TRANSCEND INFORMATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

Report of Independent Accountants

(05)R.T9030.0012

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, 2004 and 2003, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2004 financial statements of Transcend Information Inc. and Transcend Information Trading GmbH, Hamburg and the 2003 financial statements of Transcend Japan Inc., Transcend Information Inc. and Transcend Information Trading GmbH, Hamburg, accounted for under the equity method, which statements reflect total revenues of NT$3,170,814 thousand and NT$4,012,683 thousand, constituting 21 percent and 41 percent of total consolidated revenues, and total assets of the NT$492,748 thousand and NT$1,081,098 thousand, constituting 6 percent and 16 percent of consolidated total assets, respectively. These 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 Japan, Transcend Information Inc. and Transcend Information Trading GmbH, is based solely upon the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of other auditors 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, 2004 and 2003, and the results of their operations and their cash flows for the year then ended in conformity with the "The Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

March 18, 2005
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.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 1,624,249	$ 1,246,119
Short-term investments (Notes 4(2) and 11)	1,791,779	1,351,118
Notes receivable	21,372	49,253
Accounts receivable – third parties (Note 4(3))	1,181,208	939,163
Accounts receivable – related parties (Notes 5 and 11)	108,655	81,549
Inventories (Note 4(4))	1,081,166	1,242,309
Other current assets (Note 4(9))	141,175	102,978
	5,949,604	5,012,489
Long-term Investment (Notes 4(5) and 11)		
Investment accounted for under the cost method	7,453	7,453
	7,453	7,453
Property, Plant and Equipment (Notes 4(6) and 6)		
Cost		
Land	740,741	745,685
Buildings	778,636	736,305
Machinery	82,555	85,045
Transportation equipment	7,082	11,851
Furniture and fixtures	55,476	53,090
Miscellaneous equipment	4,786	4,648
Cost and revaluation	1,669,276	1,636,624
Less: accumulated depreciation	(131,703)	(96,547)
Prepayments on equipment	13,826	2,773
	1,551,399	1,542,850
Other Assets		
Refundable deposits	4,493	4,237
Deferred expenses	-	8,459
Deferred income tax assets – noncurrent (Note 4(9))	1,980	4,707
Other assets (Notes 4(7) and 6)	239,336	248,876
	245,809	266,279
TOTAL ASSETS	$ 7,754,265	$ 6,829,071

	2004	2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans (Note 4(8))	$ 229,689	$ 274,724
Commercial paper payable	-	100,000
Notes payable	22,656	9,573
Accounts payable	419,653	326,146
Income tax payable (Note 4(9))	158,478	287,409
Accrued expenses	125,957	71,274
Current portion of long-term liabilities	19,892	19,068
Other current liabilities (Note 4(9))	122,459	80,906
	1,098,784	1,169,100
Long-term Liabilities		
Bonds payable (Note 4(10))	800,678	1,188,950
Long-term bank loans	65,545	88,193
	866,223	1,277,143
Other Liabilities		
Accrued pension liabilities (Note 4(12))	18,422	15,829
Others	1,469	1,285
	19,891	17,114
Total Liabilities	1,984,898	2,463,357
Stockholders' Equity		
Capital stock		
Common stock (Note 4(13))	2,782,277	2,261,000
Capital reserve		
Paid-in capital in excess of par value (Note 4(14))	357,315	71,005
Capital surplus from business combination	59,655	59,655
Retained earnings		
Legal reserve (Note 4(15))	507,623	364,776
Special reserve (Note 4(16))	-	4,274
Unappropriated earnings (Note 4(16))	2,063,354	1,600,058
Other adjustments		
Cumulative translation adjustment	(857)	4,946
Total Stockholders' Equity	5,769,367	4,365,714
Commitments and Contingent Liabilities (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,754,265	$ 6,829,071

The accompanying notes are an integral part of these financial statements.
See the report of independent accountants dated March 18, 2005.

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

	2004	2003
Operating revenue		
Sales (Note 5)	$ 15,319,059	$ 10,168,242
Less: Sales returns	(372,247)	(274,702)
Net sales	14,946,812	9,893,540
Operating costs		
Cost of sales (Note 4(18))	(12,175,394)	(7,579,763)
Gross profit	2,771,418	2,313,777
Operating expenses (Note 4(18))		
Selling	(524,531)	(439,646)
General	(183,266)	(151,701)
Research and development	(60,104)	(52,341)
Operating expenses	(767,901)	(643,688)
Operating income	2,003,517	1,670,089
Non-operating income		
Interest income	26,525	21,299
Gain on disposal of investments	18,537	31,757
Exchange gain – net	109,834	200,220
Other income	30,847	3,880
Non-operating income	185,743	257,156
Non-operating expenses		
Interest expenses	(6,899)	(8,414)
Unrealized loss on decline in net realizable value of idle assets	-	(25,145)
Other expenses	(2,829)	(5,632)
Non-operating expenses	(9,728)	(39,191)
Income before income tax expenses	2,179,532	1,888,054
Income tax expenses (Note 4(9))	(295,559)	(459,584)
Consolidated net income	$ 1,883,973	$ 1,428,470

	2004 Before income tax	2004 After income tax	2003 Before income tax	2003 After income tax
Basic earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 7.93	$ 6.85	$ 6.91	$ 5.23
Diluted earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 7.47	$ 6.46	$ 6.70	$ 5.07

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

See the report of independent accountants dated March 18, 2005.

