TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants

T9030PWCR07000547

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, 2007 and 2006, 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$771,535 thousand and NT$903,490 thousand, constituting 4 percent and 7 percent of the related consolidated totals, as of December 31, 2007 and 2006, respectively, and total revenues of NT$4,429,349 thousand and NT$3,791,581 thousand, constituting 12 percent and 14 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 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 consolidated 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 financial position of Transcend Information, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity 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.

March 20, 2008
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 financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of 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, 2007 AND 2006
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 4,586,291	$ 1,546,413
Financial assets at fair value through profit or loss-current(Notes 4(2),10 and 11)	1,580,472	1,089,424
Notes receivable, net	12,542	14,911
Accounts receivable – third parties, net (Note 4(3))	2,543,622	2,437,932
Accounts receivable – related parties, net (Notes 5 and 11)	420,016	259,040
Other receivable – (Notes 5 and 11)	287,249	395,758
Inventories, net (Note 4(4))	4,744,936	4,368,942
Other current assets (Note 4(9))	22,641	178,619
	14,197,769	10,291,039
Long-term Investments (Notes 4(5), 10 and 11)		
Financial assets carried at cost- noncurrent	839,125	79,125
Other Financial Assets - Noncurrent (Note 6)	3,243	3,260
Property, Plant and Equipment, net (Notes 4(6) and 6)		
Cost		
Land	871,123	849,926
Buildings	1,331,424	1,253,542
Machinery	434,621	242,950
Transportation equipment	18,357	14,007
Furniture and fixtures	76,641	67,706
Miscellaneous equipment	52,979	8,215
Total	2,785,145	2,436,346
Less: accumulated depreciation	(374,450)	(262,397)
Construction in progress and prepayments for equipment	314,632	-
	2,725,327	2,173,949
Intangible Assets		
Other intangible assets (Note 4(7))	121,386	116,533
Other Assets		
Refundable deposits	6,611	5,971
Deferred income tax assets – noncurrent (Note 4(9))	-	2,741
Other assets, net (Note 6)	18,522	50,278
	25,133	58,990
TOTAL ASSETS	$ 17,911,983	$ 12,722,896

	2007	2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans (Note 4(8))	$ 108,315	$ 106,305
Financial liabilities at fair value through profit or loss-current (Notes 4(2) and 10)	-	63,255
Notes payable	27,724	146,549
Accounts payable	2,192,966	1,874,678
Income tax payable (Note 4(9))	474,475	224,417
Accrued expenses	363,073	216,605
Current portion of long-term liabilities (Notes 4(10)(11) and 10)	181,131	33,230
Other current liabilities (Note 5)	116,791	149,494
	3,464,475	2,814,533
Long-term Liabilities		
Bonds payable (Notes 4(10) and 10)	1,029,842	1,501,773
Long-term bank loans (Notes 4(11) and 10)	47,289	79,641
	1,077,131	1,581,414
Other Liabilities		
Accrued pension liabilities (Note 4(12))	17,978	19,860
Deferred income tax liabilities - noncurrent (Note 4(9))	12,316	-
Others	-	190
	30,294	20,050
Total Liabilities	4,571,900	4,415,997
Stockholders' Equity		
Capital stock (Note 4(13))		
Common stock	3,706,457	3,375,206
Capital reserve (Note 4(14))		-
Paid-in capital in excess of par value-common stock	3,836,848	797,015
Paid in capital in excess of convertible bond (Note 4(10))	302,320	89,833
Capital surplus from business combination	35,128	35,128
Capital reserve from stock warrants	66,250	89,070
Retained earnings		
Legal reserve (Note 4(15))	1,084,495	841,347
Special reserve (Note 4(16))	-	14,982
Unappropriated earnings (Note 4(16))	4,238,521	3,056,173
Other adjustments		
Cumulative translation adjustments	70,064	8,145
Total Stockholders' Equity	13,340,083	8,306,899
Commitments and Contingent Liabilities (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 17,911,983	$ 12,722,896

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 20, 2008.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

	2007	2006
Operating revenue		
Sales (Notes 5 and 11)	$ 38,706,497	$ 26,530,463
Less: Sales returns	(590,883)	(338,838)
Sales allowances	(246,247)	(10,528)
Net sales	37,869,367	26,181,097
Operating costs		
Cost of sales (Notes 4(18) and 11)	(33,554,997)	(22,549,173)
Gross profit	4,314,370	3,631,924
Operating expenses (Note 4(18))		
Sales and marketing expenses	(982,798)	(757,739)
General and administrative expenses	(387,975)	(264,536)
Research and development expenses	(107,760)	(84,464)
Operating expenses	(1,478,533)	(1,106,739)
Operating income	2,835,837	2,525,185
Non-operating income		
Interest income	69,221	23,998
Gain on valuation of financial assets (Note 4 (2))	17,936	28,713
Gain on valuation of financial liabilities (Note 4(2))	106,703	-
Exchange gain – net	337,976	184,153
Gain from price recovery of inventory	35,687	-
Other incomes	49,101	37,594
Non-operating incomes	616,624	274,458
Non-operating expenses		
Interest expense	(45,488)	(7,892)
Loss on valuation of financial liabilities	-	(4,965)
Provision for loss on inventory obsolescence and market price decline	-	(54,549)
Other expenses	(16,405)	(840)
Non-operating expenses	(61,893)	(68,246)
Income from continuing operations before income tax	3,390,568	2,731,397
Income tax expense (Note 4(9))	(690,172)	(302,640)
Cumulative effect of changes in accounting principles (Note3)	-	2,724
Consolidated net income	$ 2,700,396	$ 2,431,481
Attributable to:		
Equity holders of the Company	$ 2,700,396	$ 2,431,481

