# TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

## FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

82005073PWCR09000482

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, 2009 and 2008, 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$723,638 thousand and NT$738,732 thousand, constituting 3 percent and 4 percent of the related consolidated totals, as of December 31, 2009 and 2008, respectively, and total revenues of NT$4,362,464 thousand and NT$4,196,943 thousand, constituting 13 percent and 12 percent of the related consolidated totals, for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits 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 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, 2009 and 2008, 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.

As stated in Note 3 to the financial statements, effective January 1, 2009, the Company adopted the amendments to R.O.C. SFAS No. 10, "Accounting for Inventories". Effective January 1, 2008, the Company adopted the EITF96-052 "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", as prescribed by the R.O.C. Accounting Research and Development Foundation.

PricewaterhouseCoopers Taiwan

March 12, 2010
Taipei, Taiwan
Republic of China

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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, 2009 AND 2008
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4(1)) | $ 7,335,309 | $ 5,258,418 |
| Financial assets at fair value through profit or loss-current (Note 4(2)) | 681,232 | 520,778 |
| Notes receivable, net | 8,150 | 9,055 |
| Accounts receivable – third parties, net (Note 4(3)) | 3,541,608 | 2,127,919 |
| Accounts receivable – related parties, net (Note 5) | 215,866 | 328,441 |
| Other receivables | 260,826 | 175,848 |
| Inventories, net (Note 4(4)) | 4,312,281 | 5,374,356 |
| Prepayments | - | 147,985 |
| Other current assets (Note 4(10)) | 143,312 | 200,161 |
| | 16,498,584 | 14,142,961 |
| **Funds and Investments** (Notes 4(5), 4(6) and 6) | | |
| Available-for-sale financial assets-noncurrent | 212,690 | - |
| Financial assets carried at cost-noncurrent | 800,475 | 839,125 |
| Other financial assets – non-current | 3,199 | 3,275 |
| | 1,016,364 | 842,400 |
| **Property, Plant and Equipment, net** (Notes 4(7) and 6) | | |
| Cost | | |
| Land | 891,726 | 898,682 |
| Buildings | 2,086,069 | 1,932,023 |
| Machinery | 699,512 | 791,708 |
| Transportation equipment | 25,211 | 25,551 |
| Furniture and fixtures | 75,252 | 93,271 |
| Miscellaneous equipment | 77,174 | 69,224 |
| Cost and revaluation increments | 3,854,944 | 3,810,459 |
| Less: Accumulated depreciation | (633,736) | (560,956) |
| Construction in progress and prepayments for equipment | 298,733 | 90,997 |
| | 3,519,941 | 3,340,500 |
| **Intangible Assets** | | |
| Deferred pension costs (Note 4(13)) | 17 | 18 |
| Other intangible assets (Note 4(8)) | 120,410 | 128,673 |
| | 120,427 | 128,691 |
| **Other Assets** | | |
| Refundable deposits | 19,777 | 9,777 |
| Other assets - other | 2,373 | 1,723 |
| Total other assets | 22,150 | 11,500 |
| **TOTAL ASSETS** | $ 21,177,466 | $ 18,466,052 |