TRANSCEND INFORMATION, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings			Cumulative	
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Total
2003							
Balance at January 1, 2003	$ 2,006,000	$ 130,660	$ 256,503	$ 5,315	$ 1,210,080	($ 4,274)	$ 3,604,284
Appropriations of earnings:							
Legal reserve	-	-	108,273	-	(108,273)	-	-
Special reserve	-	-	-	(1,041)	1,041	-	-
Stock dividends	240,720	-	-	-	(240,720)	-	-
Cash dividends	-	-	-	-	(661,980)	-	(661,980)
Employees' bonus	14,280	-	-	-	(28,560)	-	(14,280)
Cumulative translation adjustment	-	-	-	-	-	9,220	9,220
Consolidated net income for 2003	-	-	-	-	1,428,470	-	1,428,470
Balance at December 31, 2003	$ 2,261,000	$ 130,660	$ 364,776	$ 4,274	$ 1,600,058	$ 4,946	$ 4,365,714
2004							
Balance at January 1, 2004	$ 2,261,000	$ 130,660	$ 364,776	$ 4,274	$ 1,600,058	$ 4,946	$ 4,365,714
Appropriations of earnings:							
Legal reserve	-	-	142,847	-	(142,847)	-	-
Special reserve	-	-	-	(4,274)	4,274	-	-
Stock dividends	452,200	-	-	-	(452,200)	-	-
Cash dividends	-	-	-	-	(791,350)	-	(791,350)
Employees' bonus	19,285	-	-	-	(38,570)	-	(19,285)
Cumulative translation adjustment	-	-	-	-	-	(5,803)	(5,803)
Conversion of bonds payable to capital stock	49,792	286,310	-	-	-	-	336,102
Consolidated net income for 2004	-	-	-	-	1,883,973	-	1,883,973
Current dividend payable reverse	-	-	-	-	16	-	16
Balance at December 31, 2004	$ 2,782,277	$ 416,970	$ 507,623	$ -	$ 2,063,354	($ 857)	$ 5,769,367

The accompanying notes are an integral part of these financial statements.
See the report of independent accountants dated March 18, 2005.

TRANSCEND INFORMATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2004	2003
Cash flows from operating activities		
Consolidated net income	$ 1,883,973	$ 1,428,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of short-term investments	(18,537)	(31,757)
(Recovery of) unrealized decline in net realizable value of idle assets	(9,973)	25,145
Bad debt expenses	19,636	9,324
(Recovery of) provision for decline in market value and obsolescence of inventories	(211)	3,118
Depreciation and amortization	48,904	42,087
Loss on disposal of property, plant and equipment – net	861	2,258
Unrealized exchange gain on bonds payable	(52,171)	(17,570)
Changes in assets and liabilities:		
Increase in notes and accounts receivable	(260,906)	(341,161)
Decrease (increase) in inventories	161,354	(390,913)
(Increase) decrease in deferred income tax assets and liabilities	(8,977)	256
(Increase) decrease in other current assets	(32,597)	12,361
Increase in notes and accounts payable	106,590	74,611
(Decrease) increase in income tax payable	(128,931)	37,631
Increase in accrued expenses	54,683	3,476
Increase in other current liabilities	55,811	39,171
Increase in accrued pension liabilities	2,593	2,668
Net cash provided by operating activities	1,822,102	899,175

TRANSCEND INFORMATION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2004	2003
Cash flows from investing activities		
Increase in short-term investments – net	($ 422,124)	($ 791,772)
Additions to property, plant and equipment	(68,500)	(371,227)
Proceeds from disposal of property, plant and equipment	18,792	2,297
Decrease (increase) in other assets – net	8,203	(11,393)
Net cash used in investing activities	(463,629)	(1,172,095)
Cash flows from financing activities		
Decrease in short-term bank loans – net	(45,035)	(15,640)
(Decrease) increase in commercial paper payable – net	(100,000)	30,209
Increase in bonds payable	-	1,206,520
(Repayment of) increase in long-term bank loans	(21,824)	83,867
Payment of cash dividends	(790,531)	(661,980)
Payment of employees' bonus	(23,137)	(10,428)
Increase in refundable deposits	184	1,198
Net cash (used in) provided by financing activities	(980,343)	633,746
Net increase in cash	378,130	360,826
Cash and cash equivalents at beginning of year	1,246,119	885,293
Cash and cash equivalents at end of year	$ 1,624,249	$ 1,246,119
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest (excluding amount capitalized)	$ 7,012	$ 8,140
Income taxes	$ 433,058	$ 421,697
Financing activities which have no influence in cash flows:		
Unpaid cash dividends and employees' bonus	$ 803	$ 3,852
Conversion of bonds payable to capital stock	$ 336,102	$ -

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

See the report of independent accountants dated March 18, 2005.

TRANSCEND INFORMATION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(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, 2004, the Company's authorized and total contributed capital were $3,400,000 and $2,782,277, 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 tradings on May 3, 2001. As of December 31, 2004, the Company had approximately 820 employees.