	2007 Before income tax	2007 After income tax	2006 Before income tax	2006 After income tax
Basic earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 9.77	$ 7.78	$ 8.02	$ 7.14
Diluted earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 9.10	$ 7.21	$ 7.90	$ 7.03

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

See report of independent accountants dated March 20, 2008.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings				
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Total
2006							
Balance at January 1, 2006	$ 3,183,778	$ 927,675	$ 696,021	$ 857	$ 1,842,253	($ 14,982)	$ 6,635,602
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 adjustments	-	-	-	-	-	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
2007							
Balance at January 1, 2007	$ 3,375,206	$ 1,011,046	$ 841,347	$ 14,982	$ 3,056,173	$ 8,145	$ 8,306,899
Reversal of special reserve	-	-	-	(14,982)	14,982	-	-
Appropriations of earnings:							
Legal reserve	-	-	243,148	-	(243,148)	-	-
Stock dividends	33,752	-	-	-	(33,752)	-	-
Cash dividends	-	-	-	-	(1,215,074)	-	(1,215,074)
Directors' and supervisors' remuneration	-	-	-	-	(2,566)	-	(2,566)
Employees' bonus	11,547	-	-	-	(38,490)	-	(26,943)
Increase in capital through cash infusion	250,000	2,950,000	-	-	-	-	3,200,000
Cumulative translation adjustments	-	-	-	-	-	61,919	61,919
Conversion of bonds payable to capital stock	35,952	279,500	-	-	-	-	315,452
Consolidated net income for 2007	-	-	-	-	2,700,396	-	2,700,396
Balance at December 31, 2007	$ 3,706,457	$ 4,240,546	$1,084,495	$ -	$ 4,238,521	$ 70,064	$ 13,340,083

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 20, 2008.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2007	2006
Cash flows from operating activities		
Consolidated net income	$ 2,700,396	$ 2,431,481
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on valuation of financial assets	(17,936)	(28,713)
(Gain) loss on valuation of financial liabilities	(106,703)	4,965
Bad debts expense	28,357	7,884
Gain from price recovery of inventory	(35,687)	-
Provision for loss on inventory obsolescence and market price decline	-	54,549
Depreciation	109,179	67,236
(Gain) loss on disposal of property, plant and equipment	(1,533)	840
Gain from price recovery of impairment of idle assets	(15,172)	-
Amortization	2,482	2,971
Amortization of discount on bonds payable	26,371	2,456
Unrealized exchange loss on bonds payable	(743)	4,043
Cumulative effect of changes in accounting principles	-	(2,724)
Changes in assets and liabilities:		
Notes and accounts receivable	(311,176)	(1,099,756)
Other receivable	108,509	(395,758)
Inventories	(340,307)	(2,404,143)
Deferred income tax assets and liabilities	53,059	(32,481)
Other current assets	174,287	185,323
Notes and accounts payable	199,463	1,459,739
Income tax payable	250,058	67,242
Accrued expenses	146,468	47,085
Other current liabilities	34,246	35,474
Accrued pension liabilities	(1,882)	(1,222)
Net cash provided by operating activities	3,001,736	406,491

(Continued)

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2007	2006
Cash flows from investing activities		
(Increase) decrease in financial assets at fair value through profit or loss	($ 465,838)	$ 97,060
Decrease (increase) in other receivables - related parties	5,625	(39,128)
Increase in financial assets carried at cost	(760,000)	(78,000)
Acquisition of property, plant and equipment	(689,095)	(400,376)
Proceeds from disposal of property, plant and equipment	21,240	1,559
Increase in refundable deposits	(640)	(1,605)
Net cash used in investing activities	(1,888,708)	(420,490)
Cash flows from financing activities		
Increase in short-term bank loans – net	2,010	4,257
(Decrease) increase in long-term bank loans	(30,387)	53,675
Increase in bonds payable	-	1,500,000
Increase in capital through cash infusion	3,200,000	-
Payment of cash dividends	(1,215,074)	(955,232)
Payment of employees’ bonus	(26,943)	(25,339)
Directors’ and supervisors’ remuneration	(2,566)	-
Decrease in guarantee deposits received	(190)	(84)
Net cash provided by financing activities	1,926,850	577,277
Net increase in cash and cash equivalents	3,039,878	563,278
Cash and cash equivalents at beginning of year	1,546,413	983,135
Cash and cash equivalents at end of year	$ 4,586,291	$ 1,546,413
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 20,756	$ 5,436
Income tax	$ 382,945	$ 273,152
Financing activities which have no effect on cash flows:		
Unpaid cash dividends and employees’ bonus	$ -	$ 2,121
Conversion of bonds payable to capital stock	$ 315,452	$ 110,311

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

See report of independent accountants dated March 20, 2008.

(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, 2007, the Company’s authorized and total contributed capital were $4,278,000 and $3,706,457, 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, 2007, the Company and its subsidiaries had approximately 1,750 employees.

2) Consolidated subsidiaries:

Name	Relationship	Main activities	Ownership percentage as of December 31, 2007
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)	〃	〃	〃
Transcend Information Trading GmbH,	Note c	Wholesaler of computer memory modules and	100%

Name	Relationship	Main activities	Ownership percentage as of December 31, 2007
Hamburg (Transcend Germany)		peripheral products	
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)	〃	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. Subsidiary of Transcend Europe.

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.

7) Contents of subsidiaries' securities issued by the parent company : None.