| | 2009 | 2008 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Short-term bank loans (Note 4(9)) | - | 272,700 |
| Notes payable | 49,789 | 70,785 |
| Accounts payable | 918,606 | 1,241,525 |
| Income tax payable (Note 4(10)) | 766,707 | 466,066 |
| Accrued expenses (Note 5) | 599,033 | 746,347 |
| Long-term liabilities – current portion (Notes 4(11)(12)) | - | 1,085,235 |
| Other current liabilities | 57,009 | 23,209 |
| | 2,391,144 | 3,905,867 |
| **Long-term Liabilities** | | |
| Bonds payable (Note 4(11)) | 455,464 | - |
| Long-term bank loans (Note 4(12)) | - | 19,738 |
| | 455,464 | 19,738 |
| **Other Liabilities** | | |
| Accrued pension liabilities (Note 4(13)) | 20,462 | 20,170 |
| Deferred income tax liabilities – non - current (Note 4(10)) | 166,681 | 89,680 |
| Other liabilities - other | 17,325 | 10,908 |
| | 204,468 | 120,758 |
| **Total Liabilities** | 3,051,076 | 4,046,363 |
| **Stockholders' Equity** | | |
| Capital (Note 4(14)) | | |
| Common stock | 4,238,603 | 3,945,430 |
| Capital reserve (Notes 4(11)(15)) | | |
| Paid-in capital in excess of par value of common stock | 4,536,079 | 4,115,414 |
| Capital surplus from donated assets | 4,106 | 4,106 |
| Capital surplus from merger | 35,128 | 35,128 |
| Capital reserve from stock warrants | 48,700 | 114,872 |
| Retained Earnings (Note 4(16)) | | |
| Legal reserve | 1,579,239 | 1,354,535 |
| Undistributed earnings | 7,432,740 | 4,646,736 |
| Other Adjustments | | |
| Unrealized gain or loss on financial instruments (Note 4(5)) | 134,690 | - |
| Cumulative translation adjustments | 123,271 | 207,927 |
| Unrecognized pension cost (Note 4(13)) | ( 6,166) | ( 4,459) |
| **Total Stockholders' Equity** | 18,126,390 | 14,419,689 |
| **Commitments and Contingent Liabilities (Notes 5 and 7)** | | |
| **Significant Subsequent Events (Note 9)** | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 21,177,466 | $ 18,466,052 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 12, 2010.

# TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME
### FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

| | 2009 | 2008 |
|---|---|---|
| Operating Revenue | | |
| Sales | $ 35,155,551 | $ 35,329,353 |
| Less: Sales returns | ( 318,003) | ( 377,901) |
| Sales discounts | ( 420,750) | ( 544,453) |
| Net sale (Note 5) | 34,416,798 | 34,406,999 |
| Operating Costs | | |
| Cost of goods sold (Notes 4(4)(19)) | ( 27,297,260) | ( 30,934,588) |
| Gross profit | 7,119,538 | 3,472,411 |
| Operating Expenses (Note 4(19)) | | |
| Sales and marketing expenses | ( 1,216,094) | ( 1,155,116) |
| General and administrative expenses | ( 395,483) | ( 440,484) |
| Research and development expenses | ( 151,661) | ( 142,440) |
| Total Operating Expenses | ( 1,763,238) | ( 1,738,040) |
| Operating income | 5,356,300 | 1,734,371 |
| Non-operating Income and Gains | | |
| Interest income | 20,339 | 62,217 |
| Gain on valuation of financial assets (Note 4 (2)) | 22,488 | - |
| Gain on valuation of financial liabilities (Note 4(2)) | 157,744 | 569 |
| Dividend income | 5,220 | 47,111 |
| Foreign exchange gain, net | 53,264 | 1,106,399 |
| Other non-operating income (Note 5) | 51,809 | 21,449 |
| Non-operating Income and Gains | 310,864 | 1,237,745 |
| Non-operating Expenses and Losses | | |
| Interest expense | ( 21,138) | ( 27,604) |
| Loss on valuation of financial liabilities (Note 4 (2)) | - | ( 4,813) |
| Other non-operating losses | ( 11,279) | ( 5,981) |
| Non-operating Expenses and Losses | ( 32,417) | ( 38,398) |
| Income from continuing operations before income tax | 5,634,747 | 2,933,718 |
| Income tax expense (Note 4(10)) | ( 1,280,639) | ( 686,681) |
| Consolidated net income | $ 4,354,108 | $ 2,247,037 |
| Attributable to: | | |
| Equity holders of the Company | $ 4,354,108 | $ 2,247,037 |

| | 2009 Before income tax | 2009 After income tax | 2008 Before income tax | 2008 After income tax |
|---|---|---|---|---|
| Basic earnings per common share (in dollars) | | | | |
| Consolidated net income (Note 4(18)) | $ 13.48 | $ 10.42 | $ 7.09 | $ 5.43 |
| Diluted earnings per common share (in dollars) | | | | |
| Consolidated net income (Note 4(18)) | $ 12.89 | $ 9.88 | $ 6.87 | $ 5.27 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 12, 2010.