2) Consolidated subsidiaries:

Name	Relationship	The main activities	Ownership percentage as of December 31, 2004
Saffire Investment Ltd. (Saffire)	Note a	Investments holding company	100%
Transcend Japan Inc. (Transcend Japan)	〃	Wholesaler of computer memory modules and peripheral products	100%
Memhiro Pte. Ltd. (Memhiro)	Note b	Investments holding company	100%
Transcend Information Inc. (Transcend USA)	Note c	Wholesaler of computer memory modules and peripheral products	100%
Transcend Information Europe B.V. (Transcend Europe)	〃	〃	100%
Transcend Information Trading GmbH, Hamburg (Transcend Germany)	〃	〃	100%

Note : a. Subsidiaries of the Company.
b. Subsidiary of Saffire.
c. Subsidiaries of Memhiro.

3) Non-consolidated subsidiaries: None.

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

5) Special operating risk of foreign subsidiaries: None.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China. A summary of the significant accounting policies of the Company is as follows:

1) Principles of preparing consolidated financial statements

A. Consolidated financial statements are prepared in accordance with Financial Accounting Standards (FAS) No. 7 of the R.O.C. All transactions between the Company and the consolidated subsidiaries are eliminated in the consolidated financial statements.

B. In accordance with the R.O.C. generally accepted accounting principles and R.O.C. Securities and Futures Commission (SFC) regulations, the Company prepares annual financial statements on a non-consolidated basis and consolidated basis which include all majority owned subsidiaries, except for subsidiaries with total assets and operating revenues constituting less than 10 percent of the Company's respective non-consolidated total assets and operating revenues. Irrespective of the above test, if the combined revenues or total assets of all such non-consolidated subsidiaries exceed 30 percent of the Company's respective non-consolidated totals, then each individual subsidiary with total assets or operating revenues constituting greater than 3 percent of the Company's respective non-consolidated totals shall be consolidated.

2) Translation of foreign subsidiaries' financial statements

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

The translation differences arising from the translation of foreign financial statements are included in the stockholders' equity account as "Cumulative Translation Adjustments".

3) Translation of foreign currency transactions

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

4) Derivative financial instruments

A. Foreign Currency Forward Contracts

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

B. Option Contracts

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

5) Cash equivalents

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

6) Short-term investments

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

7) Allowance for doubtful accounts

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

8) Inventories

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

9) Long-term investment

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

10) Property, plant and equipment

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

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

C. Transcend USA calculates depreciation using the same methods as the Company for buildings while using the double declining balance method for the other property, plant and equipment over the estimated useful lives of 7 years.

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

11) Other assets - deferred charges

The costs of issuing convertible bonds are recorded as deferred charges and are amortized over the period from the bonds issuance date through redemption date.

12) Convertible bonds

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

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

13) Retirement plan and reserve for retirement plan

A. The Company has a non-contributory funded defined benefit retirement plan (the plan) and recognizes pension liabilities pursuant to an actuarial valuation. Net periodic pension cost includes service cost, interest cost, expected return on plan assets, amortization of unrecognized transition obligation, pension gains/losses and prior service cost.

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

14) Revenue recognition

Revenue is recognized when the earning process is completed and the payment is realized or realizable. Costs are charged against revenue as incurred. Expenses are recognized when incurred.

15) Income tax

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

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

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

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

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. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

None.

4. SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2004	2003
Petty cash and cash on hand	$ 277	$ 495
Checking and savings deposits	1,144,714	1,005,936
Time deposits	382,094	239,688
Bonds purchased with resale agreement	97,164	-
	$ 1,624,249	$ 1,246,119

2) Short-term investments

	December 31,	
	2004	2003
Listed stocks	$ 3,305	$ 25,660
Beneficiary certificates	1,584,072	1,179,885
Bonds	204,402	145,573
	$ 1,791,779	$ 1,351,118

3) Accounts receivable

	December 31,	
	2004	2003
Accounts receivable	$1,202,117	$ 962,872
Less: Allowance for doubtful accounts	(20,909)	(23,709)
	$1,181,208	$ 939,163

As of December 31, 2004, the Company reclassified uncollectible accounts receivable in the amount of $13,304 to other assets-others and the amount was fully reserved.

4) Inventories

	December 31,	
	2004	2003
Finished goods	$ 637,580	$ 504,210
Work in process	141,277	127,945
Raw materials	302,585	634,045
Inventories in transit	26,422	3,018
	1,107,864	1,269,218
Less: Allowance for market price decline, and obsolete and slow-moving inventories	(26,698)	(26,909)
	$1,081,166	$1,242,309

5) Long-term investment

List of long-term investment:

Investee company	Ownership percentage as of December31, 2004	Book value December 31, 2004	Book value December 31, 2003
Cost method:			
Dramexchange Tech. Inc. (Note)	2%	$ 7,453	$ 7,453

Note: The Company exchanged its original interests in Dramexchange. Com Corp. for the interests in Dramexchange Tech. Inc. in 2003.

