable – related parties (Notes 5 and 11)	259,040	285,225
Inventories, net (Note 4(4))	4,368,942	2,019,348
Other current assets (Notes 4(10) and 5)	574,377	183,953
	10,291,039	6,050,494
Long-term Investments (Notes 4(5), 10 and 11)		
Financial assets carried at cost - noncurrent	79,125	1,125
Other Financial Assets - Noncurrent (Note 6)	3,260	3,285
Property, Plant and Equipment, net (Notes 4(6) and 6)		
Cost		
Land	849,926	852,159
Buildings	1,253,542	856,008
Machinery	242,950	159,080
Transportation equipment	14,007	11,581
Furniture and fixtures	67,706	59,052
Miscellaneous equipment	8,215	5,051
Total	2,436,346	1,942,931
Less: accumulated depreciation	(262,397)	(197,275)
Prepayments on equipment	-	108,351
	2,173,949	1,854,007
Intangible Assets		
Other intangible assets	116,533	37,308
Other Assets		
Refundable deposits	5,971	4,366
Deferred income tax assets – noncurrent (Note 4(10))	2,741	-
Other assets, net (Notes 4(7) and 6)	50,278	51,274
	58,990	55,640
TOTAL ASSETS	$ 12,722,896	$ 8,001,859

	2006	2005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans (Note 4(8))	$ 106,305	$ 102,048
Financial liabilities at fair value through profit or loss - current(Notes 4(9)(11) and 10)	63,255	-
Notes payable	146,549	64,250
Accounts payable	1,874,678	497,238
Income tax payable (Note 4(10))	224,417	157,175
Accrued expenses	216,605	169,520
Current portion of long-term liabilities (Notes 4(11) and (12))	33,230	269,721
Other current liabilities	149,494	41,499
	2,814,533	1,301,451
Long-term Liabilities		
Bonds payable (Notes 4(11) and 10)	1,501,773	-
Long-term bank loans (Notes 4(12) and 10)	79,641	42,420
	1,581,414	42,420
Other Liabilities		
Accrued pension liabilities (Note 4(13))	19,860	21,082
Deferred income tax liabilities - noncurrent (Note 4(10))	-	1,030
Others	190	274
	20,050	22,386
Total Liabilities	4,415,997	1,366,257
Stockholders' Equity		
Capital stock (Note 4(14))		
Common stock	3,375,206	3,183,778
Capital reserve (Note 4(15))		
Paid-in capital in excess of par value	886,848	868,020
Capital surplus from business combination	35,128	59,655
Capital reserve from stock warrants	89,070	-
Retained earnings		
Legal reserve (Note 4(16))	841,347	696,021
Special reserve (Note 4(17))	14,982	857
Unappropriated earnings (Note 4(17))	3,056,173	1,842,253
Other adjustments		
Cumulative translation adjustment	8,145	(14,982)
Total Stockholders' Equity	8,306,899	6,635,602
Commitments and Contingent Liabilities (Notes 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,722,896	$ 8,001,859

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 14, 2007.

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)

	2006	2005
Operating revenue		
Sales (Note 5)	$ 26,530,463	$ 17,160,005
Less: Sales returns	(338,838)	(232,245)
Sales allowances	(10,528)	(5,926)
Net sales	26,181,097	16,921,834
Operating costs		
Cost of sales (Note 4(19))	(22,549,173)	(14,315,178)
Gross profit	3,631,924	2,606,656
Operating expenses (Note 4(19))		
Sales and marketing expenses	(757,739)	(573,240)
General and administrative expenses	(264,536)	(201,683)
Research and development expenses	(84,464)	(72,633)
Operating expenses	(1,106,739)	(847,556)
Operating income	2,525,185	1,759,100
Non-operating income		
Interest income	23,998	26,212
Gain on valuation of financial assets	5,999	-
Gain on disposal of investments	22,714	21,324
Exchange gain – net	184,153	-
Other income	37,594	23,879
Non-operating income	274,458	71,415
Non-operating expenses		
Interest expense	(7,892)	(7,482)
Loss on valuation of financial liabilities	(4,965)	-
Other investment loss	-	(6,328)
Exchange loss – net	-	(57,723)
Provision for loss on inventory obsolescence and market price decline	(54,549)	(8,239)
Other expenses	(840)	(1,900)
Non-operating expenses	(68,246)	(81,672)
Income from continuing operations before income tax	2,731,397	1,748,843
Income tax expense (Note 4(10))	(302,640)	(295,576)
Cumulative effect of changes in accounting principles	2,724	-
Consolidated net income	$ 2,431,481	$ 1,453,267
Attributable to:		
Equity holders of the Company	$ 2,431,481	$ 1,453,267

	2006 Before income tax	2006 After income tax	2005 Before income tax	2005 After income tax
Basic earnings per common share (in dollars)				
Consolidated net income (Note 4(18))	$ 8.12	$ 7.23	$ 5.23	$ 4.35
Diluted earnings per common share (in dollars)				
Consolidated net income (Note 4(18))	$ 8.00	$ 7.13	$ 5.14	$ 4.27

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

See report of independent accountants dated March 14, 2007.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings				
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustment	Total
2005							
Balance at January 1, 2005	$ 2,782,277	$ 416,970	$ 507,623	$ -	$ 2,063,354	($ 857)	$ 5,769,367
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 to 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
2006							
Appropriations of earnings:							
Legal reserve	-	-	145,326	-	(145,326)	-	-
Special reserve	-	-	-	14,125	(14,125)	-	-
Stock dividends	63,688	-	-	-	(63,688)	-	-
Cash dividends	-	-	-	-	(955,322)	-	(955,322)
Employees' bonus	11,730	-	-	-	(39,100)	-	(27,370)
Stock dividends from capital reserve	95,532	(95,532)	-	-	-	-	-
Cumulative translation adjustment	-	-	-	-	-	23,127	23,127
Conversion of bonds payable to capital stock	20,478	89,833	-	-	-	-	110,311
Capital reserve from stock warrants	-	89,070	-	-	-	-	89,070
Consolidated net income for 2006	-	-	-	-	2,431,481	-	2,431,481
Balance at December 31, 2006	$ 3,375,206	$ 1,011,046	$ 841,347	$ 14,982	$ 3,056,173	$ 8,145	$ 8,306,899