8) Information on convertible bonds and common stock issued by subsidiaries : 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 on 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 "Cumulative Translation Adjustments" under stockholders' equity.

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. However, translation exchange gains or losses on inter-company accounts that are, in nature, deemed long-term are accounted for as a reduction in stockholders' equity.

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) <u>Classification of current and non-current items</u>

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 (10).

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.

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, except for Transcend U.S.A which uses the first-in, first-out method. 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.

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 of 50 years using the straight-line method.

11) <u>Convertible bonds</u>

A. For 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) Employee stock options (intrinsic value method)

The employee stock options granted or amended on or after January 1, 2004 are accounted for in accordance with EITF92-072, “Accounting for Employee Stock Options”, prescribed by the R.O.C. Accounting Research and Development Foundation. Under the stock-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share is prepared under the fair value method.

16) 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.

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. CHANGES IN ACCOUNTING PRINCIPLES

1) Financial instruments

A. Effective January 1, 2006, the Group adopted R.O.C. SFAS No. 34, "Accounting for Financial Instruments" and No. 36, “Disclosure and Presentation of Financial Instruments".

B. 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. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2007	2006
Petty cash and cash on hand	$ 1,131	$ 1,313
Checking and savings deposits	1,422,899	876,216
Time deposits	3,097,120	668,884
Bonds purchased with resale agreement	65,141	-
	$ 4,586,291	$ 1,546,413

As of December 31, 2007 and 2006, time deposits over 1 year amounted to $81,075 and $81,488, respectively.

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

	December 31, 2007	December 31, 2006
Financial assets held for trading		
Beneficiary certificates	$ 1,550,075	$ 1,011,749
Adjustment of financial assets held for trading	16,782	6,807
	1,566,857	1,018,556
Designated as at fair value through profit or loss:		
Bonds	6,454	71,676
Adjustment of designated as at fair value through profit or loss	(114)	(808)
	6,340	70,868
Financial liabilities held for trading		
Derivative financial liabilities	(43,356)	(58,290)
Adjustment of financial liabilities held for trading	50,631	(4,965)
	7,275	(63,255)
	$ 1,580,472	$ 1,026,169

The Group recognized net gain of $124,639 and $31,437 for the years ended December 31, 2007 and 2006.

3) Accounts receivable

	December 31, 2007	December 31, 2006
Accounts receivable	$2,613,205	$2,473,094
Less: Allowance for doubtful accounts	(69,583)	(35,162)
	$2,543,622	$2,437,932

As of December 31, 2007, the Company reclassified uncollectible accounts receivable in the amount of $6,440 to other assets-others and fully provided with allowance for doubtful accounts.

4) Inventories

	December 31,	
	2007	2006
Raw materials	$ 2,070,738	$ 1,944,364
Raw materials in transit	1,066,382	-
Work in process	431,781	1,025,248
Finished goods	1,128,096	1,451,552
Inventories in transit	101,738	37,264
	4,798,735	4,458,428
Less: Allowance for decline in market value and inventory obsolescence	(53,799)	(89,486)
	$ 4,744,936	$ 4,368,942

5) Financial assets carried at cost - noncurrent

Investee company	December 31,	
	2007	2006
Alcor Micro Corp.	$ 198,000	$ 78,000
Taiwan IC Packaging Corp.	640,000	-
Dramexchange Tech. Inc.	1,125	1,125
	$ 839,125	$ 79,125

The investment in Alcor Micro Corp. and Taiwan IC Packaging Corp. represent their shares issued through private placement, which are not allowed to be transferred during three years. 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, 2007 Original cost	Accumulated depreciation	Net Book value
Land	$ 871,123	$ -	$ 871,123
Buildings	1,331,424	(198,368)	1,133,056
Machinery	434,621	(114,252)	320,369
Transportation equipment	18,357	(4,708)	13,649
Furniture and fixtures	76,641	(48,112)	28,529
Miscellaneous equipment	52,979	(9,010)	43,969
Construction in progress and prepayments for equipment	314,632	-	314,632
	$ 3,099,777	($ 374,450)	$ 2,725,327

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

7) Other Intangible Assets

	December 31,	
	2007	2006
Land Use Right	$ 127,163	$ 119,573
Less: Accumulated amortization	(5,777)	(3,040)
	$ 121,386	$ 116,533

8) Short-term bank loans

	December 31,	
	2007	2006
Short-term loans	$ 108,315	$ 106,305
Annual interest rates	1.23%~5.23%	0.87%~5.42%

9) Income tax

	2007	2006
Income tax expense	$ 690,172	$ 302,640
Net change of deferred income tax	(53,059)	32,481
Under provision of prior year's income tax	1,580	(9,086)
Prepaid income tax	(164,218)	(101,618)
Income tax payable	$ 474,475	$ 224,417

A. As of December 31, 2007 and 2006, the deferred income tax assets and liabilities are as follows:

	December 31,	
	2007	2006
Total deferred income tax assets	$ 30,917	$ 60,463
Total deferred income tax liabilities	$ 29,835	$ 6,322

B. As of December 31, 2007 and 2006, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2007		2006	
Items	Amount	Tax Effect	Amount	Tax Effect
Current:				
Allowance for doubtful accounts	$ 22,927	$ 9,221	$ 3,084	$ 771
Unrealized loss on decline in market value and inventory obsolescence	52,019	13,366	93,184	23,296
Unrealized profit on intercompany transactions	17,536	4,384	86,073	21,518
Unrealized exchange loss	(57,484)	(14,371)	12,208	3,052
Others	3,192	798	11,052	2,763
		13,398		51,400
Noncurrent:				
Pension expense	11,164	2,791	14,753	3,688
Investment income on foreign investments accounted for under the equity method	(61,856)	(15,464)	(25,288)	(6,322)
Unrealized loss on decline in net realizable value of idle assets	-	-	15,172	3,793
Unrealized permanent decline in market value financial assets carried at cost	1,427	357	6,328	1,582
		(12,316)		2,741
		$ 1,082		$ 54,141

C. The significant differences between accounting income and tax income in 2007 and 2006 are as follows:

a) Permanent differences: For 2007, the income covered under a five-year tax holiday was approximately $837,000 and gain on valuation of financial liabilities was approximately $107,000. For 2006, the income covered under a five-year tax holiday was approximately $1,590,000.