6) Property, plant and equipment

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

Item	December 31, 2003 Original cost	Accumulated depreciation	Book value
Land	$ 745,685	$ -	$ 745,685
Buildings	736,305	(33,684)	702,621
Machinery	85,045	(27,823)	57,222
Transportation equipment	11,851	(8,313)	3,538
Furniture and fixtures	53,090	(24,019)	29,071
Miscellaneous equipment	4,648	(2,708)	1,940
Prepayments on equipment	2,773	-	2,773
	$ 1,639,397	($ 96,547)	$ 1,542,850

For the years ended December 31, 2004 and 2003, the interest capitalized as the cost of fixed assets amounted to $0 and $328, respectively.

7) Other Assets

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

Item	December 31, 2003 Original cost	Accumulated depreciation	Book value
Rental Assets -			
Land	$ 105,537	$ -	$ 105,537
Buildings	77,580	(14,034)	63,546
Idle Assets-			
Land	57,629	-	57,629
Buildings	54,295	(7,313)	46,982
Furniture and fixtures	1,844	(1,517)	327
Less: Allowance for decline in net realizable value of idle assets	(25,145)	-	(25,145)
	$ 271,740	($ 22,864)	$ 248,876

8) Short-term bank loans

	December 31, 2004	2003
Short-term loans	$ 229,689	$ 274,724
Annual interest rates	0.62 3.04	0.8 1.87

As of December 31, 2004 and 2003, the Company opened letters of credit to provide guarantees for Transcend Japan in the amount of 0.425 and 0.585 billion, and for Transcend USA in the amount of US$5,000 thousand and US$5,000 thousand, respectively.

9) Income tax

	2004	2003
Income tax expense	$ 295,559	$ 459,584
Net change of deferred income tax	8,977	(256)
Over (under) provision of prior year's income tax	1,736	(253)
Prepaid income tax	(147,794)	(171,666)
Income tax payable	$ 158,478	$ 287,409

A. As of December 31, 2004 and 2003, the deferred income tax assets and liabilities were as follows:

	December 31, 2004	December 31, 2003
Total deferred income tax assets	$ 26,546	$ 30,615
Total deferred income tax liabilities	$ 18,966	$ 32,012

B. As of December 31, 2004 and 2003, details of deferred income tax assets and liabilities were as follows:

	December 31,			
	2004		2003	
Items	Amount	Tax Effect	Amount	Tax Effect
Current:				
Unrealized loss on market price decline and obsolescence of inventories	$ 27,640	$ 6,910	$ 27,752	$ 6,938
Allowance for doubtful accounts	5,424	1,356	4,952	1,238
Unrealized profit on intercompany transactions	40,895	10,224	53,893	13,473
Unrealized exchange gain	(55,300)	(13,825)	(108,184)	(27,046)
Others	3,740	935	(2,828)	(707)
		5,600		(6,104)
Noncurrent:				
Pension expense	13,313	3,328	10,720	2,680
Investment income on foreign long-term investments accounted for under the equity method	(20,565)	(5,141)	(17,036)	(4,259)
Unrealized loss on decline in net realizable value of idle assets	15,172	3,793	25,145	6,286
		1,980		4,707
		$ 7,580		($ 1,397)

C. The Company was granted a five-year tax holidays in respect to the 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

D. For the years ended December 31, 2004 and 2003, the income tax expense included the additional 10% corporate income tax related to the 2003 and 2002 undistributed earnings amounting to $2,109 and $220, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2003 and 2002 earnings.

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

10) Bonds payable

	December 31,	
	2004	2003
Bonds payable	$ 800,678	$1,188,950

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 as follows:

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

b) Conversion Periods: The Bonds are convertible at 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, 2004, the adjusted conversion price was NT$64.17 (in dollars).

d) Conversion Price reset: The conversion price shall be adjusted downward on February 25, 2004, 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, having given 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, upon 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, 2004, bonds in the amount of US$9,750,000 had been converted into 4,979,225 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 $286,310 was credited to capital reserve.

11) Long-term loans

	31st December,	
	2004	2003
Long-term loans	$ 85,437	$ 107,261
Less: Due within one year	(19,892)	(19,068)
	$ 65,545	$ 88,193
Annual interest rates	2.29 -4.80	2.29 -4.80

12) Retirement plan

A) Benefit payments for the retirement plan are calculated based on years of service and the average salary of six months before retirement. The Company has established an independent retirement fund in accordance with the Labor Standards Law. Contributions are made monthly to the independent retirement fund, at the rate of 2% of total monthly salaries and wages. Monitoring commission of retirement fund set by the Company oversees the contributions which are deposited with the Central Trust of China, the trustee.

B) As of December 31, 2004 and 2003, the balance of the retirement fund with the Central Trust of China was $14,087 and $11,114, respectively. The fund balances are not reflected in the financial statements.

