TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

PWCR11000448

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, 2011 and 2010, 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$684,112 thousand and NT$695,971 thousand, constituting 3 percent and 4 percent of the related consolidated totals, as of December 31, 2011 and 2010, respectively, and total revenues of NT$3,980,242 thousand and NT$4,036,449 thousand, both constituting 13 percent of the related consolidated totals, for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the 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, 2011 and 2010, 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” and accounting principles generally accepted in the Republic of China.

March 22, 2012
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 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 auditing standards generally accepted in the Republic of China, and their applications in practice.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 9,708,263	$ 5,838,294
Financial assets at fair value through profit or loss-current (Note 4(2))	-	500,517
Investment in bonds without active markets -current (Note 4(3))	96,140	-
Notes receivable, net	7,780	1,994
Accounts receivable – third parties, net (Note 4(4))	2,430,418	2,737,463
Accounts receivable – related parties, net (Note 5)	108,774	173,589
Other receivables (Note 4(5))	331,478	1,799,892
Inventories, net (Note 4(6))	4,502,324	3,263,036
Other current assets (Note 4(11))	92,856	120,450
	17,278,033	14,435,235
Funds and Investments		
Available-for-sale financial assets-noncurrent (Note 4(7))	204,922	177,940
Financial assets carried at cost-noncurrent (Note 4(8))	446,055	875,055
Other fnancial assets – non-current (Note 6)	3,028	2,913
	654,005	1,055,908
Property, Plant and Equipment, net (Notes 4(9) and 6)		
Cost		
Land	906,623	893,754
Buildings	3,020,494	2,014,291
Machinery	851,703	719,239
Transportation equipment	20,322	22,596
Furniture and fixtures	59,801	47,420
Miscellaneous equipment	68,027	245,283
Cost and revaluation increments	4,926,970	3,942,583
Less: Accumulated depreciation	(901,962)	(715,684)
Construction in progress and prepayments for equipment	26,870	617,978
	4,051,878	3,844,877
Intangible Assets		
Deferred pension costs (Note 4(13))	14	15
Other intangible assets (Note 4(10))	119,562	112,948
	119,576	112,963
Other Assets		
Refundable deposits	33,017	21,597
Other assets - other	6,385	12,839
	39,402	34,436
	$ 22,142,894	$ 19,483,419

	2011	2010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable	$ 167	$ 47,969
Accounts payable	1,713,204	1,304,974
Income tax payable (Note 4(11))	427,409	51,857
Accrued expenses	561,565	401,023
Long-term liabilities – current portion (Note 4(12))	-	356,588
Other current liabilities	59,540	57,675
	2,761,885	2,220,086
Other Liabilities		
Accrued pension liabilities (Note 4(13))	20,054	18,146
Deferred income tax liabilities – non - current (Note 4(11))	300,478	215,115
Other liabilities - other	32,815	28,755
	353,347	262,016
Total Liabilities	3,115,232	2,482,102
Stockholders' Equity		
Capital (Note 4(14))		
Common stock	4,307,617	4,254,767
Capital reserve (Notes 4(12)(15))		
Paid-in capital in excess of par value of common stock	4,975,222	4,640,971
Capital surplus from donated assets	4,106	4,106
Capital surplus from merger	35,128	35,128
Capital reserve from stock warrants	-	37,344
Retained Earnings (Note 4(16))		
Legal reserve	2,162,186	2,014,650
Undistributed earnings	7,369,980	5,927,785
Other Stockholders' Equity Adjustments		
Unrealized gain or loss on financial instruments (Note 4(7))	6,922	99,940
Cumulative translation adjustments	172,835	(8,649)
Unrecognized pension cost (Note 4(13))	(6,334)	(4,725)
Total Stockholders' Equity	19,027,662	17,001,317
Commitments and Contingent Liabilities (Notes 5 and 7)		
Significant Subsequent Event (Note 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 22,142,894	$ 19,483,419

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2012.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

	2011	2010
Operating Revenue		
Sales	$ 30,887,961	$ 32,652,503
Less: Sales returns	(250,159)	(227,363)
Sales discounts	(418,070)	(239,516)
Net sales (Note 5)	30,219,732	32,185,624
Operating Costs		
Cost of goods sold (Notes 4(6)(19) and 5)	(25,242,300)	(28,371,150)
Gross profit	4,977,432	3,814,474
Operating Expenses (Note 4(19))		
Sales and marketing expenses	(1,114,977)	(1,055,506)
General and administrative expenses	(414,264)	(391,532)
Research and development expenses	(155,946)	(134,682)
Total Operating Expenses	(1,685,187)	(1,581,720)
Operating income	3,292,245	2,232,754
Non-operating Income and Gains		
Interest income (Note 4 (5))	64,541	44,488
Gain on valuation of financial assets (Note 4 (2))	1,663	3,874
Dividend income	19,190	14,867
Foreign exchange gain, net	294,855	-
Other non-operating income (Note 5)	86,756	61,888
Non-operating Income and Gains	467,005	125,117
Non-operating Expenses and Losses		
Interest expense	(6,615)	(8,733)
Impairment loss (Note 4 (8))	(309,000)	-
Loss on valuation of financial liabilities (Note 4 (2))	(362)	(109,053)
Foreign exchange loss, net	-	(285,506)
Other non-operating losses	(32,390)	(4,774)
Non-operating Expenses and Losses	(348,367)	(408,066)
Income from continuing operations before income tax	3,410,883	1,949,805
Income tax expense (Note 4(11))	(544,722)	(474,449)
Consolidated net income	$ 2,866,161	$ 1,475,356
Attributable to:		
Equity holders of the Company	$ 2,866,161	$ 1,475,356

	2011 Before tax	2011 After tax	2010 Before tax	2010 After tax
Basic earnings per share (in dollars)				
Consolidated net income (Note 4(18))	$ 8.00	$ 6.72	$ 4.59	$ 3.48
Diluted earnings per share (in dollars)				
Consolidated net income (Note 4(18))	$ 7.98	$ 6.70	$ 4.59	$ 3.47

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2012.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings					
	Common Stock	Capital Reserve	Legal Reserve	Undistributed Earnings	Unrealized Gain or Loss on Financial Instruments	Cumulative Translation Adjustments	Unrecognized Pension Cost	Total
2010								
Balance at January 1, 2010	$ 4,238,603	$ 4,624,013	$ 1,579,239	$ 7,432,740	$ 134,690	$ 123,271	($ 6,166)	$ 18,126,390
Appropriations of 2009 earnings:(Note A)								
Legal reserve	-	-	435,411	(435,411)	-	-	-	-
Cash dividends	-	-	-	(2,544,900)	-	-	-	(2,544,900)
Conversion of bonds payable to capital stock	15,584	87,863	-	-	-	-	-	103,447
Employees' stock options exercised	580	5,673	-	-	-	-	-	6,253
Unrealized loss on available-for-sale Financial assets	-	-	-	-	(34,750)	-	-	(34,750)
Unrecognized pension cost	-	-	-	-	-	-	1,441	1,441
Cumulative translation adjustments	-	-	-	-	-	(131,920)	-	(131,920)
Consolidated net income for 2010	-	-	-	1,475,356	-	-	-	1,475,356
Balance at December 31, 2010	$ 4,254,767	$ 4,717,549	$ 2,014,650	$ 5,927,785	$ 99,940	($ 8,649)	($ 4,725)	$ 17,001,317
2011								
Balance at January 1, 2011	$ 4,254,767	$ 4,717,549	$ 2,014,650	$ 5,927,785	$ 99,940	($8,649)	($ 4,725)	$ 17,001,317
Appropriations of 2010 earnings:(Note B)								
Legal reserve	-	-	147,536	(147,536)	-	-	-	-
Cash dividends	-	-	-	(1,276,430)	-	-	-	(1,276,430)
Conversion of bonds payable to capital stock	52,850	296,907	-	-	-	-	-	349,757
Unrealized loss on available-for-sale Financial assets	-	-	-	-	(93,018)	-	-	(93,018)
Unrecognized pension cost	-	-	-	-	-	-	(1,609)	(1,609)
Cumulative translation adjustments	-	-	-	-	-	181,484	-	181,484
Consolidated net income for 2011	-	-	-	2,866,161	-	-	-	2,866,161
Balance at December 31, 2011	$ 4,307,617	$ 5,014,456	$ 2,162,186	$ 7,369,980	$ 6,922	$ 172,835	($ 6,334)	$ 19,027,662