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, 2007 and 2006, the income tax expense included the additional 10% corporate income tax related to the 2006 and 2005 undistributed earnings amounting to $91,343 and $23,571, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2006 and 2005 earnings.

F. As of December 31, 2007, the Company's income tax returns for the years through 2005 have been assessed and approved by the Tax Authority.

10) Bonds payable

	December 31,	
	2007	2006
First Euro convertible bonds payable	$ 145,935	$ 146,677
Less: Due within one year	(145,935)	-
	-	146,677
First domestic convertible bonds payable	1,115,700	1,500,000
Less: Discount of bonds payable	(85,858)	(144,904)
	1,029,842	1,355,096
	$1,029,842	$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, 2007, the adjusted conversion price was NT$50.66(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, 2007, bonds in the amount of US$30,500 (in thousands) have 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 with 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 was $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. As of December 31, 2007, the adjusted conversion price was $102.8 per share.

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.

f) Redemption at the Companys' option:

The Company may, after giving not less than 40 days notice to the Bondholders, call all, or part only, of the Bonds on or at any time after December 24, 2006 at their principal amount in the event that the closing price of the Shares on the TSE, calculated at the prevailing exchange rate, for each of the 30 consecutive Trading Days, is at least 50% of the Conversion Price in effect on each such Trading Day or at least 90% in principal amount of the Bonds have already been redeemed, converted, or purchased and cancelled.

g) As of December 31, 2007, bonds in the amount of $384,300 had been converted into 3,595,124 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 $302,320 was credited to capital reserve.

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. As of December 31 2007, due to the bonds conversion to common stock, the "Capital reserve from stock warrants" amounted to $66,250. The fair value of put and call options embedded in bonds payable was separated from bonds payable, and was recognized in "Financial assets or liabilities at fair value through profit or loss".

11) Long-term loans

	December 31,	
	2007	2006
Long-term loans	$ 82,484	$ 112,871
Less: Due within one year	(35,195)	(33,230)
	$ 47,289	$ 79,641
Annual interest rates	1.277%~5.20%	1.277%-5.20%

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 Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

B) As of December 31, 2007 and 2006, the balance of the retirement fund with the Bank of Taiwan was $27,066 and $21,390, respectively.

C) The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2007 and 2006, are as follows:

	2007	2006
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,	
	2007	2006
Benefit obligation:		
Vested benefit obligation	$ -	$ -
Non-vested benefit obligation	(43,650)	(37,428)
Accumulated benefit obligation	(43,650)	(37,428)
Additional benefits based on projected future salaries increase	(17,709)	(16,250)
Projected benefit obligation	(61,359)	(53,678)
Fair value of plan assets	27,066	21,390
Funded status	(34,293)	(32,288)
Unrecognized net transition obligation	19	20
Unrecognized pension loss	16,296	12,408
Accrued pension liabilities	($ 17,978)	($ 19,860)
Vested benefit	$ -	$ -

E) For the years ended December 31, 2007 and 2006, the details of the Company's net periodic pension costs are as follows:

	December 31,	
	2007	2006

	2007	2006
Service cost	$ 1,568	$ 1,510
Interest cost	1,879	1,713
Expected return on plan assets	(596)	(506)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	293	204
Net periodic pension cost	$ 3,145	$ 2,922

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 employment is terminated. The net pension cost recognized under the New Plan for the years ended December 31, 2007 and 2006 was $23,874 and $18,072, respectively.

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. Monthly contributions to the Plan are based on 22% and the Company doesn't have other responsible for employees.

H) Except for Transcend UK and Transcend MD, Transcend Japan, Transcend USA, Transcend Europe and Transcend Germany have defined contribution plans (the Plans) covering all regular employees. Monthly contributions to the Plans are based on a fixed percentage of the employees' monthly salaries and wages.

13) <u>Capital stock</u>

A. On June 11, 2007, the stockholders at their annual stockholders' meeting adopted a resolution to capitalize retained earnings and employees' bonus of $45,299 (4,529 thousand shares). The amount of capitalization had been approved by the Securities and Futures Bureau on July 26, 2007 and had been registered.

B. On August 14, 2007, the Board of Directors adopted a resolution to issue 25,000 thousand shares of common stock to allow an increase in capital through a cash infusion amounting to $3,200,000 at a subscription price of $128 per share. The amount of capital raised had been approved by the competent authorities and had been registered.

C. Employee stock options

In accordance with the Board of Directors' resolution on September 12, 2007, the Company decided to issue 5,000 units of employee stock options, with a unit of employee stock option representing 1,000 shares of the Company's common stock. As of December 31, 2007, the Company had issued 4,536 units of employee stock options. The exercise price under the stock-based employee compensation plan is not less than the closing price of the Company's common stock at the grant date and is subject to adjustments due to changes in the number of common shares. The vesting period of the Company's employee stock option plan is six years. The employees may exercise the stock options in installments after two years from the date the stock options are granted.