C) The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates of December 31, 2004 and 2003, were as follows:

	2004	2003
Discount rate	3.00%	3.00%
Rate of increase in salary	3.00%	3.00%
Expected return on plan assets	3.00%	3.00%

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

	December 31, 2004	December 31, 2003
Benefit obligation:		
Vested benefit obligation	($ 45)	($ 15)
Non-vested benefit obligation	(26,289)	(16,843)
Accumulated benefit obligation	(26,334)	(16,858)
Additional benefits based on projected future salaries increase	(19,044)	(11,964)
Projected benefit obligation	(45,378)	(28,822)
The fair value of plan assets	14,087	11,114
Funded status	(31,291)	(17,708)
Unrecognized net transition obligation	22	23
Unrecognized pension loss	12,818	1,827
Accrued pension liabilities	($ 18,451)	($ 15,858)

E) For the years ended December 31, 2004 and 2003, the details of the Company's net periodic pension costs were as follows:

	December 31, 2004	December 31, 2003
Service cost	$ 4,923	$ 4,389
Interest cost	865	863
Expected return on plan assets	(371)	(343)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	-	12
Net periodic pension cost	$ 5,418	$ 4,922

13) Capital stock

According to the resolution adopted at the stockholders meeting in June 2004 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 $471,485, or 47,149 thousand shares, at par value, $10 per share. The registration of this capital increase was completed on July 6, 2004.

14) Capital reserve

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

15) Legal reserve

According to the ROC Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until the legal reserve has reached 100% of contributed capital. Under the ROC Company Law, 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, 2004, represented the accumulated net appropriation through 2003.

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 operation, 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. During 2004, the stockholders' meeting had approved to distribute $3.5 (in dollar) cash dividends per share and $2.0 (in dollar) stock dividends per share. During 2003, the stockholders' meeting had approved to distribute $3.3 (in dollar) cash dividends per share and $1.2 (in dollars) stock dividends per share.

D. As of March 18, 2005, the board of directors has not approved the earning distribution proposed by the management. The information regarding the board of directors' approval of earning distribution will be posted to the Market Observation Post System of Taiwan Stock Exchange Corporation website when it is available. The amount of the retained earnings distributed in 2003 for employee bonuses and directors' and supervisors' remunerations are as follows:

	The amount of the actual earnings distribution approved by the board of directors and the stockholders
a) The amount of the retained earnings distributed	
Employees' cash bonuses	$ 19,285
Employees' stock bonuses	
Shares (in thousands)	1,929
Amounts	$ 19,285
As a percentage of outstanding common shares	0.69
Directors' and supervisors' remunerations	$ -
b) Information regarding earnings per common share (in dollars)	
Original earnings per common share (Note a)	$ 6.32
Adjusted earnings per common share (Note b)	$ 6.15

Note : a. Not including the number of retroactively adjusted common shares issued on capitalization of earnings, capital reserve and capitalization of employees' dividends in 2003.

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

E. The Taiwan imputation tax system requires that any undistributed current earnings, on tax basis, of a company derived on or after 1st January, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by the shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as a tax credit against its individual income tax liability effective 1998. The actual creditable tax ratio of distributed earnings in 2003 was 31.7%. As of December 31, 2004, the imputation tax credit account balance was $164,534 and the estimated creditable tax ratio was 16.63%. As of December 31, 2004, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $1,942,257, respectively.

17) Earnings per common share

	For the year ended December 31, 2004				
	Amount		Weighted average outstanding common shares (in thousands)	Earnings per common share (in NT dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per common share:					
Consolidated net income	$2,179,532	$1,883,973	274,945	$ 7.93	$ 6.85
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	-	-	16,848		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$2,179,532	$1,883,973	291,793	$ 7.47	$ 6.46

	For the year ended December 31, 2003				
	Amount		Weighted average 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	$1,888,054	$1,428,470	273,249	$ 6.91	$ 5.23
The effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	-	-	8,618		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$1,888,054	$1,428,470	281,867	$ 6.70	$ 5.07

18) Personnel, depreciation and amortization expenses

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

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

	For the year ended December 31, 2003		
	Operating costs	Operating expenses	Total
Personnel expense			
Salaries	$ 86,830	$ 329,664	$ 416,494
Insurance	5,665	27,313	32,978
Pension	1,926	4,468	6,394
Others	6,638	5,939	12,577
Depreciation expense	14,400	24,085	38,485
Amortization expense	-	3,602	3,602

5. RELATED PARTY TRANSACTIONS

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

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

2) Significant transaction with related party

A. Sales

	2004		2003	
	Amount	% of net sales	Amount	% of net sales
C-Tech Corporation	$ 397,063	3	$ 212,258	2
Transcend H.K.	306,476	2	178,104	2
Shanghai Transcend	67,254	-	36,727	-
	$ 770,793	5	$ 427,089	4

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

B. Accounts receivable

	December 31, 2004		December 31, 2003	
	Amount	% of accounts receivable	Amount	% of accounts receivable
C-Tech Corporation	$ 64,451	5	$ 23,980	2
Shanghai Transcend	30,076	2	35,743	4
Transcend H.K.	14,128	1	21,826	2
	$ 108,655	8	$ 81,549	8

C. Land and building sold to C-Tech corporation in 2004 amounted to $11,200. This transaction made an increase in current net income amounted to $1,945.

6. PLEDGED ASSETS

		Book Value	
		December 31,	
Nature of Assets	Nature of liability secured	2004	2003
Property, plant and equipment and other assets	Commercial paper payable, long-term and short-term loans	$1,095,558	$1,106,271

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2004, in addition to those items disclosed in Note 4(8), the significant commitment and contingent liability are as follows:

The Company's opened but unused letters of credit for purchase of merchandise amounted to $286,065.