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 14, 2007.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2006	2005
Cash flows from operating activities		
Consolidated net income	$ 2,431,481	$ 1,453,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on valuation of financial assets	(5,999)	-
Loss on valuation of financial liabilities	4,965	-
Gain on disposal of investments	(22,714)	(21,324)
Bad debts expenses	7,884	6,369
Provision for loss on inventory obsolescence and market price decline	54,549	8,239
Permanent decline in market value of financial assets carried at cost	-	6,328
Depreciation	67,236	55,242
Loss (gain) on disposal of property, plant and equipment	840	(37)
Amortization	2,971	-
Amortization of discount of bonds payable	2,456	-
Unrealized exchange loss on bonds payable	4,043	57,250
Cumulative effect of changes in accounting principles	(2,724)	-
Changes in assets and liabilities:		
Notes and accounts receivable	(1,099,756)	(315,145)
Inventories	(2,404,143)	(946,421)
Deferred income tax assets and liabilities	(32,481)	(14,080)
Other current assets	(210,435)	(39,813)
Notes and accounts payable	1,459,739	119,179
Income tax payable	67,242	(1,303)
Accrued expenses	47,085	43,563
Other current liabilities	35,474	(80,960)
Accrued pension liabilities	(1,222)	2,660
Net cash provided by operating activities	406,491	333,014

(Continued on next page)

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2006	2005
Cash flows from investing activities		
Decrease in financial assets at fair value through profit or loss	$ 97,060	$ 569,056
Increase in other receivables - related parties	(39,128)	-
Increase in financial assets carried at cost	(78,000)	-
Increase in other financial assets - noncurrent	-	(3,285)
Acquisition of property, plant and equipment	(400,376)	(170,783)
Proceeds from disposal of property, plant and equipment	1,559	1,032
Increase in other intangible assets	-	(37,308)
(Increase) decrease in refundable deposits	(1,605)	127
Net cash (used in) provided by investing activities	(420,490)	358,839
Cash flows from financing activities		
Increase (decrease) in short-term bank loans – net	4,257	(127,641)
Increase (decrease) in long-term bank loans	53,675	(26,241)
Payment of cash dividends	(955,232)	(1,147,290)
Payment of employees' bonus	(25,339)	(30,600)
Increase in bonds payable	1,500,000	-
Decrease in guarantee deposits received	(84)	(1,195)
Net cash provided by (used in) financing activities	577,277	(1,332,967)
Net increase (decrease) in cash and cash equivalent	563,278	(641,114)
Cash and cash equivalents at beginning of year	983,135	1,624,249
Cash and cash equivalents at end of year	$ 1,546,413	$ 983,135
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 5,436	$ 7,310
Income taxes	$ 273,152	$ 316,318
Financing activities which have no effect on cash flows:		
Unpaid cash dividends and employees' bonus	$ 2,121	$ -
Conversion of bonds payable to capital stock	$ 110,311	$ 604,983

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

See report of independent accountants dated March 14, 2007.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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, 2006, the Company's authorized and total contributed capital were $4,278,000 and $3,375,206, 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, 2006, the Company and its subsidiaries had 1,225 employees.

2) Consolidated subsidiaries:

Name	Relationship	Main activities	Ownership percentage as of December 31, 2006
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)	〃	〃	〃
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, 2006
Transcend Information Trading GmbH, Hamburg (Transcend Germany)	Note c	Wholesaler of computer memory modules and peripheral products	100%
Transcend Information (Shanghai), Ltd. (Transcend Shanghai)	〃	Manufacture, processing and sale of computer software, hardware, peripheral equipment and computer components	〃
Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai) (Note e)	〃	Wholesaler of computer memory modules and peripheral products	〃
Transcend Information Maryland, Inc. (Transcend MD)	Note d	〃	〃

Note: a. Subsidiaries of the Company.

b. Subsidiary of Saffire.

c. Subsidiaries of Memhiro.

d. Indirectly owned subsidiary of Memhiro.

e. Newly consolidated subsidiaries established in September 2006.

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.

6) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", Business Entity Accounting Law, "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China. The Group'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 are carried forward from prior year's balance. Profit and loss accounts are translated at weighted-average rates of the year.

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

3) Foreign currency transactions

A. The Group maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates.

B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;

b) Assets held mainly for trading purposes;

c) Assets that are expected to be realized within twelve months from the balance sheet date;

d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;

b) Liabilities arising mainly from trading activities;

c) Liabilities that are to be paid off within twelve months from the balance sheet date;

d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

5) Financial assets and financial liabilities at fair value through profit or loss

A. Financial assets and financial liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and are recognized initially at fair value.

B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of open-end funds is based on the net asset value at the balance sheet date.

C. When a derivative is an ineffective hedging instrument, it is initially recognized at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. If a derivative is a non-option derivative, the fair value initially recognized is zero.

D. For call options and put options, which are embedded in bonds payable, please refer to Note 4 (11).

E. Financial assets and financial liabilities designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with a documented Group investment strategy. Information about these financial assets and financial liabilities is provided internally on a fair value basis to the Group's management personnel.

F. The accounting policies before December 31, 2005 are described in Note 3.

6) 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.

7) 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, Transcend Europe and Transcend Shanghai 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.

8) Financial assets carried at cost

A. Investment in unquoted equity instruments is recognized or derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

B. If there is any objective evidence that the financial asset is impaired; the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.

C. The accounting policies before December 31, 2005 are described in Note 3.

9) 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. 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 10 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.

E. 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.

F. Property, plant and equipment that are idle or have no value in use are reclassified to "other assets" at the lower of the fair value less costs to sell or book value.

10) Intangible assets

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

11) Convertible bonds

A. For the bonds payable issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

(A) The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until conversion period or the maturity of the bond.

(B) The value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as "financial assets and financial liabilities at fair value through profit or loss". At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as "paid-in capital"; however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as "gain or loss".

(C) A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized and included in "capital reserve from stock warrants", net of income tax effects. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued, and the resulting difference shall be recognized as "gain or loss" in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock warrants.

B. Bonds payable issued before December 31, 2005 are accounted for as follows:

(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.

12) Pension plan

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.

13) Revenue and expenses

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

14) Income tax

A. Provision for income tax is allocated on the inter- and intra- period basis. Over or under provision of prior years' income tax liabilities is included in current year's income tax.

B. Investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development, employees training, and equity investments are recognized in the year the related expenditures are incurred.

C. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

15) Impairment of non-financial assets

A. The Group 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.

B. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered. However, the impairment loss recognized for goodwill is not recoverable.

16) 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. CHANGES IN ACCOUNTING PRINCIPLES

1) Impairment of non-financial assets

Effective January 1, 2005, the Group adopted the ROC SFAS No. 35, "Accounting for Asset Impairment". The adoption of SFAS No. 35 had no significant effect on the consolidated financial statements as of and for the year ended December 31, 2005.

2) Financial instruments

A. Effective January 1, 2006, the Group adopted the R.O.C. SFAS No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments". The Group has properly reclassified certain accounts on December 31, 2005 based on its holding purposes and abilities in accordance with such standards and the "Rules Governing the Preparation of Financial Statements of Securities Issuers".

B. The accounting policies on and before December 31, 2005 were as follows:

(A) Derivative financial instruments

a) Forward exchange contracts

Forward exchange contracts entered into for hedging purpose are recorded at the spot exchange rate at the contract date. The difference between the spot exchange rate at the contract date and the forward rate is amortized over the life of the contract. At the balance sheet date, the outstanding contracts are revalued using the spot exchange rate at that date. The resulting exchange gain or loss is recognized in the current year.

b) Option contracts

Option premiums paid or received are stated at cost and are revalued at fair value at the balance sheet date. Unrealized gain or loss on the option contracts undertaken for hedging the risk arising from the existing assets or liabilities that are valued at fair value are included in the current profit or loss. Unrealized gain or loss on the option contracts undertaken for hedging the risk arising from expected transactions are accounted for as an adjustment to the transaction price at the actual occurrence of the transaction. Option contracts undertaken for purposes other than hedging are valued at fair value with the unrealized gain or loss included in the current profit or loss.

(B) Short-term investments

Short-term investments refer to the investments in marketable securities which are stated at cost and are revalued at the lower of cost or market value at the balance sheet date. Cost is determined using the moving average method. When the cost exceeds the market value, an allowance for the decline in market value is set aside and the excess of the cost over the market value is included in the current non-operating expenses. If the market price recovers, the gain on the price recovery is recognized to the extent of the loss originally recognized and is included in the current non-operating income.

(C) Long-term investments in equity securities-under the cost method

Long-term investments in which the Group holds less than 20% of the voting shares of the investees and has no ability to exercise significant influence on the investees' operational decisions are stated at cost. Where the decline in the investment value is permanent and the possibility of share price recovery is remote, an investment loss is recognized and charged against current income.

C. As a result of the adoption of SFAS No. 34 and No. 36, the effects on the gain or loss in 2006 were as follows:

	Amounts	EPS (NT Dollars)
Income from continuing operations before income tax (Note)	$ 5,999	$ 0.02
Cumulative effect of changes in accounting principles (Note)	2,724	0.01
Net income	$ 8,723	$ 0.03

Note: The changes in accounting principles had no effect on income tax.

4. SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2006	2005
Petty cash and cash on hand	$ 1,313	$ 346
Checking and savings deposits	876,216	761,164
Time deposits	668,884	188,325
Bonds purchased with resale agreement	-	33,300
	$ 1,546,413	$ 983,135

As of December 31, 2006 and 2005, time deposits over 1 year amounted to $81,488 and $82,125, respectively.

2) Financial assets at fair value through profit or loss-current

	December 31,	
	2006	2005
Financial assets held for trading		
Beneficiary certificates	$ 1,011,749	$ 1,026,332
Adjustment of financial assets held for trading	6,807	-
	1,018,556	1,026,332
Designated as at fair value through profit or loss:		
Bonds	71,676	217,715
Adjustment of designated as at fair value through profit or loss	(808)	-
	70,868	217,715
	$ 1,089,424	$ 1,244,047

The Group recognized net gain of $31,437 for the year ended December 31, 2006.

3) Accounts receivable

	December 31,	
	2006	2005
Accounts receivable	$2,473,094	$1,347,732
Less: Allowance for doubtful accounts	(35,162)	(27,278)
	$2,437,932	$1,320,454

As of December 31, 2006, the Company reclassified uncollectible accounts receivable in the amount of $10,338 to other assets-others and fully provided with allowance for doubtful accounts.

4) Inventories

	December 31,	
	2006	2005
Finished goods	$ 1,451,552	$ 657,518
Work in process	1,025,248	238,545
Raw materials	1,944,364	1,108,231
Inventories in transit	37,264	49,991
	4,458,428	2,054,285
Less: Allowance for decline in market value and inventory obsolescence	(89,486)	(34,937)
	$ 4,368,942	$ 2,019,348

5) Financial assets carried at cost - noncurrent

Investee company	Percentage of ownership	Book value December 31, 2006	Book value December 31, 2005
Alcor Micro Corp.	4%	$ 78,000	$ -
Dramexchange Tech. Inc.	2%	1,125	1,125
		$ 79,125	$ 1,125

The investment in Alcor Micro Corp. represents its shares issued through private placement, which are not allowed to be transferred before March 2009. The investment in Dramexchange Tech. Inc. is carried at cost because its shares are not quoted in an active market and the fair value cannot be reliably measured.

6) Property, plant and equipment

Item	December 31, 2006		
	Original cost	Accumulated depreciation	Net Book value
Land	$ 849,926	$ -	$ 849,926
Buildings	1,253,542	(137,998)	1,115,544
Machinery	242,950	(70,437)	172,513
Transportation equipment	14,007	(7,305)	6,702
Furniture and fixtures	67,706	(43,086)	24,620
Miscellaneous equipment	8,215	(3,571)	4,644
	$ 2,436,346	($ 262,397)	$ 2,173,949

Item	December 31, 2005		
	Original cost	Accumulated depreciation	Net 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

7) Other Assets

Item	December 31, 2006 Original cost	Accumulated depreciation	Net Book value
Idle Assets			
Land	$ 31,500	$ -	$ 31,500
Buildings	41,995	(8,072)	33,923
Furniture and fixtures	1,086	(1,059)	27
Less: Accumulated impairment	(15,172)	-	(15,172)
	$ 59,409	($ 9,131)	$ 50,278

Item	December 31, 2005 Original cost	Accumulated depreciation	Net 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: Accumulated impairment	(15,172)	-	(15,172)
	$ 59,409	($ 8,135)	$ 51,274