Note A: Directors' and supervisors' remuneration of $5,100 and employees' bonus of $130,623 for 2009 had been deducted from the consolidated statement of income.
Note B : Directors' and supervisors' remuneration of $2,951 and employees' bonus of $43,875 for 2010 had been deducted from the consolidated statement of income.

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

See report of independent accountants dated March 22, 2012.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2011	2010
Cash flows from operating activities		
Consolidated net income	$ 2,866,161	$ 1,475,356
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on valuation of financial assets	(1,663)	(3,874)
Loss on valuation of financial liabilities	362	109,053
Bad debts expense	21,726	4,577
Loss on market price decline of inventory	2,064	22,423
Impairment loss	309,000	-
Depreciation	206,204	182,256
Loss (gain) on disposal of property, plant and equipment	13,704	(453)
Amortization	2,932	3,090
Amortization of discount on bonds payable	5,878	8,715
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	501,389	69,841
Notes and accounts receivable	344,348	846,313
Other receivables	(31,586)	(39,066)
Inventories	(1,241,352)	1,026,823
Prepayments	(1,147)	24,862
Deferred income tax assets and liabilities	82,791	31,219
Other current assets	31,198	15,501
Notes and accounts payable	360,428	384,548
Income tax payable	375,552	(714,850)
Accrued expenses	160,542	(198,010)
Other current liabilities	1,865	666
Accrued pension liabilities	300	(873)
Net cash provided by operating activities	4,010,696	3,248,117

(Continued)

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2011	2010
Cash flows from investing activities		
Increase in bonds without active markets	($ 95,694)	$ -
Decrease (increase) in other receivables - loan	1,500,000	(1,500,000)
Proceeds from disposal of available-for-sale financial assets	-	1,550
Increase in financial assets carried at cost	-	(74,580)
Acquisition of property, plant and equipment	(450,372)	(560,920)
Proceeds from disposal of property, plant and equipment	13,820	56,196
Increase in refundable deposits	(11,420)	(1,820)
Decrease (increase) in other assets-other	6,525	(6,421)
Net cash provided by (used in) investing activities	962,859	(2,085,995)
Cash flows from financing activities		
Payment of cash dividends	(1,276,430)	(2,544,900)
Employees' stock options exercised	-	6,253
Repayment of convertible bonds	(12,700)	-
Increase in other liabilities - other	4,060	11,430
Net cash used in financing activities	(1,285,070)	(2,527,217)
Effect of foreign exchange rate changes	181,484	(131,920)
Net increase (decrease) in cash and cash equivalents	3,869,969	(1,497,015)
Cash and cash equivalents at the beginning of year	5,838,294	7,335,309
Cash and cash equivalents at the end of year	$ 9,708,263	$ 5,838,294
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 151	$ -
Income tax	$ 207,038	$ 1,158,080
Financing activities which have no effect on cash flows:		
Unpaid cash dividends	$ 29	$ 297
Conversion of bonds payable to capital stock (Including conversion premium)	$ 349,757	$ 103,447

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

See report of independent accountants dated March 22, 2012.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS INDICATED)

1. HISTORY AND ORGANIZATION

Transcend Information, Inc. (the "Company") was incorporated under the provisions of the Company Law of the Republic of China (R.O.C.) in August 1989. The main activities of the Company are manufacturing, processing and the sale of computer software and hardware, peripheral equipment and other 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, 2011, the Company and its subsidiaries had approximately 2,320 employees.

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" 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

A. Basis for preparation of consolidated financial statements

a. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis.

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

B. Subsidiaries included in the consolidated financial statements and their changes in 2011:

Investor	Subsidiary	Main activities	Ownership (%) December 31, 2011	Ownership (%) December 31, 2010	Description
Transcend Taiwan	Saffire Investment Ltd. (Saffire)	Investment holding company	100	100	-
〃	Transcend Japan Inc. (Transcend Japan)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information UK Limited (Transcend UK)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Inc. (Transcend USA)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Korea Inc. (Transcend Korea)	Wholesaler of computer memory modules and peripheral products	100	100	-
Saffire Investment Ltd.	Memhiro Pte. Ltd. (Memhiro)	Investment holding company	100	100	-
Memhiro Pte. Ltd.	Transcend Information Europe B.V. (Transcend Europe)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Trading GmbH, Hamburg (Transcend Germany)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information (Shanghai), Ltd. (Transcend Shanghai)	Manufacturing, processing and sale of computer software and hardware, peripheral equipment and other computer components	100	100	-
〃	Transtech Trading (Shanghai) Co., Ltd.(Transtech Shanghai)	Wholesaler of computer memory modules, peripheral equipment and other computer components	100	100	-

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustment for subsidiaries with difference balance sheet dates: None.

E. Special operating risks in foreign subsidiaries: None.

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

G. Contents of subsidiaries’ securities issued by the parent company: None.

H. Information on convertible bonds and common stock issued by subsidiaries: None.

2) Translation of financial statements of foreign subsidiaries

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. Transactions denominated in foreign currencies are translated into functional currencies at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.

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

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

4) Classification of current and non-current items

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

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

b) Assets held mainly for trading purposes;

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

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

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

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

b) Liabilities arising mainly from trading activities;

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

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

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

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

B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss.

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, put options, resetting options and conversion options, which are embedded in bonds payable, please refer to Note 2 (14).

6) Investment in bonds without active markets

A. Investment in bonds without active markets is recognized and 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. This financial asset is carried at amortized cost.

C. If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. If, subsequently, the fair value of asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed to the extent of the amount of the amortized cost that would have been recognized at the date the impairment is reversed.

7) Notes, accounts and other receivables

A. Notes and accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables. Notes, accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

B. The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

8) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are measured using the moving average method. Fixed manufacturing overhead must be allocated on the basis of the normal capacity of the production equipment. If production fluctuates over interim periods, the cost variances resulting from such fluctuation should be considered as a deferral in the interim financial statements. At the end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value should be based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

9) Available-for-sale financial assets

A. Available-for-sale financial assets are recognized and derecognized using trade date accounting and are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

B. The financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair value of listed stocks and OTC stocks are based on latest quoted fair prices of the accounting period.

C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be transferred from equity to profit or loss. When the fair value of an equity instrument subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.

10) 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.

11) Property, plant and equipment

A. Property, plant and equipment are stated at cost. Interests incurred on the loans used to bring the assets to the condition and location necessary for their intended uses are capitalized.

B. Depreciation is provided using the straight-line method over the estimated 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 5 to 7 years, except for buildings.

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. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

12) <u>Intangible assets</u>

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.