8. SIGNIFICANT LOSS OR DAMAGE EXPERIENCE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Financial instruments disclosure:

A. Non-derivative financial instruments:

	December 31, 2004		December 31, 2003	
	Book value	Fair value	Book value	Fair value
Assets				
Financial instrument assets with book value equal to fair value	$ 3,039,675	$ 3,039,675	$ 2,413,592	$ 2,413,592
Short-term investments	1,791,779	1,810,118	1,351,118	1,450,191
Long-term investments	7,453	7,453	7,453	7,453
Liabilities				
Financial instrument liabilities with book value equal to fair value	1,865,903	1,865,903	2,441,339	2,441,339
Accrued pension liabilities	18,422	31,291	15,829	17,708

B. Derivative financial instruments:

	December 31, 2004		December 31, 2003	
	Book value	Fair value	Book value	Fair value
Assets				
Forward exchange contracts	$ -	$ -	$ -	$ 210
Liabilities				
Foreign currency option contracts	35,000	77,916	-	5,861

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

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

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

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

C) The fair Value of long-term loans is estimated using discounted future cash flows with a discount rate based on the interest rates of long-term loans agreement with similar condition.

D) The fair value of accrued pension liabilities is based on the actuarial pension report, the measurement dates of which were December 31, 2004 and 2003.

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

F) Financial instruments that have balance sheet credit risk:

	December 31, 2004 Guarantee Amount	December 31, 2003 Guarantee Amount
Guarantee for Transcend Japan	425,000 thousand	585,000 thousand
Guarantee for Transcend USA	US$ 5,000 thousand	US$5,000 thousand

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 deemed not required. The maximum loss which the Company will incur would be equal to the amounts guaranteed.

2) Information on derivative instruments

As of December 31, 2004 and 2003, the Company's outstanding derivative financial instruments contracts were as follows:

A. Forward exchange contracts

A) Contract amount or nominal principal and credit risk

	December 31, 2004		December 31, 2003	
	Contract amount (Nominal principal)	Credit risk	Contract amount (Nominal principal)	Credit risk
Forward exchange contracts	$ -	$ -	US$6,000 thousand	$ -

The banks which the Company deals 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, these 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 hedge by these transactions. Accordingly, no significant market risks are expected.

C) Future cash flow, periods and risk

A. Future cash flow and period: Not applicable.

B. No significant cash flow risks are expected.

D) Terms, characteristics and purposes of the derivative contracts

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

E) Disclosure

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

B. Foreign currency option contracts

A) Contract amount, nominal principal and credit risk

(Amount in thousands)

	December 31, 2004		December 31, 2003	
	Contract amount (Nominal principal)	Credit risk	Contract amount (Nominal principal)	Credit risk
Sale of call option contracts	22,700	$ -	3,000	$ -
Sale of put option contracts	7,000	-	1,000	-
Sale of call option contracts	US$1,000	-	-	-
Sale of call option contracts	US$10,500	-	-	-
Sale of put option contracts	US$21,500	-	US$500	-
Purchase of call option contracts	7,000	-	-	-
Purchase of put option contracts	4,500	-	-	-
Purchase of call option contracts	US$8,000	-	-	-
Purchase of put option contracts	US$10,500	-	US$500	-

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

B) Market risk

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

C) Future cash flow periods and risk

The Company entered into foreign currency option contracts to hedge foreign exchange losses. There is no cash flow risk because the Company's working capital is sufficient to settle the contracts. Whether the option contracts would be settled depends on the effect of variability of exchange rate upon the counterparties. Therefore, the time and amount of future cash flow are determined by the future exchange rate. If the Company settles all option contracts, the related cash inflow would be $32,550 and US$24,222,000 and the related cash outflow would be 921,375,000 and 13,200,000.

D) Term, characteristics and purpose of derivative contracts

For the year ended December 31, 2004

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

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

E) Disclosure

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

4) Elimination of transactions between the Company and subsidiaries

Transactions	Transcend Japan	Saffire	Transcend USA	Transcend Germany	Transcend Europe
A) Elimination of long-term investments	$ 103,655	$ 54,591	$ -	$ -	$ -
B) Elimination of intercompany receivable and payable accounts					
Accounts receivable	449,582	-	56,871	206,400	614,282
C) Elimination of income statement accounts					
Sales	1,482,164	-	1,508,846	1,392,953	2,994,891
Purchases	-	-	58,139	-	-
Unrealized profit on intercompany transactions	10,595	-	4,984	7,365	17,951
Realized profit on intercompany transactions	8,057	-	16,415	8,264	21,157
Selling expenses	7,355	-	10,981	18,618	30,038
Other revenues	2,312	-	2,882	2,084	5,463

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others :

January 1, 2004 – December 31, 2004

Name of the company	Name of the borrowers	Accounts used to record such lending	The maximum balance for the year ended December 31, 2004	The ending balance	Interest rate	The reason for lending	Amount of sales to (purchases from) the borrower for the year ended December 31, 2004	The reason for short-term lending	Bad debts allowance provided	Collateral and its value	The credit limit for the respective borrower	The ceiling of fund financing for the borrower
Saffire	Memhiro	Due from subsidiary	US$1,250,000	US$1,250,000	-	For short-term lending	-	To maintain working capital	-	-	US$ 1,500,000	Note a

Note : a. The policy on the ceiling of credit limits for all borrowers and for each individual borrower from Saffire Investment Ltd. can not exceed the total contributed capital (US$1,500 thousand).