8) Short-term bank loans

	December 31,	
	2006	2005
Short-term loans	$ 106,305	$ 102,048
Annual interest rates	0.87%~5.42%	0.76%~4.57%

9) Financial liabilities at fair value through profit or loss-current

	December 31,	
	2006	2005
Derivatives	$ 58,290	$ -
Adjustment of financial liabilities held for trading	4,965	-
	$ 63,255	$ -

10) Income tax

	2006	2005
Income tax expense	$ 302,640	$ 295,576
Net change of deferred income tax	32,481	14,080
Under provision of prior year's income tax	(9,086)	(17,566)
Prepaid income tax	(101,618)	(134,915)
Income tax payable	$ 224,417	$ 157,175

A. As of December 31, 2006 and 2005, the deferred income tax assets and liabilities are as follows:

	December 31,	
	2006	2005
Total deferred income tax assets	$ 60,463	$ 32,058
Total deferred income tax liabilities	$ 6,322	$ 10,398

B. As of December 31, 2006 and 2005, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2006		2005	
Items	Amount	Tax Effect	Amount	Tax Effect
Current:				
Allowance for doubtful accounts	$ 3,084	$ 771	$ 6,136	$ 1,534
Unrealized loss on decline in market value and inventory obsolescence	93,184	23,296	35,996	8,999
Unrealized profit on intercompany transactions	86,073	21,518	25,246	6,312
Unrealized exchange loss	12,208	3,052	14,130	3,533
Others	11,052	2,763	9,248	2,312
		51,400		22,690
Noncurrent:				
Pension expense	14,753	3,688	15,973	3,993
Investment income on foreign investments accounted for under the equity method	(25,288)	(6,322)	(41,592)	(10,398)
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 financial assets carried at cost	6,328	1,582	6,328	1,582
		2,741		(1,030)
		$ 54,141		$ 21,660

C. The significant differences between accounting income and tax income in 2006 and 2005 are as follows:

a) Permanent differences: The earnings from security trades amounting to $17,745 and $13,918 were approved by tax authorities.

b) Temporary differences: Listed as changes in deferred income tax assets and liabilities above.

D. 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

E. For the years ended December 31, 2006 and 2005, the income tax expense included the additional 10% corporate income tax related to the 2005 and 2004 undistributed earnings amounting to $23,571 and $20,940, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2005 and 2004 earnings.

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

11) Bonds payable

	December 31, 2006	December 31, 2005
First Euro convertible bonds payable	$ 146,677	$ 252,945
Less: Due within one year	-	(252,945)
	146,677	-
First domestic convertible bonds payable	1,500,000	-
Less: Discount of bonds payable	(144,904)	-
	1,355,096	-
	$1,501,773	$ -

A. 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, 2006, the adjusted conversion price was NT$52.71(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, 2006, bonds in the amount of US$30,500,000 had been converted into 16,454,817 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 $886,848 was credited to capital reserve.

The fair value of put and call options embedded in bonds payable issued before December 31, 2005 was not separated in accordance to EITF95-078.

B. As approved by the competent authority, the Company issued its first unsecured zero coupon domestic convertible bonds with a principal amount of $1,500,000 and an effective interest rate of 2.15%. The terms on the bonds are summarized below:

a) Period: 5 years (November 24, 2006 to November 24, 2011).

b) Conversion period: the date following one month from the issue date to 10 days before the maturity date.

c) Conversion price:

The initial conversion price at issuance of the bonds is $107 per share. The conversion price is subject to adjustment based on the rules prescribed in the bond agreement when the number of the Company's common stock changes.

d) Reset of conversion price:

Other than the above-mentioned adjustment, the conversion price shall be reset at the ex-right or ex-dividend date during the period from 2007 to 2011 based on the pricing model prescribed in the conversion rules. In the year when dividends are not distributed, the effective date for resetting the conversion price is June 30. When the reset conversion price is less than the conversion price in effect, the reset price will be adopted as the new conversion price, provided that the reset conversion price is not less than 80% of the initial conversion price at issuance of the bonds.

e) Redemption at the bondholders' option:

The bondholders may request the Company to redeem their bonds at face value after three years from the issue date.

The fair value of the convertible option was separated from bonds payable, and was recognized in "Capital reserve from stock warrants" in the amount of $89,070 in accordance with ROC SFAS No. 36. The fair value of put and call options embedded in bonds payable was separated form bonds payable, and was recognized in "Financial assets or liabilities at fair value through profit or loss".

12) Long-term loans

	December 31,	
	2006	2005
Long-term loans	$ 112,871	$ 59,196
Less: Due within one year	(33,230)	(16,776)
	$ 79,641	$ 42,420
Annual interest rates	1.277%-5.20%	2.29%-4.80%

13) 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, 2006 and 2005, the balance of the retirement fund with the Central Trust of China was $21,390 and $17,864, respectively.

C) The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2006 and 2005, are as follows:

	2006	2005
Discount rate	3.50%	3.50%
Rate of increase in salary	2.00%	2.00%
Expected return on plan assets	2.50%	2.50%

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

	December 31,	
	2006	2005
Benefit obligation:		
Vested benefit obligation	$ -	($ 90)
Non-vested benefit obligation	(37,428)	(33,704)
Accumulated benefit obligation	(37,428)	(33,794)
Additional benefits based on projected future salaries increase	(16,250)	(15,170)
Projected benefit obligation	(53,678)	(48,964)
The fair value of plan assets	21,390	17,864
Funded status	(32,288)	(31,100)
Unrecognized net transition obligation	20	21
Unrecognized pension loss	12,408	9,997
Accrued pension liabilities	($ 19,860)	($ 21,082)
Vested benefit	$ -	($ 100)

E) For the years ended December 31, 2006 and 2005, the details of the Company's net periodic pension costs are as follows:

	December 31,	
	2006	2005
Service cost	$ 1,510	$ 4,981
Interest cost	1,713	1,361
Expected return on plan assets	(506)	(485)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	204	350
Net periodic pension cost	$ 2,922	$ 6,208

F) Effective July 1, 2005, the Company 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 years ended December 31, 2006 and 2005 was $18,072 and $5,291.

G) The Company's mainland subsidiaries have a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on employees' monthly salaries and wages.

H) Transcend Japan, Transcend USA, Transcend Europe and Transcend Germany 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) Capital stock

According to the resolution adopted at the stockholders' meeting in June 2006 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 $170,950, equivalent to 17,095 thousand shares at par value of $10 per share. The registration of this capital increase was completed on August 7, 2006.