(1) Details of the employee stock options are set forth below :

	December 31, 2007	
	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	-	$ -
Options granted	4,536	120.00
Distribution of stock dividends/ adjustments for number of shares granted for one unit of option	-	-
Options exercised	-	-
Options revoked	(72)	-
Options outstanding at end of year	4,464	120.00
Options exercisable at end of year	-	-

(2) Details of the employee stock options outstanding are set forth below :

	Options outstanding at end of year			Options exercisable at end of year	
Range of exercised price (in dollars)	Shares (in thousands)	Weighted-average remaining vesting period	Weighted-average exercise price (in dollars)	Shares (in thousands)	Weighted-average exercise price (in dollars)
$ 120	4,464	4.375 years	$ 120	-	$ -

(3) The following sets forth the pro forma net income and earnings per share based on the assumption that the compensation cost is accounted for using the intrinsic value method for the stock options granted before the effectivity of R.O.C. SFAS No. 39, "Accounting for Share-based Payment" :

December 31, 2007

	Financial report	Pro forma
Net income	$ 2,700,396	$ 2,684,248
Basic earnings per share(in dollars)	7.78	7.74
Diluted earnings per share(in dollars)	7.21	7.16

14) Capital reserve

In accordance with the ROC Securities and Exchange, 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(10).

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, 2007 represents the accumulated appropriations through 2006.

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 0.2% for the directors' and supervisors' remuneration and 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 2007, the stockholders approved to distribute $3.6 (in dollar) cash dividends per share and $0.1 (in dollar) stock dividends per share. In 2006, the stockholders approved to distribute $3.0 (in dollar) cash dividends per share and $0.2 (in dollar) stock dividends per share.

D. As of March 20, 2008 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 2006 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	$	26,943
Employees' stock bonuses		
Shares (in thousands)		1,155
Amounts	$	11,547
As a percentage of outstanding common shares		0.34%
Directors' and supervisors' remunerations	$	2,566
b) Information regarding earnings per common share (in dollars)		
Original earnings per common share	$	7.23
Adjusted earnings per common share (Note a)	$	7.11

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 13.90%. As of December 31, 2007, the imputation tax credit account balance was $357,330 and the estimated creditable tax ratio was 19.65%. As of December 31, 2007, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $4,117,424, respectively.

17) Earnings per common share

	For the year ended December 31, 2007				
	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	$3,390,568	$2,700,396	346,886	$ 9.77	$ 7.78
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	(80,332)	(80,332)	16,633		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$3,310,236	$2,620,064	363,519	$ 9.10	$ 7.21

	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	340,688	$ 8.02	$ 7.14
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	346,762	$ 7.90	$ 7.03

The above weighted-average number of outstanding common shares has been adjusted retroactively in proportion to retained earnings and capital reserve capitalized for the years ended December 31, 2007 and 2006.

18) Personnel, depreciation and amortization expenses

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

	For the year ended December 31, 2007		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 316,923	$ 618,233	$ 935,156
Insurance	18,585	62,396	80,981
Pension	17,815	16,216	34,031
Others	22,652	25,099	47,751
Depreciation	60,079	49,100	109,179
Amortization	341	2,141	2,482

	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

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 Corporation
Transcend (H.K.) Limited (Transcend H.K.)	Significant related party
Shanghai Transcend Information Inc. (Shanghai Transcend)	〃

2) Significant transactions and balances with related parties

A. Sales

	2007		2006	
	Amount	% of net sales	Amount	% of net sales
Transcend H.K.	$5,993,182	16	$ 887,553	3
C-Tech Corporation	709,434	2	1,028,385	4
Shanghai Transcend	37,972	-	75,799	-
	$6,740,588	18	$1,991,737	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,			
	2007		2006	
	Amount	% of accounts receivable	Amount	% of accounts receivable
Transcend H.K.	$ 302,407	10	$ 85,411	3
C-Tech Corporation	105,961	4	142,107	5
Shanghai Transcend	11,648	-	31,522	1
	$ 420,016	14	$ 259,040	9

C. Other payables

	December 31,			
	2007		2006	
	Amount	% of accounts receivable	Amount	% of accounts receivable
Transcend H.K.	$ 10,071	9	$ -	-

The payables arose from the advertising fees for global marketing.

D. Other receivables

	December 31,	
	2007	2006
Shanghai Transcend	$ 33,503	$ 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 Foundation 93-167.

6. PLEDGED ASSETS

		Book Value	
		December 31,	
Nature of Assets	Nature of liability secured	2007	2006
Property, plant and equipment and other assets	Long-term and short-term loans	$1,529,446	$1,544,583
Other financial assets-noncurrent-time deposit	Patent deposit	3,243	3,260
		$1,532,689	$1,547,843

7. COMMITMENTS AND CONTINGENT LIABILITIES

A. As of December 31, 2007, the Company has unused letters of credit for purchase of merchandise amounting to $200,000.

B. On October 23, 2007, SanDisk Corp. filed a complaint in the United States International Trade Commission ("ITC") against 25 respondents, including the Company and its ultimate parent company. SanDisk claims that flash memory controllers and products containing such flash memory controllers, including Transcend flash memory products, infringe certain specified claims of United States Patent. The complaint also seeks a permanent cease and desist order. On October 24, 2007 SanDisk Corp. also filed two complaints for alleged patent infringement against multiple defendants, including the Company and its ultimate parent company, in the United States District Court for the Western District of Wisconsin under the patent laws of the United States of America. For the year ended December 31, 2007, the sales amount of the Company's American subsidiary accounted for 6% of the consolidated sales amount, and net income of $7,425 was produced by it for that year. The Company's American subsidiary has attorneys in this area tending to this case. As of March 20, 2008, the American District Court was still waiting for the investigation results of ITC. As the ultimate outcomes of the lawsuit are undetermined, the Company has not accrued any contingent losses for the lawsuit.