13) <u>Impairment of non-financial assets</u>

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. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

14) <u>Convertible bonds</u>

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

a) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the interest method and is recorded as "interest expense".

b) The value of any derivative features (such as a call option, put option and resetting option) embedded in the compound financial instrument is recognized as "financial assets or financial liabilities at fair value through profit or loss". These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”. At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option 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 put option is recognized as “gain or loss”. The amount of fair value reduction due to the reset of conversion price is recognized in “stockholders’ equity”.

c) A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from stock warrants”. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued at fair value on the conversion date, 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.

d) Costs incurred on issuance of convertible bonds are proportionally charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

B. In the event that the bondholders may exercise put options within the following year, the underlying bonds payable shall be reclassified to current liabilities. The bonds payable whose put options are unexercised during the exercisable period shall be reversed to non-current liabilities.

15) 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 average remaining service life of employees. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

16) Income tax

A. Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carry-forward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years’ income tax liabilities is included in current year’s income tax. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.

B. Investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development, 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.

17) Share-based payment ─ employee compensation plan

A. The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072 “Accounting for Employee Stock Options” as prescribed by the Accounting Research and Development Foundation, R.O.C., dated March 17, 2003. Under the share-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share are prepared in accordance with the R.O.C. SFAS No. 39, “Accounting for Share-based Payment”.

B. For the grant date of the share-based payment agreements set on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

18) Employees’ bonuses and directors’ and supervisors’ remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, “Accounting for Employees’ Bonuses and Directors’ and Supervisors’ Remuneration”, the costs of employees’ bonuses and directors’ and supervisors’ remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees’ bonuses, and directors’ and supervisors’ remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders’ meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, “Criteria for Listed Companies in Calculating the Number of Shares of Employees’ Stock Bonus”, the Company calculates the number of shares of employees’ stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders’ meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

19) Revenues, costs and expenses

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

20) 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 of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

21) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements rather than in the separate financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Notes, accounts and other receivables

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". A provision for impairment (bad debts) of notes, accounts and other receivables is recognized when there is objective evidence that the receivables are impaired. This change in accounting principle had no significant effect on the financial statement as of and for the year ended December 31, 2011.

2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments" to replace the original R.O.C SFAS No. 20 "Segment Reporting". Segment information for prior year is reported as comparative information during the initial year of adoption. This change in accounting principle had no significant effect on net income and earnings per share for the years ended December 31, 2011 and 2010.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2011	2010
Petty cash and cash on hand	$ 1,083	$ 841
Checking and savings deposits	5,459,103	3,882,763
Time deposits	4,248,077	2,014,690
	$ 9,708,263	$ 5,838,294

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

	December 31, 2011	December 31, 2010
Financial assets held for trading		
Beneficiary certificates	$ -	$ 500,000
Adjustment of financial assets held for trading	-	148
	$ -	$ 500,148
Financial liabilities held for trading		
Derivative financial liabilities	-	(14,092)
Adjustment of financial liabilities held for trading	-	14,461
	-	369
	$ -	$ 500,517

The Group recognized net gain of $879 and net loss of $105,179 for the years ended December 31, 2011 and 2010, respectively.

3) Investment in bonds without active markets - current

	December 31, 2011	December 31, 2010
Funds-bonds	$ 96,140	$ -

The Group recognized net gain of $422 for the year ended December 31, 2011. Interest rates of the bonds are fixed by contracts. The bonds are due by the first and the second quarter of year 2012.

4) Accounts receivable

	December 31, 2011	December 31, 2010
Accounts receivable	$ 2,477,012	$ 2,762,331
Less: Allowance for doubtful accounts	(46,594)	(24,868)
	$ 2,430,418	$ 2,737,463

As of December 31, 2011 and 2010, the Group reclassified uncollectible accounts receivable in the amount of $17,437 and $52,151, respectively, to other assets-others and fully provided with allowance for doubtful accounts.

5) Other receivables

The Board of Directors of the Company adopted a resolution on April 9, 2010 to grant a loan in the amount of $1,500,000 to its major supplier – Powerchip Technology Corp. for a period of one year. The interest rate on the loan is 2.5% per annum. Interest is payable on a quarterly basis. Powerchip Technology Corp. pledged 126,690 thousand shares of Rexchip Electronics Corp.'s common stock it held as collateral to the Company. The value of those shares was equivalent to the amount of the loan.

In April, 2011, the Company entered into a purchase agreement with Powerchip Technology Corp. to use the other receivables stated above to offset the prepayments on the Company's purchases from Powerchip Technology Corp., with a term from April 1, 2011 to August 31, 2011. Purchases had been done and prepayments had been offset by the other receivables on the due date of the agreement. To safeguard the Company's interest for the conversion of a loan agreement into a purchase agreement, the Company obtained 74,410 thousand shares of Rexchip Electronics Corp. from Powerchip Technology Corp. as collateral and may exercise purchase options of those shares at a maximum amount of $450,000, when certain criteria have been achieved. Such options are intended to protect the Company's interest; they have no material impact on the Company.

6) Inventories

	December 31, 2011		
	Cost	Allowance	Book value
Raw materials	$ 2,324,033	($ 37,168)	$ 2,286,865
Work in process	706,760	(3,706)	703,054
Finished goods	1,541,778	(29,373)	1,512,405
	$ 4,572,571	($ 70,247)	$ 4,502,324

	December 31, 2010		
	Cost	Allowance	Book value
Raw materials	$ 1,609,617	($ 32,074)	$ 1,577,543
Work in process	397,037	(4,346)	392,691
Finished goods	1,324,565	(31,763)	1,292,802
	$ 3,331,219	($ 68,183)	$ 3,263,036

Expense and loss incurred on inventories for the years ended December 31, 2011 and 2010 were as follows:

	For the year ended December 31, 2011	For the year ended December 31, 2010
Cost of inventories sold	$ 25,240,236	$ 28,348,727
Loss on market price decline	2,064	22,423
	$ 25,242,300	$ 28,371,150

7) Available-for-sale financial assets - noncurrent

	December 31,	
	2011	2010
Listed (OTC) stock - Alcor Micro Corp.	$ 198,000	$ 78,000
Adjustment of available-for-sale financial assets	6,922	99,940
	$ 204,922	$ 177,940

8) Financial assets carried at cost - noncurrent

Investee company	December 31, 2011	December 31, 2010
Listed (OTC) stock - Taiwan IC Packaging Corp.	$ 331,000	$ 640,000
Listed (OTC) stock - Alcor Micro Corp.	39,350	159,350
Listed (OTC) stock – Hitron Tech. Inc.	44,580	44,580
Unlisted stock– Skyviia Corp.	30,000	30,000
Unlisted stock - Dramexchange Tech. Inc.	1,125	1,125
	$ 446,055	$ 875,055

A. Private equity investments in Alcor Micro Corp., Taiwan IC Packaging Corp. and Hitron Tech. Inc. are not allowed to be transferred three years after the trade date. The investment in Dramexchange Tech. Inc. and Skyviia Corp. were measured at cost since its fair value cannot be quoted in an active market and the fair value cannot be measured reliably.

B. The Company recognized impairment loss of $309,000 in year 2011 since there has been objective evidence that the fair value of Taiwan IC Packaging Corp. has declined.