**TRANSCEND INFORMATION, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**
**(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 |
| **2008** | | | | | | | | |
| Balance at January 1, 2008 | $ 3, 706, 457 | $ 4, 240, 546 | $1, 084, 495 | $ 4, 238, 521 | $ - | $ 70, 064 | $ - | $ 13, 340, 083 |
| Capitalization of capital reserve | 148, 258 | ( 148, 258) | - | - | - | - | - | - |
| Appropriations of 2007 earnings: | | | | | | | | |
| Legal reserve | - | - | 270, 040 | ( 270, 040) | - | - | - | - |
| Directors' and supervisors' remuneration | - | - | - | ( 3, 071) | - | - | - | ( 3, 071) |
| Stock dividends | 37, 065 | - | - | ( 37, 065) | - | - | - | - |
| Cash dividends | - | - | - | ( 1, 482, 583) | - | - | - | ( 1, 482, 583) |
| Employees' bonus | 23, 030 | - | - | ( 46, 063) | - | - | - | ( 23, 033) |
| Conversion of bonds payable to capital stock | 30, 620 | 124, 504 | - | - | - | - | - | 155, 124 |
| Capital surplus from donated assets | - | 4, 106 | - | - | - | - | - | 4, 106 |
| Conversion of bonds from reset provision | - | 48, 622 | - | - | - | - | - | 48, 622 |
| Cumulative translation adjustments | - | - | - | - | - | 137, 863 | - | 137, 863 |
| Unrecognized pension cost | - | - | - | - | - | - | ( 4, 459) | ( 4, 459) |
| Consolidated net income for 2008 | - | - | - | 2, 247, 037 | - | - | - | 2, 247, 037 |
| Balance at December 31, 2008 | $ 3, 945, 430 | $ 4, 269, 520 | $1, 354, 535 | $ 4, 646, 736 | $ - | $ 207, 927 | ($ 4, 459) | $ 14, 419, 689 |
| **2009** | | | | | | | | |
| Balance at January 1, 2009 | $ 3, 945, 430 | $ 4, 269, 520 | $1, 354, 535 | $ 4, 646, 736 | $ - | $ 207, 927 | ($ 4, 459) | $ 14, 419, 689 |
| Capitalization of capital reserve | 157, 820 | ( 157, 820) | - | - | - | - | - | - |
| Appropriations of 2008 earnings: | | | | | | | | |
| Legal reserve | - | - | 224, 704 | ( 224, 704) | - | - | - | - |
| Stock dividends | 40, 400 | - | - | ( 40, 400) | - | - | - | - |
| Cash dividends | - | - | - | ( 1, 303, 000) | - | - | - | ( 1, 303, 000) |
| Conversion of bonds payable to capital stock | 81, 845 | 432, 163 | - | - | - | - | - | 514, 008 |
| Employees' stock bonus | 12, 308 | 72, 325 | - | - | - | - | - | 84, 633 |
| Employee stock options exercised | 800 | 7, 825 | - | - | - | - | - | 8, 625 |
| Cumulative translation adjustments | - | - | - | - | - | (84, 656) | | (84, 656) |
| Unrealized loss on available-for-sale financial assets | - | - | - | - | 134, 690 | - | - | 134, 690 |
| Unrecognized pension cost | - | - | - | - | - | - | ( 1, 707) | ( 1, 707) |
| Consolidated net income for 2009 | - | - | - | 4, 354, 108 | - | - | - | 4, 354, 108 |
| Balance at December 31, 2009 | $ 4, 238, 603 | $ 4, 624, 013 | $1, 579, 239 | $ 7, 432, 740 | $ 134, 690 | $ 123, 271 | ($ 6, 166) | $ 18, 126, 390 |