B. Endorsements and guarantees for others:

January 1, 2004 – December 31, 2004

Name of the company	Name of parties being guaranteed	Relationship with the Company	The ceiling of guarantee for single party (Note c)	The maximum outstanding guarantee amount for the year ended December 31, 2004	The outstanding guarantee amount at December 31, 2004	The amount of guarantee with collateral placed	The ratio of accumulated guarantee amount to net worth value of the Company (%)	The ceiling of the outstanding guarantee for the respective party (Note c)
Transcend Taiwan	Transcend Information Inc.	Note b	$ 1,153,873	US$5,000,000	US$5,000,000	-	3%	$ 2,307,747
〃	Transcend Japan Inc.	Note a	〃	470,000,000	425,000,000	-	2%	〃

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

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

c. The policy on the ceiling of total outstanding guarantee and guarantee for single party is 40% and 20% of the Company's net worth, respectively. The Company's net worth at December 31, 2004 was $5,769,367.

C. Marketable securities at December 31, 2004:(Individually disclosed securities over $60,000)

				December 31, 2004			
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	Listed stocks						
	Micro Star International, etc.	-	Short-term investments	-	$ 3,305		$ 1,681
	Beneficiary certificates						
	ABN Amro Bond Fund	-	〃	26,298,479	384,020	-	385,743
	NITC Bond Fund	-	〃	1,784,847	284,230	-	285,779
	JF (TAIWAN) First Bond Fund	-	〃	18,286,701	249,760	-	250,462
	NAM Short Term Fixed Income Fund	-	〃	379,683	161,676	-	159,106
	PCA Well Pool Fund	-	〃	12,290,347	150,000	-	150,167
	CS Money Market Fund (LUX)-Euro	-	〃	8,758	136,251	-	150,391
	Truswell Bond Fund	-	〃	7,386,644	91,692	-	91,882
	Forsyth Alternative Income	-	〃	-	126,443	-	125,347
					1,584,072		1,598,877
	Bonds						
	CS 3 Month Euribo	-	〃	2,000	79,603	-	86,884
	CMC CLN, etc.	-	〃	-	124,799		122,676
					204,402		209,560
					$ 1,791,779		$ 1,810,118
	Stocks						
	Transcend Japan	The Company's subsidiary	Long-term investments	6,400	$ 103,655	100	$ 103,655
	Saffire	〃	〃	1,500,000	54,591	100	54,591
	Dramexchange Tech Inc.	-	〃	158,599	7,453	2	
					$ 165,699		
Saffire	Stocks						
	Memhiro	The Company's subsidiary	Long-term investments	339,000	$ 425 thousand	100	$ 425 thousand
Memhiro	Stocks						
	Transcend USA	The Company's subsidiary	Long-term investments	625,000	$ 1,334 thousand	100	$ 1,334 thousand
	Transcend Europe	〃	〃	100	355 thousand	100	355 thousand
	Transcend Germany	〃	Other Liabilities	-	(119)thousand	100	(119)thousand
					$ 1,570 thousand		$ 1,570 thousand

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

January 1, 2004 –December 31, 2004

Name of the company	Name of the securities	General ledger accounts	Counterparty	Relationship with the Company	Beginning balance: Number of shares (thousand units)	Beginning balance: Amount	Addition: Number of shares (thousand units)	Addition: Amount	Disposal: Number of shares (thousand units)	Disposal: Sales Price	Disposal: Book value	Disposal: Gain (loss) from disposal	Ending balance: Number of shares (thousand units)	Ending balance: Amount
Transcend Taiwan	GS Euro Liquid Reserves Fund	Short-term investments	－	－	6,759	$ 234,249	2,035	$ 78,387	8,794	$ 312,624	$ 312,624	$ -	-	$ 12
	CS Money Market Fund (LUX)-Euro	〃	－	－	16	218,291	9	143,725	16	228,327	225,765	2,562	9	136,251
	United Money Fund	〃	－	－	220	80,681	1,502	547,785	1,722	632,592	628,466	4,126	-	-
	NAM Short Term Fixed Income Fund	〃	－	－	-	-	893	386,242	513	224,959	224,566	393	380	161,676
	National Bank of Taipei ECB	〃	－	－	-	-	50	161,355	50	161,676	161,355	321	-	-
	Truswell Bond fund	〃	－	－	3,991	48,577	28,838	355,600	25,442	314,348	312,485	1,863	7,387	91,692
	Truswell Predmier Fund	〃	－	－	5,443	58,000	8,548	92,000	13,991	150,415	150,000	415	-	-
	PCA Well Pool Fund	〃	－	－	-	-	15,014	183,000	2,724	33,089	33,000	89	12,290	150,000
	Jih Sun Bond Fund	〃	－	－	6,823	89,007	8,145	107,500	14,968	198,045	196,507	1,538	-	-
	Shinkong Chi-Shin Fund	〃	－	－	8,491	116,430	9,910	137,000	18,401	255,007	253,403	1,577	-	-
	NITC Bond Fund	〃	－	－	904	142,500	5,707	906,400	4,826	766,758	764,670	2,088	1,785	284,230
	United Bond Fund	〃	－	－	3,204	40,000	7,172	90,500	10,376	131,170	130,500	670	-	-
	HSBC Net Money Management Fund II	〃	－	－	5,635	76,029	10,426	142,000	16,061	219,022	218,029	993	-	-
	Fubon Chi-Hsing III Fund	〃	－	－	-	-	11,415	116,500	11,415	116,855	116,500	355	-	-
	ING CHB Taiwan Bond Fund	〃	－	－	-	-	8,814	100,000	8,814	100,605	100,000	605	-	-
	ABN Amro Bond Fund	〃	－	－	-	-	71,287	1,040,000	44,989	658,000	655,980	2,020	26,298	384,020
	JF (TAIWAN) First Bond Fund	〃	－	－	-	-	29,499	402,700	11,212	153,058	152,940	118	18,287	249,760
	Fubon Ju-I Fund	〃	－	－	-	-	10,833	166,000	10,883	166,119	166,000	119	-	-
	Fubon Ju-II Fund	〃	－	－	-	-	11,889	166,119	11,889	167,095	166,119	976	-	-