9) Property, plant and equipment

	December 31, 2011		
Item	Initial cost	Accumulated depreciation	Net book value
Land	$ 906,623	$ -	$ 906,623
Buildings	3,020,494	(515,652)	2,504,842
Machinery	851,703	(286,656)	565,047
Transportation equipment	20,322	(14,872)	5,450
Furniture and fixtures	59,801	(38,394)	21,407
Miscellaneous equipment	68,027	(46,388)	21,639
Construction in progress and prepayments for equipment	26,870	-	26,870
	$ 4,953,840	($ 901,962)	$ 4,051,878

Item	December 31, 2010 Initial cost	Accumulated depreciation	Net book value
Land	$ 893,754	$ -	$ 893,754
Buildings	2,014,291	(396,715)	1,617,576
Machinery	719,239	(238,183)	481,056
Transportation equipment	22,596	(14,566)	8,030
Furniture and fixtures	47,420	(28,597)	18,823
Miscellaneous equipment	245,283	(37,623)	207,660
Construction in progress and prepayments for equipment	617,978	-	617,978
	$ 4,560,561	($ 715,684)	$ 3,844,877

10) Other intangible assets

	December 31, 2011	December 31, 2010
Land use right	$ 137,693	$ 127,146
Less: Accumulated amortization	(18,131)	(14,198)
	$ 119,562	$ 112,948

11) Income tax

	December 31, 2011	December 31, 2010
Income tax expense	$ 544,722	$ 474,449
Net change of deferred income tax	(82,791)	(31,219)
Over provision of prior year's income tax	125,412	7,132
Prepaid income tax	(159,934)	(404,879)
Unpaid income tax	-	6,374
Income tax payable	$ 427,409	$ 51,857

Note: The Company obtained a certificate of investment tax credits for stockholders issued by Taiwan IC Packaging Corp. during the first quarter, 2011, and used $128,000 of investment tax credits in the 2010 income tax return.

A. As of December 31, 2011 and 2010, the deferred income tax assets and liabilities are as follows:

	December 31,	
	2011	2010
Total deferred income tax assets	$ 102,642	$ 80,253
Total deferred income tax liabilities	$ 304,878	$ 219,387
Valuation allowance for deferred income tax assets	$ 52,772	$ -

B. As of December 31, 2011 and 2010, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2011		2010	
Items	Amount	Tax Effect	Amount	Tax Effect
Current items :				
Allowance for doubtful accounts	$ 10,801	$ 4,346	$ 56,282	$ 22,789
Unrealized loss on decline in market value and inventory obsolescence	70,247	11,990	68,183	12,196
Unrealized profit on intercompany transactions	90,833	15,442	108,063	18,371
Unrealized exchange loss	11,337	1,927	112,450	19,117
Others	16,066	11,765	6,187	3,508
		45,470		75,981
Non-current items :				
Pension expense	8,443	1,436	8,743	1,486
Investment income on foreign investments accounted for under the equity method	(1,585,169)	(269,478)	(1,290,511)	(219,387)
Cumulative translation adjustments	(208,235)	(35,400)	-	-
Unrealized permanent decline in market value of financial assets carried at cost	310,427	52,772	1,427	243
Others	6,921	2,964	5,845	2,543
Valuation allowance		(52,772)		-
		(300,478)		(215,115)
		($ 255,008)		($ 139,134)

C. The significant differences between accounting income and tax income in 2011 and 2010 are as follows:

a) Permanent differences: For 2011, the income included dividend income on the domestic investments amounting to $19,190; for 2010, the income included loss on valuation of financial liabilities of approximately $109,053.

b) Temporary differences: Changes in deferred income tax assets and liabilities are listed above.

D. For the years ended December 31, 2011 and 2010, the income tax expense included the additional 10% corporate income tax related to the 2010 and 2009 undistributed earnings amounting to $5,139 and $137,380, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2010 and 2009 earnings.

E. As of December 31, 2011, the Company's income tax returns for the years through 2008 have been assessed and approved by the Tax Authority.

12) Bonds payable

	December 31,	
	2011	2010
First domestic convertible bonds payable	$ -	$ 362,700
Less: Discount of bonds payable	-	(6,112)
Due within one year	-	(356,588)
	$ -	$ -

A. 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 July 25, 2011, the adjusted conversion price was $66.1 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. As of September 26, 2008, the adjusted conversion price was $80 per share.

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) The bonds matured on November 24, 2011. A total of $1,373,000 of conversion options had been exercised and the bonds had been converted to 18,622,955 shares of common stock. The conversion of the bonds to common stock caused $1,204,809 of additional paid-in capital in excess of par- common stock. The conversion options sold back on the due date of the bonds amounted to $12,700, which resulted in $1,308 of additional paid-in capital in excess of par- common stock.

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

13) Pension plans

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, 2011 and 2010, the balance of the retirement fund with the Bank of Taiwan was $46,936 and $42,799, respectively.

C. The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2011 and 2010, are as follows:

	2011	2010
Discount rate	2.00%	2.25%
Rate of increase in salary	2.00%	2.00%
Expected return on plan assets	2.00%	2.00%

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

	December 31, 2011	December 31, 2010
Benefit obligation:		
Vested benefit obligation	($ 4,095)	($ 883)
Non-vested benefit obligation	(62,895)	(60,062)
Accumulated benefit obligation	(66,990)	(60,945)
Effect of future salary increments	(26,775)	(26,027)
Projected benefit obligation	(93,765)	(86,972)
Fair value of plan assets	46,936	42,799
Funded status	(46,829)	(44,173)
Unrecognized net transition obligation	14	15
Unrecognized pension loss	33,109	30,752
Additional liability	(6,348)	(4,740)
Accrued pension liabilities	($ 20,054)	($ 18,146)
Vested benefit	$ 4,718	$ 1,055

E. For the years ended December 31, 2011 and 2010, the details of the Company's net periodic pension costs are as follows:

	For the years ended December 31, 2011	For the years ended December 31, 2010
Service cost	$ 1,997	$ 1,930
Interest cost	1,955	1,989
Expected return on plan assets	(967)	(844)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	919	1,009
Pension reduction or liquidation loss	-	1,279
Net pension cost	$ 3,905	$ 5,364

F. Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The pension costs under the defined contribution pension plan for the years ended December 31, 2011 and 2010 were $30,201 and $27,908, 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 12.5%~22% of the employees' monthly salaries and wages and the Company does not have other responsibilities for the employees' pension.

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

14) Common stock

As of December 31, 2011, the Company's authorized capital was $5,000,000(including $250,000 capital reserved for employee stock options), and the paid-in capital was $4,307,617 with a par value of $10 (in dollars) per share.

15) Capital reserve

A. Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. Please see Note 4 (12) for detailed information.

16) 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 regulations and 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' profit sharing; the cash dividend shall be at least 5% of the dividend to be distributed.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

C. Under Article 41 of ROC Securities 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.

D. a) The appropriation of 2010 and 2009 earnings had been resolved at the stockholders' meeting on June 10, 2011 and June 17, 2010 respectively. Details are summarized below:

	2010		2009	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 147,536		$ 435,411	
Cash dividends	1,276,430	$ 3.0	2,544,900	$ 6.0
Total	$ 1,423,966		$ 2,980,311	

Note:

	2010	2009
Directors' and supervisors' remuneration	$ 2,951	$ 5,100
Employees' cash bonus	43,875	130,623
Total	$ 46,826	$ 135,723

a) The appropriation of 2011 earnings had been proposed by the Board of Directors on March 22, 2012. Details are summarized below:

	2011	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 286,616	
Cash dividends	2,369,189	$ 5.5
Total	$ 2,655,805	

Note:

	2011
Directors' and supervisors' remuneration	$ 5,733
Employees' cash bonus	85,985
Total	$ 91,718

As of March 22, 2012, the appropriation of 2011 earnings had not been resolved at the stockholders' meeting.

E. The actual creditable tax ratio of distributed earnings in 2010 was 22.33%. As of December 31, 2011, the imputation tax credit account balance was $1,101,072 and the estimated creditable tax ratio was 19.25%. As of December 31, 2011, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $7,248,883, respectively.