15) 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. "Capital reserve from stock warrants" is described in Note 4(11).

16) 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, 2006 represents the accumulated appropriations through 2005.

17) 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 2006, the stockholders approved to distribute $3.0 (in dollar) cash dividends per share and $0.2 (in dollar) stock dividends per share. In 2005, the stockholders approved to distribute $4.0 (in dollar) cash dividends per share and $1.0 (in dollar) stock dividends per share.

D. As of March 14, 2007 the Board of Directors had not yet approved the earnings distribution proposed by management. The information regarding the Board of Directors' approval of earnings 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 2005 for employee bonuses and directors' and supervisors' remunerations were 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	$ 23,370
Employees' stock bonuses	
Shares (in thousands)	1,173
Amounts	$ 11,730
As a percentage of outstanding common shares	0.37%
Directors' and supervisors' remunerations	$ -
b) Information regarding earnings per common share (in dollars)	
Original earnings per common share	$ 4.58
Adjusted earnings per common share (Note a)	$ 4.46

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

F. The actual creditable tax ratio of distributed earnings in 2006 was 19.66%. As of December 31, 2006, the imputation tax credit account balance was $200,569 and the estimated creditable tax ratio was 13.84%. As of December 31, 2006, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $2,935,076, respectively.

18) Earnings per common share

	For the year ended December 31, 2006				
	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	$2,731,397	$2,431,481	336,172	$ 8.12	$ 7.23
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	7,421	7,421	6,074		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$2,738,818	$2,438,902	342,246	$ 8.00	$ 7.13

	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	334,154	$ 5.23	$ 4.35
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	-	-	6,392		
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	340,546	$ 5.14	$ 4.27

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, 2006 and 2005.

19) Personnel, depreciation and amortization expenses

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

	For the year ended December 31, 2006		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 225,509	$ 495,315	$ 720,824
Insurance	16,018	51,533	67,551
Pension	11,050	11,123	22,173
Others	17,887	20,506	38,393
Depreciation	34,029	33,207	67,236
Amortization	457	2,514	2,971

	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

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.)	Significant related party
Shanghai Transcend Information Inc. (Shanghai Transcend)	〃

2) Significant transactions with related parties

A. Sales

	2006		2005	
	Amount	% of net sales	Amount	% of net sales
C-Tech Corporation	$1,028,385	4	$ 915,292	5
Transcend H.K.	887,553	3	377,428	2
Shanghai Transcend	75,799	-	61,074	-
	$1,991,737	7	$1,353,794	7

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

B. Accounts receivable

	December 31,			
	2006		2005	
	Amount	% of accounts receivable	Amount	% of accounts receivable
C-Tech Corporation	$ 142,107	5	$ 169,265	10
Transcend H.K.	85,411	3	85,969	5
Shanghai Transcend	31,522	1	29,991	2
	$ 259,040	9	$ 285,225	17

C. Other receivables

	December 31,	
	2006	2005
Shanghai Transcend	$ 39,128	$ -

The Company's accounts receivables for sales with collection periods longer than those for non-related parties were reclassified to "Other receivables" in accordance with Accounting Research and Development Formation 93-167..

6. PLEDGED ASSETS

		Book Value	
		December 31,	
Nature of Assets	Nature of liability secured	2006	2005
Property, plant and equipment and other assets	Commercial paper payable, long-term and short-term loans	$1,544,583	$1,567,861
Other financial assets- noncurrent-time deposit	Patent deposit	3,260	3,285
		$1,547,843	$1,571,146

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2006, 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

None.

10. OTHERS

1) Financial statement presentation

Certain accounts in the 2005 financial statements have been reclassified to conform to the 2006 financial statement presentation.

2) Fair values of financial assets (December 31, 2006)

	December 31, 2006		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation
Non-derivative financial instruments			
Assets:			
Financial assets with fair values equal to book values	$4,646,321	$ -	$4,646,321
Financial assets at fair value through profit or loss-current	1,089,424	1,018,556	70,868
Financial assets carried at cost-noncurrent	79,125	-	-
Liabilities			
Financial liabilities with fair values equal to book values	2,681,285	-	2,681,285
Bonds payable	1,501,773	249,352	1,355,096
Long-term loans	79,641	-	79,641
Derivative financial instruments			
Liabilities:			
Financial liabilities at fair value through profit or loss	63,255	-	63,255

A. Fair values of financial instruments

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

(A) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to Cash and cash equivalents, Notes receivable, Accounts receivable, Short-term loans, Notes payable, and Accounts payable.

(B) If the market for a financial instrument is active, in which quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, the price is used as fair value. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

(C) The fair value of the corporate bonds issued on or before December 31, 2005 is their market value, whereas the fair value of those issued after December 31, 2005 is the present value of their expected future cash flows discounted by the initial effective interest rate on the bonds.

(D) The fair value of the deposits-out was based on the present value of expected cash flow amount. The discount rate was the one-year deposit rate of the Directorate General of Postal Remittances and Savings Bank.

B. As of December 31, 2006, the financial assets and the financial liabilities with fair value and cash flow risk due to the change of interest amounted to $1,542,635 and $219,176, respectively.

C. For the year ended December 31, 2006, total interest income for financial assets that are not at fair value through profit or loss amounted to $17,993.

D. Strategies for controlling financial risk

(A) The Group's risk management objective is to identify and analyze all the possible risks (including market risk, credit risk, liquidity risk and cash flow interest rate risk) by examining the impact of the macroeconomic conditions, industrial developments, market competition and the Group's business development plans so as to maintain the best risk position and adequate liquidity position and centralize the management of all market risks.

(B) In order to effectively manage the Group's assets, liabilities, revenues and expenses and to reduce foreign exchange risk, the risk hedging strategy adopted by the Group is to undertake forward exchange contracts or currency options based on the position of the Group's net assets and liabilities and the estimated future cash flows so that the market risk arising from the fluctuations in exchange rates can be effectively mitigated.