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

See report of independent accountants dated March 12, 2010.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Consolidated net income | $ 4,354,108 | $ 2,247,037 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| (Gain) loss on valuation of financial assets | ( 22,488) | 4,813 |
| Gain on valuation of financial liabilities | ( 157,744) | ( 569) |
| Bad debts expense | 21,132 | 13,175 |
| Gain from market price recovery of inventory | ( 649,242) | - |
| Loss on market price decline of inventory | - | 641,485 |
| Depreciation | 186,215 | 173,537 |
| Loss (gain) on disposal of property, plant and equipment | 11,063 | ( 23) |
| Amortization | 3,633 | 2,630 |
| Amortization of discount on bonds payable | 18,340 | 21,933 |
| Unrealized exchange loss on bonds payable | - | 9,189 |
| Changes in assets and liabilities: | | |
| Financial assets at fair value through profit or loss | ( 80,865) | 1,104,072 |
| Notes and accounts receivable | ( 1,321,961) | 516,112 |
| Other receivables | ( 84,978) | 77,898 |
| Inventories | 1,711,317 | ( 1,270,905) |
| Prepayments | 147,985 | ( 147,985) |
| Deferred income tax assets and liabilities | 160,526 | ( 51,529) |
| Other current assets | ( 26,600) | ( 44,553) |
| Other assets - other | ( 30) | ( 1,723) |
| Notes and accounts payable | ( 343,915) | ( 908,380) |
| Income tax payable | 300,641 | ( 8,409) |
| Accrued expenses | ( 61,786) | 372,303 |
| Other current liabilities | 33,800 | ( 82,619) |
| Accrued pension liabilities | ( 1,415) | ( 2,285) |
| Net cash provided by operating activities | 4,197,736 | 2,665,204 |

(Continued)

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2009 | 2008 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Decrease in other receivables - related parties | $ - | $ 33,503 |
| Increase in financial assets carried at cost | ( 39,350) | - |
| Acquisition of property, plant and equipment | ( 426,204) | ( 803,581) |
| Proceeds from disposal of property, plant and equipment | 53,221 | 4,976 |
| Increase in refundable deposits | ( 10,000) | ( 3,166) |
| Net cash used in investing activities | ( 422,333) | ( 768,268) |
| **Cash flows from financing activities** | | |
| (Decrease) increase in short-term bank loans | ( 272,700) | 164,385 |
| Decrease in long-term bank loans | ( 53,198) | ( 29,286) |
| Payment of cash dividends | ( 1,303,000) | ( 1,482,575) |
| Payment of employees' bonus | - | ( 23,033) |
| Directors' and supervisors' remuneration | - | ( 3,071) |
| Employees' stock options exercised | 8,625 | - |
| Other liabilities - other | 6,417 | 10,908 |
| Net cash used in financing activities | ( 1,613,856) | ( 1,362,672) |
| Effect of foreign exchange rate changes | ( 84,656) | 137,863 |
| Net increase in cash and cash equivalents | 2,076,891 | 672,127 |
| Cash and cash equivalents at the beginning of year | 5,258,418 | 4,586,291 |
| Cash and cash equivalents at the end of year | $ 7,335,309 | $ 5,258,418 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for: | | |
| Interest | $ 2,301 | $ 8,509 |
| Income tax | $ 827,187 | $ 744,079 |
| Financing activities which have no effect on cash flows: | | |
| Unpaid cash dividends and employees' bonus | $ 8 | $ 8 |
| Conversion of bonds payable to capital stock | $ 514,008 | $ 155,124 |

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

See report of independent accountants dated March 12, 2010.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS INDICATED)

## 1. HISTORY AND ORGANIZATION

1) Transcend Information, Inc. (the "Company") was incorporated under the Company Law of the Republic of China (R.O.C.) in August 1989. 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, 2009, the Company and its subsidiaries had approximately 2,150 employees.