F. Employees' bonus for 2011 and 2010 are estimated and accrued at $88,805 and $43,875, respectively, and based on a certain percentage prescribed by the Company's Articles of Incorporation (about 3%) of net income in 2011 after taking into account the legal reserve and other factors. Information on the appropriation of the Company's employees' bonuses and directors' and supervisors' remuneration as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange. Employees' bonus of 2010 as resolved by the stockholders was in agreement with that amount recognized in the 2010 financial statements, and the difference between directors' and supervisors' remuneration of 2010 as resolved by the stockholders and that amount recognized in the 2010 financial statements, totaling $2,951, had been adjusted in the statement of income of 2011.

17) Share-based payment ─ employee compensation plan

A. As of December 31, 2011, the Company's share-based payment transactions are set forth below：

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions	Actual resignation rate in the current period	Estimated future resignation rate
Employee stock options	2007.10.15	4,536	6 years	2 years' service	14.60%	0.00%

B. Details of the employee stock options are set forth below：

	December 31, 2011		December 31, 2010	
	No. of shares (in thousands)	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	$ 2,492	$ 107.8	$ 3,888	$ 107.8
Options granted	-	-	-	-
Distribution of stock dividends/ adjustments for number of shares granted for one unit of option	-	-	-	-
Options exercised	-	-	(58)	107.8
Options revoked	(368)	107.8	(1,338)	107.8
Options outstanding at end of year	2,124	107.8	2,492	107.8
Options exercisable at end of year	2,124	107.8	1,862	107.8

C. Details of the employee stock options outstanding are set forth below:

	Options outstanding at end of 2011			Options exercisable at end of 2011	
Range of exercise price (in dollars)	No. of shares (in thousands)	Weighted-average expected remaining vesting period	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
$ 107.8	2,124	1.79 years	$ 107.8	2,124	$ 107.8

	Options outstanding at end of 2010			Options exercisable at end of 2010	
Range of exercise price (in dollars)	No. of shares (in thousands)	Weighted-average expected remaining vesting period	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
$ 107.8	2,492	2.79 years	$ 107.8	1,862	$ 107.8

D. 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 fair value method for the stock options granted before the effectivity of R.O.C. SFAS No. 39.

	For the year ended December 31, 2011	
	Financial statements	Pro forma
Net income	$ 2,866,161	$ 2,864,537
Basic earnings per share (EPS) (in dollars)	6.72	6.72
Diluted EPS (in dollars)	6.70	6.70

	For the year ended December 31, 2010	
	Financial statements	Pro forma
Net income	$ 1,475,356	$ 1,476,196
Basic earnings per share (EPS) (in dollars)	3.48	3.48
Diluted EPS (in dollars)	3.47	3.47

E. Estimations of increase in fair value using the Black-Scholes option-pricing model are shown below:

Type of arrangement	Stock price	Exercise price	Expected price volatility	Expected vesting period	Expected dividend yield rate	Risk-free interest rate	Fair value per unit
Employee stock options	$ 120	$ 120	39.68%	4.375 years	0%	2.61%	$43.32

18) Earnings per share

	For the year ended December 31, 2011				
	Amount		Weighted-average outstanding shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Basic earnings per share:					
Consolidated net income	$ 3,410,883	$ 2,866,161	426,331	$ 8.00	$ 6.72
Dilutive effect of common stock equivalents:					
Employee bonus	-	-	1,165		
Diluted earnings per share:					
Consolidated net income attributable to common stockholders plus dilutive effect of common stock equivalents	$ 3,410,883	$ 2,866,161	427,496	$ 7.98	$ 6.70

Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which taking into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

	For the year ended December 31, 2010				
	Amount		Weighted-average outstanding shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Basic earnings per share:					
Consolidated net income	$1,949,805	$1,475,356	424,545	$ 4.59	$ 3.48
Dilutive effect of common stock equivalents:					
Employee bonus	-	-	551		
Diluted earnings per share:					
Consolidated net income attributable to common stockholders plus dilutive effect of common stock equivalents	$1,949,805	$1,475,356	425,096	$ 4.59	$ 3.47

19) Personnel expenses, depreciation, and amortization

Personnel expenses, depreciation and amortization are summarized as follows:

	For the year ended December 31, 2011		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 443,212	$ 859,573	$ 1,302,785
Labor and health insurance	43,600	78,369	121,969
Pension expense	16,379	21,190	37,569
Others	36,926	30,615	67,541
Depreciation	136,377	69,827	206,204
Amortization	300	2,632	2,932

	For the year ended December 31, 2010		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 309,124	$ 777,738	$ 1,086,862
Labor and health insurance	33,019	75,504	108,523
Pension expense	14,844	21,961	36,805
Others	31,434	39,168	70,602
Depreciation	116,883	65,373	182,256
Amortization	363	2,727	3,090

5. RELATED PARTY TRANSACTIONS

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

Names of related parties	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.)	The Company's general manager is the director of Transcend H.K.
Won Chin Investment Inc. (Won Chin)	Won Chin is the major stockholder of the Company with more than 5% ownership
Cheng Chuan Technology Development Inc. (Cheng Chuan)	〃

2) Significant transactions and balances with related parties

A. Sales

	2011		2010	
	Amount	%	Amount	%
Transcend H.K.	$ 582,254	2	$1,209,535	4
C-Tech Corporation	234,628	1	341,836	1
	$ 816,882	3	$1,551,371	5

The sales prices charged to related parties are almost equivalent to those charged to third parties. The credit term to related parties is 120 days after monthly billings, except for C-Tech Corporation, which is 15 days after monthly billings. The credit term to third parties is 30 to 60 days after monthly billings.

B. Accounts receivable

	December 31,			
	2011		2010	
	Amount	%	Amount	%
Transcend H.K.	$ 92,187	4	$ 173,589	6
Others	16,587	1	-	-
	$ 108,774	5	$ 173,589	6

C. Lease contracts

a) On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. The lease has a term of 10 years from April 10, 2009 to April 9, 2019. The annual rental payment is $35,633 (exclusive of tax), which was determined based on the average rent of land near the leased land shown in the appraisal report issued by CCIS Real Estate Joint Appraisers Firm. Rent is payable prior to the following year on the contract date and on the same month, same day as the contract date of each following year until the end of the lease. Future rent payments required under the lease are shown in Note 7.

b) On July 1, 2008, the Company signed a plant lease contract with C-Tech Corporation. The monthly rent payment required is $200, which was determined based on the rent C-Tech Corporation offered the former lessee. The rent expense incurred in 2011 and 2010 amounted to $400 and $2,400, respectively. The contract has been terminated since March, 2011.

3) Salaries/rewards information of key management

	For the years ended December 31,	
	2011	2010
Salaries and bonuses	$ 62,870	$ 67,905
Service execution fees	2,425	2,475
Directors' and supervisors'remuneration and employees' bonuses	33,654	39,813
	$ 98,949	$ 110,193

a) Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, rewards, etc.
b) Service execution fees include travel or transportation allowances, special expenditures, various allowances, housing & vehicle benefits, etc.
c) Directors' and supervisors' remuneration and employees' bonuses were those amounts estimated and accrued in the statement of income for the current year.

6. PLEDGED ASSETS

Nature of assets	Purpose	Book Value December 31, 2011	December 31, 2010
Property, plant and equipment	Long-term and short-term loans	$ 1,064,753	$ 1,434,060
Other financial assets-noncurrent-time deposit	Patent deposit	3,028	2,913
		$ 1,067,781	$ 1,436,973

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2011, in addition to the lease contract shown in Note 5, the Company's significant commitments and contingent liabilities are summarized below:

The Company signed a land lease contract with Won Chin and Cheng Chuan, with a lease term of 10 years from April 10, 2009 to April 9, 2019. The following sets out the annual lease payment required under the lease agreement for the next five years and present value of the lease payments from the sixth year to the end of the lease.