E. Information on material financial risk

(A) Investments in equity financial instruments

a) Market risk

The Group is exposed to the market risk arising from the equity financial instruments undertaken. However, no material market risk is expected to arise as a stop-loss amount is set on the instruments undertaken.

b) Credit risk

As the credit condition of the counterparties has been assessed before undertaking the transactions, no default by the counterparties is expected to occur. Thus, the possibility that credit risk will arise is remote.

c) Liquidity risk

i) The financial assets held by the Group which are designated at fair value through profit or loss are all traded in active markets. As it is expected that these financial assets can be readily sold at a price approximate to their fair value, the possibility that liquidity risk will arise is remote.

ii) The Group is exposed to significant liquidity risk as certain financial assets held by the Group which are carried at cost are not traded in active markets, and the remaining assets are the investments in the shares issued by the GreTai companies through private placement which, as required by the regulation, are not allowed to be transferred within three years after they are acquired.

d) Cash flow interest rate risk

The equity financial instruments held by the Group are non-interest rate instruments. Thus, it is not exposed to cash flow interest rate risk.

(B) Investments in bills and bonds

a) Market risk

As the debt instruments held by the Group are all floating interest rate bonds, no significant market risk is expected to arise.

b) Credit risk

As the counterparties of the Group are all international financial institutions with excellent credit standing, no default by the counterparties are expected to occur. Thus, the possibility that credit risk will arise is remote.

c) Liquidity risk

The debt financial instruments held by the Group are all traded in active markets. As it is expected that these financial assets can be readily sold at a price approximate to their fair value, the possibility that liquidity risk will arise is remote.

d) Cash flow interest rate risk

The debt financial instruments held by the Group are all floating interest rate instruments. The future cash flows on these assets will change because of the changes in the effective interest rates on these instruments arising from the fluctuations in the market interest rates.

(C) Liabilities on debt financial instruments

a) Market risk

The debt instruments issued by the Group are zero interest bonds. Thus, no significant market risk is expected to arise.

b) Credit risk

No credit risk is expected to arise from the debt instruments issued by the Group.

c) Liquidity risk

As the Group's working capital is adequate to support its financing requirements, no significant liquidity risk is expected to arise.

d) Cash flow interest rate risk

The Group is not exposed to cash flow interest rate risk as the debt instruments issued by the Group are zero interest bonds.

(D) Loans

a) Market risk

The loans borrowed by the Group are floating interest rate loans. Thus, no significant market risk is expected to arise.

b) Credit risk

No credit risk is expected to arise.

c) Liquidity risk

As the Group's working capital is adequate to support its financing requirements, no significant liquidity risk is expected to arise.

d) Cash flow interest rate risk

The loans borrowed by the Group are floating interest rate loans. The future cash flows on these loans will change because of the changes in the effective interest rates on the loans arising from the fluctuations in the market interest rates.

(E) Receivables

a) Market risk

As the Group's receivables are due within one year, it is assessed that no significant market risk will arise.

b) Credit risk

As the counterparties of the Group's receivables have good credit standing, it is assessed that no significant credit risk will arise.

c) Liquidity risk

No significant liquidity risk is expected to arise as the Group's receivables are due within one year and the Group's working capital is adequate to support its financing requirements.

d) Cash flow interest rate risk

It is assessed that the Group is not exposed to significant cash flow interest rate risk as the Group's receivables are all due within one year.

(F) Financial instruments with off-balance sheet credit risk

Item	December 31, 2006
Direct/indirect subsidiaries of the Company	
Letter of credit (Transcend Japan)	¥ 500 million
Letter of credit (Transcend USA)	US$ 2.5 million

As the letters of credit were issued to guarantee the borrowings of the investee companies over which the Company has the ability to exercise significant influence, their credit condition can be well controlled. Therefore, no collateral was requested from these investee companies. In the event of default by the above investee companies, the possible loss to be incurred by the Company is the amount stated above.

3) Fair value of financial assets (December 31, 2005):

A. Non-derivative financial instruments:

	December 31, 2005	
	Book value	Fair value
Assets		
Financial instrument assets with book value equal to fair value	$ 2,737,310	$ 2,737,310
Short-term investments	1,244,047	1,247,518
Long-term investments	1,125	1,125
Liabilities		
Financial instrument liabilities with book value equal to fair value	1,336,115	1,336,115
Accrued pension liabilities	21,082	31,100

B. Derivative financial instruments:

	December 31, 2005	
	Book value	Fair value
Assets		
Forward exchange contracts	$ -	$ 70

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

A) The fair value of short-term non-derivative assets and liabilities, which include cash and cash equivalents, receivables, payables and other current liabilities, were determined on their carry amount because of 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 date of which was December 31, 2005.

D) The fair values of derivative financial instruments are based on the estimated amount the Group 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
	Guarantee Amount
Guarantee for Transcend (Japan)	¥265 million
Guarantee for Transcend (USA)	US$ 2 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 held for trading

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

Forward exchange contracts

A) Contract amount or nominal principal and credit risk

	December 31, 2005	
	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) Liquidity risk, cash flow risk and the amount, period and uncertainty of future cash flow requirement

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.

4) Elimination of transactions between the Company and subsidiaries

Transactions (2006)	Transcend Japan	Saffire	Transcend UK	Transcend USA	Transcend Germany	Transcend Europe	Transcend MD	Transcend Shanghai
A) Elimination of long-term investments	$ 97,627	$ 753,504	($ 9,062)	$ -	$ -	$ -	$ -	$ -
B) Elimination of intercompany receivable and payable accounts								
Accounts receivable	812,474	-	1,724	390,350	354,965	907,332	1,410	29,056
C) Elimination of income statement accounts								
Sales	2,074,129	-	-	1,880,538	1,775,641	3,710,071	2	55,631
Purchases	-	-	-	24,755	-	-	-	25,577
Unrealized profit on intercompany transactions	33,357	-	-	18,294	10,168	24,254	-	-
Realized profit on intercompany transactions	17,241	-	-	2,306	3,937	1,762	-	-
Other revenues	3,417	-	-	3,323	4,048	10,173	-	58

Transactions (2005)	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, 2006 – December 31, 2006

Name of the company	Name of the borrowers	Accounts used to record such Lending	The maximum balance for the year ended December 31, 2006	Ending Balance	Interest rate	Reason for lending	Amount of sales to (purchases from) the borrower for the year ended December 31, 2006	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
Transcend Taiwan	Shanghai Transcend Information Inc.	Other receivables	$ 39,128	$ 39,128	-	Business transaction-Sales	$ 39,128	-	$ -	$ -	$ 39,128	$ 39,128
Saffire	Memhiro	Due from subsidiary	US$1,250,000	US$1,250,000	-	For short-term lending	-	To maintain working capital	$ -	$ -	US$ 21,800,000	Note a

Note: a. The policy on the ceiling of credit limits for all borrowers and for each individual borrower from Saffir e Investment Ltd. shall not exceed the total contributed capital (US$21,800 thousand).