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, 2004 – December 31, 2004

			Description of the transactions				Description of and reasons for difference in transaction terms compared to non-related party transactions		Accounts or notes receivable (payable)	
Name of the Company	Name of the counterparty	Relationship	Purchases (sales)	Amount	% of total purchases (sales)	Credit terms	Unit price	Credit terms	Balance	% of total accounts or notes receivable (payable)
Transcend Taiwan	Transcend Japan	The Company's subsidiary	Sales	$1,482,164	10	Based on operating condition	No significant difference from those to third parties	Based on operating Condition	$ 449,582	26
〃	Transcend Europe	Subsidiary of Memhiro	〃	2,994,891	21	〃	〃	〃	614,282	36
〃	Transcend USA	〃	〃	1,508,846	10	〃	〃	〃	56,871	3
〃	Transcend Germany	〃	〃	1,392,953	10	〃	〃	〃	206,400	12
〃	Transcend H.K.	Substantial related party	〃	306,476	2	〃	〃	〃	14,128	1
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	397,063	3	Monthly,O/A 15 days	〃	〃	64,451	4
Transcend Japan	Transcend Taiwan	Parent Company	Purchases	(1,482,164)	100	Based on operating condition	〃	〃	(449,582)	99
Transcend Europe	〃	〃	〃	(2,994,891)	100	〃	〃	〃	(614,282)	99
Transcend USA	〃	〃	〃	(1,508,846)	97	〃	〃	〃	(56,871)	100
Transcend Germany	〃	〃	〃	(1,392,953)	100	〃	〃	〃	(206,400)	99
Transcend H.K.	〃	Substantial related party	〃	(306,476)	100	〃	〃	〃	(14,128)	100
C-Tech Corporation	〃	C-Tech Corporation's chairman is the Company's general manager	〃	(397,063)	100	Monthly,O/A 15 days	〃	〃	(64,451)	100

H. Receivables from related parties exceeding $100,000 or 20% of contributed capital:

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	$ 449,582	3.92	$ -	-	$ 378,478	$ -
	Transcend Europe	Subsidiary of Memhiro	614,282	5.65	-	-	604,582	-
	Transcend Germany	〃	206,400	7.56	-	-	176,597	-

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

2) Related information of investee companies as of December 31, 2004:

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount: December 31, 2004	Original Investment Amount: December 31, 2003	Holding Status: Shares	Holding Status: Percentage	Holding Status: Book value	Net income (loss) of investee Company	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	$ 103,655	2,528,092	$ 461	Subsidiary of the Company
	Saffire Investment Ltd.	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, B.V.I.	Investments holding company	51,930	51,930	1,500,000	100	54,591	$ 94,579	3,068	〃
Saffire	Memhiro Pte Ltd.	10 Hoe Chiang Rd, #17-02 Keppel Towers, Singapore 089315	〃	6,432	6,432	339,000	100	$ 425,343	$ 95,864		Subsidiary of Saffire Investment Ltd.
Memhiro	Transcend USA	1645 N Brian St. Orange, CA 92867, U.S.A.	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100	$1,334,438	$ 54,230		Subsidiary of Memhiro Pte Ltd.
	Transcend Europe	Cairostraat 40, 3047 BC, Rotterdam, the Netherlands	〃	1,693	1,693	100	100	$ 355,304	29,266		〃
	Transcend Germany	Fughafenstrasse 54, 22335 Hamburg, Germany	〃	2,288	2,288	-	100	($ 119,372)	74,244		〃

3) Disclosures of relevant information regarding indirect investments mainland China: None.

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	2004	2003
Europe	$ 6,541,956	$ 3,673,180
Asia	3,471,360	2,576,881
America	1,676,156	1,591,958
Others	617,283	449,726
Total	$ 12,306,755	$ 8,291,745

4) Information about important customers

There is no sale to single customer constituting more than 10% of the Company's consolidated net sales during the year of 2004 and 2003.