2) Consolidated subsidiaries:

| Name | Relationship | Main activities | Ownership percentage as of Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|---|---|
| Saffire Investment Ltd. (Saffire) | Note a | Investments holding company | 100% | 100% |
| Transcend Japan Inc. (Transcend Japan) | 〃 | Wholesaler of computer memory modules and peripheral products | 〃 | 〃 |
| Transcend Information UK Limited (Transcend UK) | 〃 | 〃 | 〃 | 〃 |
| Transcend Korea Inc. (Transcend Korea) | Note b | 〃 | 〃 | 〃 |
| Memhiro Pte. Ltd. (Memhiro) | Note c | Investments holding company | 〃 | 〃 |
| Transcend Information Inc. (Transcend USA) | Note d | Wholesaler of computer memory modules and peripheral products | 〃 | 〃 |
| Transcend Information Europe B.V. (Transcend Europe) | Note d | Wholesaler of computer memory modules and peripheral products | 〃 | 〃 |
| Transcend Information Trading GmbH, Hamburg (Transcend Germany) | 〃 | 〃 | 〃 | 〃 |

| Name | Relationship | Main activities | Ownership percentage as of Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|---|---|
| Transcend Information (Shanghai), Ltd. (Transcend Shanghai) | 〃 | Manufacturing, processing and the sale of computer software and hardware, peripheral equipment and other computer components | 〃 | 〃 |
| Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai) | 〃 | Wholesaler of computer memory modules, peripheral equipment and other computer components | 〃 | 〃 |
| Transcend Information Maryland, Inc. (Transcend MD) | Note e | Wholesaler of computer memory modules and peripheral products | 〃 | 〃 |

Note: a. Subsidiaries of the Company.
b. Subsidiaries of the Company, established in July, 2008.
c. Subsidiary of Saffire.
d. Subsidiaries of Memhiro.
e. Subsidiary of Transcend Europe.

3) Non-consolidated subsidiaries: None.

4) Adjustment for subsidiaries with difference balance sheet dates: None.

5) Special operating risks in foreign subsidiaries: None.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" 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

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/semi-annual and annual basis. Significant inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated.

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

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

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

4) Classification of current and non-current items

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

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

b) Assets held mainly for trading purposes;

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

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

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

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

b) Liabilities arising mainly from trading activities;

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

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

5) Cash and cash equivalents

Cash and cash equivalents include:

A. Cash on hand and in banks and other short-term highly liquid investments which are readily convertible to known amount of cash.

B. Short-term highly liquid investments which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

The Company's statement of cash flow is established on the basis of cash and cash equivalents.

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

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

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

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

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

7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to the evaluation of the collectibility of notes, accounts and other receivables, taking into account the bad debts incurred in prior years and the aging analysis of the receivables.

8) Inventories

A. Effective January 1, 2009, the Group adopted the newly amended R.O.C. SFAS No.10 "Accounting for 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.

B. The inventories before January 1, 2009 were accounted for as follows: The perpetual inventory system was adopted for inventory recognition. Inventories were stated at the lower of cost or market value based on the aggregate value method. Allowance for loss was provided on obsolete inventories and decline in market value. Inventories were measured using the moving-average method. The market value for raw materials was determined based on current replacement cost while market values for work in process and finished goods inventories were determined based on net realizable value.

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. Fully depreciated assets still in use are depreciated based on the salvage value over the remaining useful lives of the assets. The estimated useful lives are 2 to 55 years for buildings and 2 to 10 years for the other property, plant and equipment.

C. Transcend USA calculates depreciation using the straight-line method for buildings and the double declining balance method for the other property, plant and equipment. The estimated useful life of property, plant and equipment is 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) Intangible assets

Intangible assets include royalties paid for land use right of Transcend Shanghai and are amortized over the contract period of 50 years using the straight-line method.

13) Impairment of non-financial assets

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) Convertible bonds

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

(A) The 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. If the difference between payment amount before the maturity date and the book value at liquidation date is significant, it should be recognized as extraordinary gain or loss in the current period.

C. 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 20 years. 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 carryforward. 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.

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

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

D. 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.

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 EITF92-070, EITF92-071 and EITF92-072 "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 EITF96-052 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 obligation 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 EITF97-127 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 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.