Period of the lease	Amount
2012 ~ 2016	$ 187,074
2017 ~ 2019 (Present value: $69,398)	74,830
	$ 261,904

8. SIGNIFICANT CATASTROPHE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

As of March 22, 2012, the appropriation of 2011 earnings had been proposed by the Board of Directors, please refer to Note 4 (16) D (b).

10. OTHERS

1) Information on financial instruments

A. Fair values of financial instruments

	December 31, 2011		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 12,586,713	$ -	$ 12,586,713
Investment in bonds without active markets - current	96,140	-	-
Available-for-sale financial instruments-non current	204,922	204,922	-
Financial assets carried at cost-noncurrent	446,055	-	-
Refundable deposits	33,017	-	33,017
Liabilities			
Financial liabilities with fair values equal to book values	2,274,936	-	2,274,936

	December 31, 2010		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 10,551,232	$ -	$ 10,551,232
Financial assets at fair value through profit or loss-current	500,148	500,148	-
Available-for-sale financial instruments	177,940	177,940	-
Financial assets carried at cost-noncurrent	875,055	-	-
Refundable deposits	21,597	-	21,597
Liabilities			
Financial liabilities with fair values equal to book values	1,753,966	-	1,753,966
Bonds payable	356,588	-	360,377
Derivative financial instruments			
Assets			
Financial assets at fair value through profit or loss-current	369	-	369

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. Financial instruments at fair value through profit or loss are regarded as quoted in an active market if 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. Available-for-sale financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

d. The fair value of the refundable deposits 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.

e. The fair value of the convertible bonds issued before December 31, 2005 is based on their market value. The discount rate is the effective interest rate of convertible bonds in the current market, whose contractual terms are similar to those of convertible bonds issued by the Group.

f. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based upon the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

B. As of December 31, 2011 and 2010, the financial assets with fair value and cash flow risk due to the change of interest amounted to $9,610,513 and $5,835,572, respectively.

C. For the years ended December 31, 2011 and 2010, total interest income for financial assets that are not at fair value through profit or loss amounted to $64,541 and $44,488 respectively.

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

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.

E. <u>Information on material financial risk</u>

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 is 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 regulations, 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. 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.

e. Financial instruments with off-balance sheet credit risk

Item	December 31, 2011	December 31, 2010
Transcend Japan	¥ 500 million	¥ 500 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.

f. Some businesses of the Company and its subsidiaries involve non-functional currency operations (the Company's functional currency: NTD; subsidiaries' functional currencies: JPY, KRW, USD, EUR, GBP, or RMB). The information on monetary assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

(Amounts in thousands)

	December 31, 2011		December 31, 2010	
(Foreign currency: functional currency)	Foreign Currency	Exchange Rate	Foreign Currency	Exchange Rate
Financial assets				
Monetary item				
EUR:NTD	$ 2,045	39.1800	$ 3,408	38.9200
USD:NTD	25,908	30.2750	59,230	29.1300
JPY:NTD	65,715	0.3906	110,277	0.3582
GBP:NTD	1,184	46.7300	98	45.1900
Financial liabilities				
Monetary item				
USD:NTD	$ 36,405	30.2750	$ 27,968	29.1300
USD:RMB (Note)	8,340	6.2981	5,121	6.5897

Note: In cases where the consolidated entities' functional currency is not NTD; this should be disclosed as well. For example, when a subsidiary's functional currency is RMB, its USD position, if any, should also be disclosed.

11. ADDITIONAL DISCLOSURE REQUIRED BY THE SECURITIES AND FUTURES BUREAU

1) Related information of significant transactions

A. Loans granted during the year ended December 31, 2011

Creditor	Borrower	General ledger account	Maximum outstanding balance during the year ended December 31,2011	Ending Balance	Interest rate	Nature of loan	Amount of sales to (purchases from) the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral and its value	Limit on loans granted to a single party	Ceiling on total loans granted
Transcend Taiwan	Powerchip Tech.Corp.	Other receivables	$ 1,500,000	$ -	2.5%	For short-term lending	$ -	To maintain working capital	$ -	$ -	$ 1,902,766 (Note a)	$ 1,902,766 (Note a)

Note a: Ceiling on total loans granted to all parties and limit on loans granted to a single party are both 10% of the net asset value of the lending company.

B. Endorsements and guarantees provided during the year ended December 31, 2011

Name of the company	Name of parties being guaranteed	Relationship with guaranteed	Ceiling of guarantee for single party	Maximum outstanding guarantee amount during the year ended December31, 2011	Outstanding guarantee amount at December 31, 20011	Amount of guarantee secured with collateral placed	Ratio of accumulated guarantee amount to net worth value of the Company (%)	Ceiling on total amount of guarantee for provided
Transcend Taiwan	Transcend Japan	Note a	Not exceeding 20% of the Company’s net asset value. ($19,027,662 × 20% ＝ $3,805,532)	$ 195,300 (￥ 500,000,000)	$ 195,300 (￥ 500,000,000)	-	1	Not exceeding 40% of the Company’s net asset value. (($19,027,662× 40% ＝ $7,611,065)

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

C. Marketable securities held as at December 31, 2011:

				As of December 31, 2011			
Securities held by	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							
	Stocks						
	Alcor Micro Corp.	-	Available-for-sale financial assets-noncurrent	5,220,933	$ 204,922	6	$ 204,922
	Taiwan IC Packaging Corp.	-	Financial assets carried at cost-noncurrent	41,000,000	$ 331,000	14	$ -
	Alcor Micro Corp.	-	〃	1,000,000	39,350	1	-
	Hitron Tech. Inc.	-	〃	3,060,017	44,580	2	-
	Skyviia Corp.	-	〃	2,500,000	30,000	3	-
	Dramexchange Tech Inc.	-	〃	60,816	1,125	1	-
					$ 446,055		
	Saffire	The Company's subsidiary	Long-term equity investments accounted for under the equity method	36,600,000	$ 2,899,726	100	$ 2,925,366
	Transcend Japan	〃	〃	6,400	152,138	100	152,138
	Transcend USA	〃	〃	625,000	86,911	100	86,911
	Transcend UK	〃	〃	50,000	6,670	100	6,670
	Shares						
	Transcend Korea	The Company's subsidiary	Long-term equity investments accounted for under the equity method	-	14,516	100	14,516
					$ 3,159,961		

Securities held by	Type and name of marketable securities	Relationship with the Company	General ledger accounts	December 31, 2010 Number of shares or units	Book value (in thousand)	Percentage of Company's ownership	Market value or net worth per share (in thousand)
Saffire Investment Ltd.	Stocks						
	Memhiro Pte Ltd.	The Company's subsidiary	Long-term equity investments accounted for under the equity method	55,132,000	$ 2,886,356	100	$ 2,886,356
Memhiro Pte Ltd.	Stocks						
	Transcend Information Europe B.V.	The Company's subsidiary	Long-term equity investments accounted for under the equity method	100	133,063	100	$ 133,069
	Shareholding						
	Transcend Shanghai	〃	〃	-	2,672,274	100	2,672,381
	Transcend Germany	〃	〃	-	50,111	100	50,111
	Transtech Shanghai	〃	〃	-	47	100	47
					$ 2,855,495		
Transcend Shanghai	Finance products						
	2011 NO.11 China Construction Bank's VIP Finance Product – "Baoben"	-	Investment in bonds without active markets - current	-	$ 24,035	-	-
	2011 NO.13 China Construction Bank's VIP Finance Product- "Baoben"	-	〃	-	24,035	-	-
	2011 NO.236 Bank of China "Ji Fu" Wealth Management Plan	-	〃	-	48,070	-	-
					$ 96,140		