B. Endorsements and guarantees for others:

January 1, 2006 – December 31, 2006

Name of the company	Name of parties being guaranteed	Relationship with guaranteed	Ceiling of guarantee for single party (Note c)	Maximum outstanding guarantee amount for the year ended December 31, 2006	Outstanding guarantee amount at December 31, 2006	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	$ 1,661,380	US$2,500,000	US$2,500,000	-	1%	$8,306,899×40% =$3,322,760
"	Transcend Japan Inc.	Note a	"	¥500,000,000	¥500,000,000	-	2%	"

Note: a. The Company owns more than 50% voting rig hts 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, 2006 was $8,306,899.

C. Marketable securities at December 31, 2006:

Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	December 31, 2006 Number of shares or units	Book value	Percentage of company's ownership	Market value or net worth per share
Transcend Taiwan	Beneficiary certificates						
	SinoPac Emerging Markets Fund	-	Financial assets at fair value through profit or loss-current	15,000	$ 9,290	-	$ 9,290
	Fubon REITS	-	〃	2,000,000	23,940	-	23,940
	NITC Bond Fund	-	〃	1,672,648	275,219	-	275,219
	ING Taiwan Bond Fund	-	〃	18,214,885	274,484	-	274,484
	JF(Taiwan) First Bond Fund	-	〃	15,755,733	221,396	-	221,396
	Capital Cash Reserves Fund	-	〃	11,278,055	132,183	-	132,183
	Fubon Chi-hsiang Fund	-	〃	5,637,134	82,044	-	82,044
					1,018,556		1,018,556
	Bonds						
	PSC ECB	-	〃	2,000	7,269	-	7,269
	Credit Suisse 3 Month Libor	-	〃	1,000	33,136	-	33,136
	Credit Suisse 5yr,7.05%,5y-2y swap	-	〃	10,000	30,463	-	30,463
					70,868		70,8686
					$ 1,089,424		$ 1,089,424
	Stocks						
	Alcor Micro Corp.	-	Financial assets carried at cost-noncurrent	2,498,477	$ 78,000	4	$ -
	Dramexchange Tech Inc.	-	〃	158,599	1,125	2	-
	Transcend Japan	The Company's subsidiary	Long-term equity investments accounted for under equity method	6,400	97,627	100	97,627
	Saffire	〃	〃	21,800,000 (Note)	753,504 (Note)	100	753,532
	Transcend UK	〃	〃	50,000	(9,062)	100	(9,062)
	Add: credit balance of long-term investment reclassified to other liabilities		Other liabilities		9,062		
					$ 930,256		

Note: As of March 14, 2007 the ending balance includes USD700,000 (700,000 shares) that had not completed the procedure of the register of establishment.

Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	December 31, 2006 Number of shares or units	Book value (in thousand)	Percentage of Company's ownership	Market value or net worth per share (in thousand)
Suffire	Stocks						
	Memhiro	The Company's subsidiary	Long-term equity investments accounted for under equity method	33,407,000 (note)	US$ 21,828 (Note)	100	US$ 21,828
Memhiro	Stocks						
	Transcend Shanghai	The Company's subsidiary	Long-term equity investments accounted for under equity method	-	US$ 19,498	100	US$ 19,498
	Transtech Trading (Shanghai) Co., Ltd.	〃	〃	-	US$ 487	100	US$ 487
	Transcend USA	〃	〃	625,000	US$ 1,557	100	US$ 1,557
	Transcend Europe	〃	〃	100	US$ 1,286	100	US$ 1,287
	Transcend Germany	〃	〃	-	US$ 154	100	US$ 154
					US$ 22,983		US$ 22,983
Transcend Europe	Transcend Maryland	The Company's subsidiary	Long-term investments	200,000	€ 84	100	€ 84

Note: As of March 14, 2007 the ending balance includes USD700,000 (1,120,000 shares) that had not completed the procedure of the register of establishment.

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

January 1, 2006 – December 31, 2006

					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 (Note A)	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 (Note A)
Transcend Taiwan	NITC Bond Fund	Financial assets at fair value through profit or loss	-	-	1,663	$268,957	7,959	$1,303,000	7,950	$1,301,854	$1,296,929	$4,925		1,672	$275,028
	ING Taiwan Bond Fund	"	-	-	22,318	329,682	99,870	1,497,000	103,974	1,558,701	1,552,466	6,235		18,214	274,216
	Capital Cash Reserves Fund	"	-	-	2,601	30,000	85,514	996,000	76,837	895,497	893,959	1,538		11,278	132,041
	JF(Taiwan) First Bond Fund	"	-	-	14,096	193,685	59,802	837,000	58,142	812,962	809,653	3,309		15,756	221,032
	ING Taiwan Select Bond Fund	"	-	-	-	-	12,477	140,000	12,477	140,091	140,000	91		-	-
	Cathay Capital Income Growth Bond Fund	"	-	-	-	-	11,027	120,000	11,027	120,212	120,000	212		-	-
	Saffire	Long-term equity investments accounted for under equity method	-	-	11,300	399,437	10,500	354,067 (Note B)	-	-	-	-		21,800 (Note C)	753,504 (Note C)
Saffire	Memhiro	"	-	-	16,607	US$10,866 thousand	16,800	US$10,962 thousand (Note B)	-	-	-	-		33,407 (Note D)	US$21,828 thousand (Note D)
Memhiro	Transcend Shanghai	"	-	-	-	US$9,800 thousand	-	US$9,698 thousand (Note B)	-	-	-	-		-	US$19,498 thousand

Note A: Not included dollars of adjustment of fair value changes.

Note B: Included dollars of investment income recognized under equity method and cumulative translation adjustment.

Note C: As of March 14, 2007 the ending balance includes USD700,000 (700,000 shares) that had not completed the procedure of the register of establishment.

Note D: As of March 14, 2007 the ending balance includes USD700,000 (1,120,000 shares) that had not completed the procedure of the register of establishment.