8. SIGNIFICANT LOSS OR DAMAGE EXPERIENCE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Fair values of financial assets

	December 31, 2007		
		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	$7,859,574	$ -	$7,859,574
Financial assets at fair value through profit or loss-current	1,573,197	1,566,857	6,340
Financial assets carried at cost-noncurrent	839,125	-	-
Liabilities			
Financial liabilities with fair values equal to book values	3,211,820	-	3,211,820
Bonds payable	1,175,777	307,923	1,029,842
Long-term loans	47,289	-	47,289
Derivative financial instruments			
Assets:			
Financial assets at fair value through profit or loss-current	7,275	-	7,275

	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	1,335,096
Long-term loans	79,641	-	79,641
Derivative financial instruments			
Liabilities:			
Financial liabilities at fair value through profit or loss-current	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 long-term loans 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, 2007 and 2006, the financial assets and the financial liabilities with fair value and cash flow risk due to the change of interest amounted to $4,520,366 and $1,542,635, respectively.

C. For the years ended December 31, 2007 and 2006, total interest income for financial assets that are not at fair value through profit or loss amounted to $68,129 and $17,993 respectively.

D. <u>Strategies for controlling financial risk</u>

(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 mainly 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, 2007	December 31, 2006
Direct/indirect subsidiaries of the Company		
Letter of credit (Transcend Japan)	¥ 500 million	¥ 500 million
Letter of credit (Transcend USA)	US$ 2.5 million	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.

4) Elimination of transactions between the Company and subsidiaries

Transactions (2007)	Transcend Japan	Saffire	Transcend UK	Transcend USA	Transcend Germany	Transcend Europe	Transcend Shanghai	Transtech Shanghai
A) Elimination of long-term investments	$ 102,411	$1,333,026	($ 11,611)	$ -	$ -	$ -	$ -	$ -
B) Elimination of intercompany receivable and payable accounts								
(1)Accounts receivable	1,136,497	-	-	279,046	312,622	724,864	-	50,702
(2)Accounts payable	11,684	-	-	9,852	10,158	23,280	163,897	-
C) Elimination of income statement accounts								
(1)Sales	3,124,796	-	-	2,010,920	1,871,136	4,501,829	-	52,029
(2)Purchases	480	-	-	2,655	-	1,236	1,936,075	-
(3)Unrealized profit on intercompany transactions	11,570	-	-	1,210	2,314	2,440	-	-
(4)Realized profit on intercompany transactions	33,357	-	-	18,294	10,168	24,254	-	-
(5)Other revenues	3,528	-	-	4,438	3,148	10,902	18,363	-

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								
(1)Sales	2,074,129	-	-	1,880,538	1,775,641	3,710,071	2	55,631
(2)Purchases	-	-	-	24,755	-	-	-	25,577
(3)Unrealized profit on intercompany transactions	33,357	-	-	18,294	10,168	24,254	-	-
(4)Realized profit on intercompany transactions	17,241	-	-	2,306	3,937	1,762	-	-
(5)Other revenues	3,417	-	-	3,323	4,048	10,173	-	58

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others :

January 1, 2007 – December 31, 2007

Name of the company	Name of the borrowers	Accounts used to record such Lending	The maximum balance for the year ended December 31, 2007	Ending Balance	Interest rate	Reason for lending	Amount of sales to (purchases from) the borrower for the year ended December 31, 2007	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.	Other receivables	$ 48,146	$ 33,503	-	Business transaction-Sales	$ 48,146	-	$ -	$ -	$ 48,146	$ 48,146
Saffire	Memhiro	Due from subsidiary	US$ 1,250 Thousand	US$ 1,250 Thousand	-	For short-term lending	-	To maintain working capital	$ -	$ -	US$ 8,247 Thousand (Note)	US$ 10,309 Thousand (Note)

Note: The policy on the ceiling of credit limits for all borrowers and for each individual borrower from Saffire Investment Ltd. shall not exceed 20% and 25% of Saffire’s net asset value, respectively.

B. Endorsements and guarantees for others:

January 1, 2007 – December 31, 2007

Name of the company	Name of parties being guaranteed	Relationship with guaranteed	Ceiling of guarantee for single party	Maximum outstanding guarantee amount for the year ended December 31, 2007	Outstanding guarantee amount at December 31, 2007	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
Transcend Taiwan	Transcend USA.	Note b	Not exceeding 20% of the Company’s net asset value. ($13,340,083 × 20% ＝ $2,668,017)	US$2,500,000	US$2,500,000	-	1%	Not exceeding 40% of the Company’s net asset value. ($13,340,083 × 40% ＝ $5,336,033)
〃	Transcend Japan	Note a	〃	￥500,000,000	￥500,000,000	-	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. Marketable securities at December 31, 2007:

				December 31, 2007			
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						
	SinoPac Emerging Markets Fund	-	Financial assets at fair value through profit or loss-current	15,000	$ 17,517	-	$ 17,517
	Polaris De-Li Fund	-	〃	22,285,376	340,955	-	340,955
	Polaris Di-Po Fund	-	〃	15,151,784	170,676	-	170,676
	NITC Bond Fund	-	〃	90,793	15,177	-	15,177
	JF(Taiwan) First Bond Fund	-	〃	24,593,697	351,048	-	351,048
	Pca Well Pool Fund			25,191,185	320,553		320,553
	Yuanta Wan Tai Bond Fund	-	〃	3,524,875	50,016	-	50,016
	Fu-Hwa Bond Fund	-	〃	22,213,172	300,915	-	300,915
					1,566,857		1,566,857
	Bonds						
	PSC ECB	-	〃	2,000	6,340	-	6,340
					$ 1,573,197		$ 1,573,197
	Stocks						
	Alcor Micro Corp.	-	Financial assets carried at cost-noncurrent	4,746,815	$ 198,000	7	$ -
	Dramexchange Tech Inc.	-	〃	54,300	1,125	1	-
	Taiwan IC Packaging Corp.	-	〃	40,000,000	640,000	14	-
	Saffire	The Company's subsidiary	Long-term equity investments accounted for under equity method	36,600,000	1,333,026	100	1,337,330
	Transcend Japan	〃	〃	6,400	102,411	100	102,411
	Transcend UK	〃	〃	50,000	(11,611)	100	(11,611)
	Add: credit balance of long-term investment reclassified to other liabilities		Other liabilities		11,611		
					$ 2,274,562		

Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	December 31, 2007 Number of shares or units	Book value (in thousand)	Percentage of Company's ownership	Market value or net worth per share (in thousand)
Saffire	Stocks						
	Memhiro	The Company's subsidiary	Long-term equity investments accounted for under equity method	55,132,000	US$ 39,947	100	US$ 39,947
Memhiro	Shareholding						
	Transcend Shanghai	The Company's subsidiary	Long-term equity investments accounted for under equity method	-	US$ 37,159	100	US$ 37,159
	Transtech Shanghai	〃	〃	-	US$ (176)	100	US$ (176)
	Transcend Germany	〃	〃	-	US$ (10)	100	US$ (9)
	Stocks						
	Transcend USA	〃	〃	625,000	US$ 1,783	100	US$ 1,783
	Transcend Europe	〃	〃	100	US$ 2,346	100	US$ 2,349
					US$ 41,102		US$ 41,106
Transcend Europe	Transcend MD	The Company's subsidiary	Long-term equity investments accounted for under equity method	200,000	€ 143	100	€ 143

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

January 1, 2007 –December 31, 2007

					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	-	-	1,672	$ 275,028	4,131	$ 685,000	5,713	$ 946,321	$ 944,895	$ 1,426	90	$ 15,133
	ABN Amro Bond Fund	〃	-	-	18,214	274,216	-	-	18,214	274,837	274,216	621	-	-
	Capital Cash Reserves Fund	〃	-	-	11,278	132,041	-	-	11,278	132,201	132,041	160	-	-
	JF(Taiwan) First Bond Fund	〃	-	-	15,756	221,032	61,320	870,000	52,482	742,468	740,952	1,516	24,594	350,080
	Fu-Hwa Bond Fund	〃	-	-	-	-	22,213	300,000	-	-	-	-	22,213	300,000
	Fu-Hwa Yuli Bond fund	〃	-	-	-	-	8,831	110,000	8,831	110,082	110,000	82	-	-
	Fubon Jn-Ju-I Fund	〃	-	-	-	-	38,092	470,000	38,092	470,743	470,000	743	-	-
	Polaris De- Li Fund	〃	-	-	-	-	44,641	680,000	22,355	340,571	340,000	571	22,286	340,000
	Polaris De-Po Fund	〃	-	-	-	-	25,391	285,000	10,240	115,103	114,846	257	15,151	170,154
	Pca Well Pool Fund	〃	-	-	-	-	25,191	320,000	-	-	-	-	25,191	320,000
	Alcor Mitro Corp.	Financial assets carried at cost-noncurrent	-	-	2,498	78,000	2,248	120,000	-	-	-	-	4,746	198,000
	Taiwan IC Packaging Corp.	〃	-	-	-	-	40,000	640,000	-	-	-	-	40,000	640,000
	Saffire	Long-term equity investments accounted for under equity method	-	The Company’s subsidiary	21,800	719,149	14,800	483,269	-	-	-	-	36,600	1,202,418
Saffire	Memhiro	〃	-	〃	33,407	673,651	21,725	483,269	-	-	-	-	55,132	1,156,920
Memhiro	Transcend Shanghai	〃	-	〃	-	650,909	-	483,269	-	-	-	-	-	1,134,178

Note A: Not including adjustments of fair value changes, investment income recognized under equity method and cumulative translation adjustments.

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, 2007 – December 31, 2007

			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 H.K.	Substantial related party	Sales	$ 5,993,182	16	Based on operating condition	No significant difference from those to third parties	Based on operating Condition	$ 302,407	8
〃	Transcend Europe	Subsidiary of Memhiro	〃	4,501,829	12	〃	〃	〃	724,864	19
〃	Transcend Japan	The company's subsidiary	〃	3,124,796	9	〃	〃	〃	1,136,497	29
〃	Transcend USA	Subsidiary of Memhiro	〃	2,010,920	6	〃	〃	〃	279,046	7
〃	Transcend Germany	〃	〃	1,871,136	5	〃	〃	〃	312,622	8
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	709,434	2	〃	〃	〃	105,961	3
〃	Transcend Shanghai	Subsidiary of Memhiro	Purchases	(1,936,075)	(6)	〃	Note A	〃	(163,897)	(8)

Note A：The purchase transactions between Transcend Taiwan and Transcend Shanghai were attributed to processing of supplied materials. No other similar transactions can be compared with.