D. Acquisition or sale of the same security with the accumulated cost exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2011

					Balance as at January 1, 2011		Addition		Disposal				Balance as at December 31, 2011	
Investor	Marketable securities	General ledger accounts	Counterparty	Relationship with the Company	Number of shares (in thousand)	Amount (Note A)	Number of shares (in thousand)	Amount	Number of shares (in thousand)	Selling price	Book value	Gain (loss) from disposal	Number of shares (in thousand)	Amount (Note A)
Transcend Taiwan	Fu-Hwa Bond Fund	Financial assets at fair value through profit or loss	-	-	36,073	$ 500,000	-	$ -	36,073	$ 501,389	$ 500,000	$ 1,389	-	$ -

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

E. Acquisition of real estate properties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2011:

						If the counterparty is a related party, information as to the last transaction of the property is disclosed below:							
Property acquired by	Property acquired	Date of transaction	Transaction amount	Status of payment	Counterparty	Relationship with the Company	Original owner who sold the property to the counterparty	Relationship of the original owner with the Company	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of properties and status of the properties	Other commitments
Transcend Taiwan	Buildings	98.5~100.10	$451,785	Payable according to the progress of the construction	Immense Team Construction and Building Company, Limited (ITC)	-	-	-	-	-	Based on the total price of the contract	Construction of plant	-

F. Disposal of real estate properties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2011: None.

G. Purchases from or sales to related parties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2011

			Transactions				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)	
Purchaser	Counterparty	Relationship with the Company	Sales Purchases	Amount	Percentage of total sales (purchases)	Credit terms	Unit price	Credit terms	Balance	Percentage of total notes / accounts receivable (payable)
Transcend Taiwan	Transcend Europe	Subsidiary of Memhiro	Sales	$3,057,347	10	120 days after monthly billings	No significant difference from those to third parties	To third parties is 30 to 60 days after monthly billings	$ 554,144	16
〃	Transcend Japan	The Company's subsidiary	〃	2,234,437	8	〃	〃	〃	991,852	29
〃	Transcend USA	〃	〃	1,844,045	6	〃	〃	〃	319,686	9
〃	Transcend H.K.	Transcend H.K.'s chairman is the Company's general manager	〃	582,254	2	〃	〃	〃	92,187	3
〃	Transcend Korea	The Company's subsidiary	〃	567,575	2	60 days after monthly billings	〃	〃	33,818	1
〃	Transcend Germany	Subsidiary of Memhiro	〃	544,673	2	120 days after monthly billings	〃	〃	24,924	1
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	234,628	1	15 days after monthly billings	〃	〃	17,101	1
〃	Transtech Shanghai	Subsidiary of Memhiro	〃	185,389	1	120 days after monthly billings	〃	〃	31,832	1
〃	Transcend Shanghai	Subsidiary of Memhiro	〃	130,566	-	〃	〃	〃	-	-
Transcend Europe	Transcend Germany	Together with Transcend Europe are controlled by parent company.	〃	1,182,774	38	30 days after receipt of goods		To third parties is 7 to 60 days after receipt of goods	126,905	42
Transcend Shanghai	Transtech Shanghai	Together with Transcend Shanghai are controlled by parent company.	〃	130,566	1	60 days after monthly billings	〃	To third parties is 30 to 60 days after receipt of goods	26,438	4
Transcend Taiwan	Transcend Shanghai	Subsidiary of Memhiro	Purchases	(1,721,710)	7	60 days after receipt of goods	Note A	To third parties is 7 to 30 days after receipt of goods	(871,209)	37

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

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

H. Receivables from related parties exceeding $100 million or 20% of the Company's paid-in capital as at December 31, 2011

					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	$ 991,852	2.22	$ -	-	$ 611,853	$ -
〃	Transcend Europe	Subsidiary of Memhiro	554,144	5.67	-	-	542,956	-
〃	Transcend USA	Subsidiary of the Company	319,686	5.39	-	-	308,427	-
Transcend Europe	Transcend Germany	Together with Transcend Europe are controlled by parent company.	126,905	9.43	-	-	126,905	-
Transcend Shanghai	Transcend Taiwan	parent company	871,209	10.37	-	-	871,209	-

I. Derivative financial instruments undertaken during the year ended December 31, 2011: Refer to Note 4(5).

2) Disclosure information of investee company

Investors	Investees	Location	Main activities	Initial Investment Amount: Balance as at 12/31/11	Initial Investment Amount: Balance as at 12/31/10	Shares held as at December 31, 2011: No.of Shares (in thousands)	Shares held as at December 31, 2011: Ownership (%)	Shares held as at December 31, 2011: Book value	Net income (loss) of investee	Investment income(loss) Recognized by the Company	Relationship with the Company
Transcend Taiwan	Saffire	B.V.I.	Investments holding company	$ 1,202,418	$ 1,202,418	36,600,000	100	$ 2,899,726	$ 270,405	$ 261,493	Note B
〃	Transcend Japan	Japan	Wholesaler of computer memory modules and peripheral products	89,103	89,103	6,400	100	152,138	21,271	21,271	Note B
〃	Transcend USA	United States of America	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100	86,911	11,815	11,815	Note B
〃	Transcend Korea	Korea	Wholesaler of computer memory modules and peripheral products	6,132	6,132	-	100	14,516	4,278	4,278	Note B
〃	Transcend UK	United Kingdom	Wholesaler of computer memory modules and peripheral products	2,883	2,883	50,000	100	6,670	(4,203)	(4,203)	Note B
Saffire	Memhiro	Singapore	Investments holding company	1,156,920	1,156,920	55,132,000	100	2,886,356	270,439	-	Note C
Memhiro	Transcend Europe	Netherlands	Wholesaler of computer memory modules and peripheral products	1,693	1,693	100	100	133,063	14,792	-	Note D
〃	Transcend Shanghai	Mainland China	Manufacturer and seller of computer memory modules, storage products and disks	1,134,178	1,134,178	-	100	2,672,274	225,364	-	Note D
〃	Transcend Germany	Germany	Wholesaler of computer memory modules and peripheral products	2,288	2,288	-	100	50,111	23,903	-	Note D
〃	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	47	6,185	-	Note D

Note A:The Company did not directly recognize the investment income (loss) except the parent company .
Note B: Subsidiaries of the Company.
Note C: Subsidiary of Saffire.
Note D: Subsidiaries of Memhiro

3) Disclosure of information on indirect investments in Mainland China

1. Information on Mainland China investments

Investee in Mainland China	Main activities	Paid-in capital (Note C)	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2011 (Note C)	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 31,2011 (Note C)	Ownership held by the Company (direct and indirect)	Investment income(loss) recognized by the Company for the year (Note B)	Book value of investments in Mainland China as of December 31,2011	Accumulated amount of investment income remitted back to Taiwan as of December 31,2011
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	$ 1,134,178 (USD 34,600 Thousand)	Note A	$ 1,134,178 (USD34,600 Thousand)	$ -	$ -	$ 1,134,178 (USD34,600 Thousand)	100%	$ 225,373	$2,672,274	$ -
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	16,310 (USD 500 Thousand)	Note A	16,310 (USD 500 Thousand)	-	-	16,310 (USD 500 Thousand)	100%	6,185	47	-