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

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

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

January 1, 2006 - December 31, 2006

			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	$2,074,129	8	Based on operating condition	No significant difference from those to third parties	Based on operating Condition	$ 812,474	22
〃	Transcend Europe	Subsidiary of Memhiro	〃	3,710,071	14	〃	〃	〃	907,332	24
〃	Transcend USA	〃	〃	1,880,538	7	〃	〃	〃	395,350	11
〃	Transcend Germany	〃	〃	1,775,641	7	〃	〃	〃	354,965	10
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	1,028,385	4	〃	〃	〃	142,107	4
〃	Transcend H.K.	Substantial related party	〃	887,553	3	〃	〃	〃	85,411	2
Transcend Japan	Transcend Taiwan	Parent Company	Purchases	(2,074,129)	100	Based on operating condition	No significant difference from those to third parties	〃	(812,474)	100
Transcend Europe	〃	〃	〃	(3,710,071)	100	〃	〃	〃	(907,332)	100
Transcend USA	〃	〃	〃	(1,880,538)	100	〃	〃	〃	(395,350)	100
Transcend Germany	〃	〃	〃	(1,775,641)	100	〃	〃	〃	(354,965)	100
C-Tech Corporation	〃	C-Tech Corporation's chairman is the Company's general manager	〃	(1,028,385)	100	〃	〃	〃	(142,107)	100
Transcend H.K.	〃	Substantial related party	〃	(887,553)	100	〃	〃	〃	(85,411)	100

H. Receivables from related parties exceeding $100,000 or 20% of contributed capital as of December 31, 2006

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	$ 812,474	3.03	$ -	-	$ 385,490	$ -
	Transcend Europe	Subsidiary of Memhiro	907,332	5.16	-	-	895,446	-
	Transcend USA	"	395,350	6.52	-	-	344,981	-
	Transcend Germany	"	354,965	6.57	-	-	344,320	-
	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	142,107	6.61	-	-	72,126	-

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

2) Related information of investee companies as of December 31, 2006:

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount: December 31, 2006	Original Investment Amount: December 31, 2005	Holding Status: Shares	Holding Status: Percentage	Holding Status: Book value	Net income (loss) of investee Company (in thousand)	Recognized investment income (loss)	Relationship with the Company
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%	$ 97,627	¥ 13,149	$ 3,678	Subsidiary of the Company
	Saffire Investment Ltd.	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, B.V.I.	Investments holding company	719,149	378,359	21,800,000 (Note A)	100%	753,504 (Note A)	(US$ 364)	(12,446)	〃
	Transcend UK	Unit 2, Quad tech, Boundaryway, Hemel Hempstead, Hertfordshire, United Kindom	Wholesaler of computer memory modules and peripheral products	2,883	2,883	50,000	100%	(9,062)	(£ 126)	(7,540)	〃
Saffire	Memhiro Pte Ltd.	10 Hoe Chiang Rd, #17-02 Keppel Towers, Singapore 089315	Investments holding company	673,651	332,861	33,407,000 (Note B)	100%	US$ 21,828 thousand (Note B)	(US$ 361)		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%	US$ 1,557 thousand	US$ 43		Subsidiary of Memhiro Pte Ltd.
	Transcend Europe	Cairostraat 40, 3047 BC, Rotterdam, the Netherlands	〃	1,693	1,693	100	100%	US$ 1,286 thousand	€ 402		〃
	Transcend Germany	Fughafenstrasse 54, 22335 Hamburg, Germany	〃	2,288	2,288	-	100%	US$ 154 thousand	€ 118		〃
	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	650,909	326,429	-	100%	US$ 19,498 thousand	(RMB 8,247)		〃

Note A: As of March 14, 2007 the ending balance includes USD700,000 (700,000 shares) that had not completed the procedure of the register of establishment.

Note B: As of March 14, 2007 the ending balance includes USD700,000 (1,120,000 shares) that had not compl eted the procedure of the register of establishment.

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount December 31, 2006	Original Investment Amount December 31, 2005	Holding Status Shares	Holding Status Percentage	Holding Status Book value	Net income (loss) of investee Company (in thousand)	Recognized investment income (loss)	Relationship with the Company
Memhiro	Transtech Trading (Shanghai) Co., Ltd.	403Room,4F,No.1010, Kaixuan Road , Changning District, Shanghai	Manufacturer and seller of computer memory modules, Storage products and disks. Wholesaler and agent of computer memory modules and Peripheral products. Retailer of computer components	$ 16,310	$ -	-	100%	US$ 487 thousand	(RMB 105)	-	Subsidiary of Memhiro Pte Ltd
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	6,570	200,000	100%	€ 84 thousand	(US$ 58)	-	Subsidiary of Transcend Europe

3) Information on Mainland China investments for the year ended December 31, 2006

Investee in Mainland China	Main activities	Paid-in capital	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2006	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, 2006	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, 2006	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2006
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	US$19,800,000	Note A	US$ 9,800,000	US$1,000,000	US$ -	US$19,800,000	100%	($ 33,652)	$ 635,535	$ -
Transtech Trading (Shanghai) Co., Ltd.	Manufacturer and seller of computer memory modules, Storage products and disks. Wholesaler and agent of computer memory modules and peripheral products. Retailer of computer components	US$ 500,000	Note A	US$ -	US$ 500,000	US$ -	US$ 500,000	100%	($ 427)	$ 15,872	$ -

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2006	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$20,300,000	US$35,100,000	$ 2,992,070

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, 2006 – December 31, 2006

				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	$ 3,710,071	There is no significant difference in unit price from these to third parties, but credit terms are based on operating condition	14%
〃	〃	Transcend Japan	〃	〃	2,074,129	〃	8%
〃	〃	Transcend USA	〃	〃	1,880,538	〃	7%
〃	〃	Transcend Germany	〃	〃	1,775,641	〃	7%
〃	〃	Transcend Europe	〃	Accounts Receivable	907,332	〃	7%
〃	〃	Transcend Japan	〃	〃	812,474	〃	6%
〃	〃	Transcend USA	〃	〃	395,350	〃	3%
〃	〃	Transcend Germany	〃	〃	354,965	〃	3%

January 1, 2005 – December 31, 2005

				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	$ 2,744,942	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%

Note 1: Transaction information between parent company and subsidiaries should be 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 using consolidated assets, for income statement accounts, it's calculated using 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	2006	2005
Europe	$ 9,695,960	$ 6,844,374
Asia	7,411,837	4,085,068
America	1,980,991	1,295,966
Others	689,048	434,277
Total	$ 19,777,836	$ 12,659,685

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 2006 and 2005.