## 3. CHANGES IN ACCOUNTING PRINCIPLES

A. Inventories

Effective January 1, 2009, the Group adopted the amendments to R.O.C. SFAS No. 10, "Accounting for Inventories". As a result of this change of accounting principle, net income decreased by $18,770 and earnings per share decreased by $0.04 (in dollars) for the year ended December 31, 2009.

B. Share-based payment — employee compensation plan

Effective January 1, 2008, the Group adopted R.O.C. SFAS No. 39, "Accounting for Share-based Payment". This change in accounting principle had no significant effect on net income for the year ended December 31.

C. Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, the Group adopted EITF96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007. As a result of the adoption of EITF96-052, net income decreased by $110,851 and earnings per share decreased by $0.27 for the year ended December 31, 2008.

## 4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Petty cash and cash on hand | $ 904 | $ 917 |
| Checking and savings deposits | 5, 208, 488 | 3, 717, 674 |
| Time deposits | 2, 124, 118 | 1, 348, 961 |
| Cash equivalents – bonds purchased with resale agreement | 1, 799 | 190, 866 |
| | $ 7, 335, 309 | $ 5, 258, 418 |

As of December 31, 2009 and 2008, time deposits over 1 year amounted to $0 and $81,893, respectively.

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

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Financial assets held for trading | | |
| Beneficiary certificates | $ 499, 048 | $ 397, 796 |
| Bonds | 62, 666 | 79, 519 |
| Adjustment of financial assets held for trading | 5, 951 | ( 13, 003) |
| | $ 567, 665 | $ 464, 312 |
| Financial liabilities held for trading | | |
| Derivative financial liabilities | ( 18, 381) | ( 43, 356) |
| Adjustment of financial liabilities held for trading | 131, 948 | 99, 822 |
| | 113, 567 | 56, 466 |
| | $ 681, 232 | $ 520, 778 |

The Group recognized net gain of $180,232 and net loss of $4,244 for the years ended December 31, 2009 and 2008, respectively.

3) Accounts receivable

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Accounts receivable | $3, 572, 971 | $2, 187, 720 |
| Less: Allowance for doubtful accounts | ( 31, 363) | ( 59, 801) |
| | $ 3, 541, 608 | $ 2, 127, 919 |

As of December 31, 2009 and 2008, the Group reclassified uncollectible accounts receivable in the amount of $56,444 and $13,352, respectively, to other assets-others and fully provided with allowance for doubtful accounts in the amount of $55,824 and $13,352, respectively.

4) Inventories

| | December 31, 2009 | | |
|---|---|---|---|
| | Cost | Allowance | Book value |
| Raw Materials | $ 2, 203, 156 | ($ 27, 964) | $ 2, 175, 192 |
| Work in process | 318, 014 | ( 2, 408) | 315, 606 |
| Finished goods | 1, 837, 092 | ( 15, 609) | 1, 821, 483 |
| Total | $ 4, 358, 262 | ($ 45, 981) | $ 4, 312, 281 |

| | December 31, 2008 | | |
|---|---|---|---|
| | Cost | Allowance | Book value |
| Raw Materials | $ 3,070,984 | $ Note a | $ Note a |
| Work in process | 1,227,168 | 〃 | 〃 |
| Finished goods | 1,717,124 | 〃 | 〃 |
| Inventory in transit | 54,303 | 〃 | 〃 |
| Total | $ 6,069,579 | ($ 695,223) | $ 5,374,356 |

Note a: The inventories before December 31, 2008 were stated at the lower of cost or market value based on the aggregate value.

Expense and loss incurred on inventories for the years ended December 31, 2009 and 2008 were as follows:

| | For the year ended December 31, 2009 | For the year ended December 31, 2008 |
|---|---|---|
| Cost of inventories sold | $ 26,648,018 | $ 30,293,103 |
| Loss on market price decline | - | 641,485 |
| Gain from price recovery (Note b) | 649,242 | - |
| | $ 27,297,260 | $ 30,934,588 |

Note b: Gain from price recovery in 2009 results mainly from the increase in price of raw materials and the positive actions taken in dealing with inventory obsolescence. Gain from price recovery was $672,704, while loss on market price decline was $23,462 under the individual item approach.