Investee in Mainland China	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2011	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 D)
Transcend Shanghai	$ 1,134,178	$ 1,134,178	$ -
Transtech Shanghai	16,310	16,310	-
	$ 1,150,488 (USD 35,100 Thousand)	$ 1,150,488 (USD 35,100 Thousand)	$ 11,416,597

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: The Company recognized investment income under equity method for current period, the investment income was measured by audited financial statements of investee during the same period.
Note C: (a) Transcend Shanghai: the paid-in capital was USD 34,600 thousand, and the accumulated amount of remittance to Mainland China as of January 1 and December 31, 2011was USD 34,600 thousand.
(b) Transtech Shanghai: the paid-in capital was USD 500 thousand, and the accumulated amount of remittance to Mainland China as of January 1 and December 31, 2011was USD 500 thousand.
Note D: 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

For the year ended December 31, 2011

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	$ 3,057,347	There is no significant difference in unit price from those to third parties	10%
〃	〃	Transcend Japan	〃	〃	2,234,437	〃	7%
〃	〃	Transcend USA	〃	〃	1,844,045	〃	6%
〃	〃	Transcend Korea	〃	〃	567,575	〃	2%
〃	〃	Transcend Germany	〃	〃	544,673	〃	2%
〃	〃	Transcend Shanghai	〃	Purchase	1,721,710	Processing with supplied materials. No other similar transactions can be used for comparison.	6%
〃	〃	Transcend Japan	〃	Accounts Receivable	991,852	120 days after monthly billings	4%
〃	〃	Transcend Europe	〃	〃	554,144	〃	3%
〃	〃	Transcend USA	〃	〃	319,686	〃	1%
〃	〃	Transcend Shanghai	〃	Accounts Payable	871,209	60 days after receipt of goods	4%
1	Transcend Europe	Transcend Germany	C	Sales	1,182,774	There is no significant difference in unit price from those to third parties	4%

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, the percentage is calculated using consolidated assets, for income statement accounts, the percentage is calculated using consolidated revenue.

For the year ended December 31, 2010:

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	$ 3,355,331	There is no significant difference in unit price from those to third parties	10%
〃	〃	Transcend Japan	〃	〃	2,675,528	〃	8%
〃	〃	Transcend USA	〃	〃	2,039,981	〃	6%
〃	〃	Transcend Germany	〃	〃	707,605	〃	2%
〃	〃	Transcend Korea	〃	〃	435,316	〃	1%
〃	〃	Transcend Shanghai	〃	〃	354,346	〃	1%
〃	〃	Transcend Shanghai	〃	Purchase	1,629,546	Processing with supplied materials. No other similar transactions can be used for comparison.	5%
〃	〃	Transcend Japan	〃	Accounts Receivable	1,027,525	120 days after monthly billings	5%
〃	〃	Transcend Europe	〃	〃	531,213	〃	3%
〃	〃	Transcend USA	〃	〃	373,358	〃	2%
〃	〃	Transcend Shanghai	〃	Accounts Payable	426,213	60 days after receipt of goods	2%
1	Transcend Shanghai	Transtech Shanghai	C	Sales	354,346	There is no significant difference in unit price from those to third parties	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, the percentage is calculated using consolidated assets, for income statement accounts, the percentage is calculated using consolidated revenue.

12. SEGMENT INFORMATION

1) General information

The Group operates business only in a single industry, allocating resources and assessing performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

2) Revenue information by category

Not applicable as revenues from external customers primarily from the sale of products.

3) Revenue information by geographic area

Areas	2011		2010	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 2,327,801	$ 2,195,462	$ 4,022,983	$ 2,026,219
Asia	16,231,512	1,914,661	12,804,486	1,859,353
America	2,591,785	62,298	3,211,917	57,864
Europe	8,464,233	38,435	11,250,117	48,840
Others	604,401	-	896,121	-
Total	$ 30,219,732	$ 4,210,856	$ 32,185,624	$ 3,992,276

4) Information on major customers

There is no sale to a single customer constituting more than 10% of the Group's consolidated net sales in 2011and 2010.

13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

1) <u>Major contents and status of execution of the Company's plan for IFRSs adoption:</u>

A. The Company has formed an IFRSs group headed by the Company's general manager, which is responsible for setting up a plan relative to the Company's transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
a. Formation of an IFRSs group	It had been reported to the Board of Directors on October 28, 2009.
b. Setting up a plan relative to the Company's transition to IFRSs	It had been reported to the Board of Directors on October 27, 2010.
c. Identification of the differences between current accounting policies and IFRSs	It had been reported to the Board of Directors on March 28, 2011.
d. Identification of consolidated entities under the IFRSs framework	It had been identified on October, 2011.
e. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards	It had been evaluated on October, 2011.
f. Evaluation of needed information system adjustments	It had been evaluated on October, 2011.
g. Evaluation of needed internal control adjustments	It had been evaluated on October, 2011.
h. Establish IFRSs accounting policies	It had been finished on December, 2011.
i. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	It had been finished on December, 2011.
j. Preparation of statement of financial position on the date of transition to IFRSs	It will be prepared on March, 2012.
k. Preparation of IFRSs comparative financial information for 2012	It will be prepared from April, 2013 to March, 2014.
l. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	It will be prepared from March, 2012 to March, 2014.

B Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by the Financial Supervisory

Commission and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company's current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the "Rules Governing the Preparation of Financial Statements by Securities Issuers" come in the future.

Material differences identified by the Company that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future are set forth below:

a) Financial assets: equity instruments

In accordance with the amended "Rules Governing the Preparation of Financial Statements by Securities Issuers", dated July 7, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in "Financial assets carried at cost". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value.

b) Investment property

In accordance with current accounting standards in R.O.C., the Company's investment property is presented in the 'Property, Plant and Equipment' account. In accordance with IAS 40, "Investment Property", property that meets the definition of investment property is classified and accounted for as 'Investment property'.

c) Pensions

i. The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.

ii. In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, in accordance with IAS 19, "Employee Benefits", the unrecognized transitional net benefit obligation should be recognized as an expense immediately at the date of adoption.

iii. In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet ("minimum pension liability").

However, IAS 19, “Employee Benefits”, has no regulation regarding the minimum pension liability.

iv. In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Company is recognized in net pension cost of current period using the ‘corridor’ method. However, IAS 19, “Employee Benefits”, requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income.

d) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period.

e) Income taxes

i. In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting, should be classified as current or noncurrent according to the expected time period to realize or settle a deferred tax asset or liability. However, under IAS 1, “Presentation of Financial Statements”, an entity should not classify a deferred tax asset or liability as current.

ii. In accordance with current accounting standards in R.O.C., when evidence shows that part or whole of the deferred tax asset with 50% probability or above will not be realized, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, “Income Taxes”, a deferred tax asset should be recognized if, and only if, it is considered highly probable that it will be realized.

iii. Regarding tax rates that shall apply to the deferred tax assets or liabilities associated with unrealized gains or losses arising from transactions between parent company and subsidiaries by buyer tax rate or seller tax rate, the current accounting standards in R.O.C. do not specify the rules for this issue; while, the Company adopts seller tax rate for computation. However, under IAS 12, “Income Taxes”, temporary differences in the consolidated financial statements are determined by comparing the carrying amounts of assets and liabilities in those statements and applicable taxation basis. The Company’s taxation basis is determined by reference to the Group entities’ income tax returns. Accordingly, buyer tax rate shall apply to the deferred tax assets or liabilities in the consolidated financial statements.

Some of the above differences may not have a material effect on the Company in transition to IFRSs due to the exemption rules in IFRS 1, “First-time Adoption of International Financial Reporting Standards”, adopted by the Company.