Note B：The Company's sales to subsidiaries were equivalent to subsidiaries' purchases from the Company; accordingly, the Company didn't disclose the information on subsidiaries' purchases from the Company.

H. Receivables from related parties exceeding $100,000 or 20% of contributed capital as of December 31, 2007.

					Overdue receivables			
Name of the company	Name of the counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Amount	Action adopted for overdue accounts	Subsequent collections	Bad debts allowance provided
Transcend Taiwan	Transcend Japan	Subsidiary of the Company	$ 1,136,497	3.21	$ -	-	$ 725,066	$ -
	Transcend Europe	Subsidiary of Memhiro	724,864	5.52	-	-	724,864	-
	Transcend USA	〃	279,046	5.96	-	-	279,046	-
	Transcend Germany	〃	312,622	5.61	-	-	312,622	-
	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	105,961	5.72	-	-	105,961	-
	Transcend H.K.	Substantial related party	302,407	30.91	-	-	302,407	-

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

2) Related information of investee companies as of December 31, 2007:

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount December 31, 2007	December 31, 2006	Holding Status Shares	Percentage	Book value	Net income (loss) of investee Company (in thousand)	Recognized investment income (loss)	Relationship with the Company
Transcend Taiwan	Transcend Japan	Japan	Wholesaler of computer memory modules and peripheral products	$ 89,103	$ 89,103	6,400	100%	$ 102,411	($ 744)	($ 744)	Subsidiary of the Company
	Saffire	B.V.I.	Investments holding company	1,202,418	719,149	36,600,000	100%	1,333,026	43,483	39,793	〃
	Transcend UK	United Kindom	Wholesaler of computer memory modules and peripheral products	2,883	2,883	50,000	100%	(11,611)	(2,481)	(2,481)	〃
Saffire	Memhiro	Singapore	Investments holding company	1,156,920	673,651	55,132,000	100%	1,295,481	43,480	Note A	Subsidiary of Saffire Investment Ltd.
Memhiro	Transcend USA	United States of America	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100%	57,833	7,425	〃	Subsidiary of Memhiro Pte Ltd.
	Transcend Europe	Netherlands	〃	1,693	1,693	100	100%	76,084	27,747	〃	〃
	Transcend Germany	Germany	〃	2,288	2,288	-	100%	(301)	(5,520)	〃	〃
	Transcend Shanghai	Mainland China	Manufacturer and seller of computer memory modules, storage products and disks	1,134,178	650,909	-	100%	1,205,053	35,930	〃	〃

Note A: The Company didn't directly recognize the investment income (loss).

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount December 31, 2007	December 31, 2006	Holding Status Shares	Percentage	Book value	Net income (loss) of investee Company (in thousand)	Recognized investment income (loss)	Relationship with the Company
Memhiro	Transtech Shanghai	Mainland China	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	$ 16,310	-	100%	($ 5,719)	($ 21,980)	Note A	Subsidiary of Memhiro Pte Ltd.
Transcend Europe	Transcend MD	United States of America	Wholesaler of computer memory modules and peripheral products	6,570	6,570	200,000	100%	6,825	2,631	〃	Subsidiary of Transcend Information Europe B.V.

Note A： The Company didn’t directly recognize the investment income (loss).

3) Information on Mainland China investments for the year ended December 31, 2007

1. Information on Mainland China investments

Investee in Mainland China	Main activities	Paid-in capital	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2007	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, 2007	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, 2007	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2007
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	USD 34,600 Thousand	Note A	USD 19,800 Thousand	USD14,800 Thousand	USD -	USD 34,600 Thousand	100%	$ 35,943	$ 1,205,053	$ -
Transtech 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	US$ 500 Thousand	Note A	USD 500 Thousand	USD -	USD -	USD 500 Thousand	100%	(21,980)	(5,719)	-

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2007	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(Note B)
USD 35,100 Thousand	USD 35,100 Thousand	$ 4,168,017

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.

Note B：In accordance with “Regulations Governing Investment and Technology Cooperation in Mainland China”, prescribed by the Investment Commission, MOEA.

2. Significant transactions with investee companies in Mainland China, which were undertaken through third areas: please refer to Note 11(4).

4) Significant inter-company transactions

January 1, 2007– December 31, 2007

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	A	Sales	$ 4,501,829	There is no significant difference in unit price from these to third parties	12%
〃	〃	Transcend Japan	〃	〃	3,124,796	〃	8%
〃	〃	Transcend USA	〃	〃	2,010,920	〃	5%
〃	〃	Transcend Germany	〃	〃	1,871,136	〃	5%
		Transcend Shanghai		Purchase	1,936,075	Processing with supplied materials. No other similar transactions can be compared with.	6%
〃	〃	Transcend Europe	〃	Accounts Receivable	724,864	Based on operating condition	4%
〃	〃	Transcend Japan	〃	〃	1,136,497	〃	6%
〃	〃	Transcend USA	〃	〃	279,046	〃	2%
〃	〃	Transcend Germany	〃	〃	312,622	〃	2%
〃	〃	Transcend Shanghai	〃	Accounts Payable	163,897	〃	1%

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.

January 1, 2006 – December 31, 2006

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Europe	A	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%

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	2007	2006
Asia	$ 15,468,267	$ 7,411,837
Europe	11,890,604	9,695,960
America	2,381,539	1,980,991
Others	695,387	689,048
Total	$ 30,435,797	$ 19,777,836

4) Information about important customers

   There is a sale to a single customer constituting more than 10% of the Company's consolidated net sales in 2007 and 2006.

Customer	2007		2006	
	Amount	% of net sales	Amount	% of net sales
Customer A	$5,993,182	16	$ -	-