5) Available-for-sale financial assets - noncurrent

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Listed (OTC) stock - Alcor Micro Corp. | $ 78,000 | $ - |
| Adjustment of available-for-sale financial assets | 134,690 | - |
| | $ 212,690 | $ - |

6) Financial assets carried at cost - noncurrent

| Investee company | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Listed (OTC) stock - Taiwan IC Packaging Corp. | $ 640,000 | $ 640,000 |
| Listed (OTC) stock - Alcor Micro Corp. | 159,350 | 198,000 |
| Unlisted stock - Dramexchange Tech. Inc. | 1,125 | 1,125 |
| | $ 800,475 | $ 839,125 |

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

7) Property, plant and equipment

| | December 31, 2009 | | |
|---|---|---|---|
| Item | Initial cost | Accumulated depreciation | Net book value |
| Land | $ 891,726 | $ - | $ 891,726 |
| Buildings | 2,086,069 | ( 307,337) | 1,778,732 |
| Machinery | 699,512 | ( 233,649) | 465,863 |
| Transportation equipment | 25,211 | ( 13,143) | 12,068 |
| Furniture and fixtures | 75,252 | ( 44,316) | 30,936 |
| Miscellaneous equipment | 77,174 | ( 35,291) | 41,883 |
| Construction in progress and prepayments for equipment | 298,733 | - | 298,733 |
| | $ 4,153,677 | $ (633,736) | $ 3,519,941 |

| | December 31, 2008 | | |
|---|---|---|---|
| Item | Initial cost | Accumulated depreciation | Net book value |
| Land | $ 898,682 | $ - | $ 898,682 |
| Buildings | 1,932,023 | ( 268,482) | 1,663,541 |
| Machinery | 791,708 | ( 207,713) | 583,995 |
| Transportation equipment | 25,551 | ( 8,986) | 16,565 |
| Furniture and fixtures | 93,271 | ( 55,426) | 37,845 |
| Miscellaneous equipment | 69,224 | ( 20,349) | 48,875 |
| Construction in progress and prepayments for equipment | 90,997 | - | 90,997 |
| | $ 3,901,456 | ($ 560,956) | $ 3,340,500 |

8) Other intangible Assets

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Land use right | $ 132,561 | $ 137,681 |
| Less: Accumulated amortization | ( 12,151) | ( 9,008) |
| | $ 120,410 | $ 128,673 |

9) Short-term bank loans

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Short-term loans | $ - | $ 272, 700 |
| Annual interest rates | - | 1. 21%~1. 41% |

10) Income tax

| | 2009 | 2008 |
|---|---|---|
| Income tax expense | $ 1, 280, 639 | $ 686, 681 |
| Net change of deferred income tax | ( 160, 526) | 51, 529 |
| Over provision of prior year's income tax | 12, 201 | 7, 021 |
| Prepaid income tax | ( 371, 981) | ( 279, 165) |
| Unpaid income tax | 6, 374 | - |
| Income tax payable | $ 766, 707 | $ 466, 066 |

A. As of December 31, 2009 and 2008, the deferred income tax assets and liabilities are as follows:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Total deferred income tax assets | $ 61, 841 | $ 205, 374 |
| Total deferred income tax liabilities | $ 169, 756 | $ 152, 763 |

B. As of December 31, 2009 and 2008, details of deferred income tax assets and liabilities are as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| Items | Amount | Tax Effect | Amount | Tax Effect |
| Current items : | | | | |
| Allowance for doubtful accounts | $ 59,403 | $ 24,047 | $ 59,801 | $ 12,725 |
| Unrealized loss on decline in market value and inventory obsolescence | 45,879 | 9,176 | 695,223 | 173,734 |
| Unrealized profit on intercompany transactions | 31,737 | 6,347 | 20,040 | 5,010 |
| Unrealized exchange loss (gain) | 89,524 | 17,904 | ( 242,027) | ( 60,507) |
| Others | 202 | 1,292 | 45,316 | 11,329 |
| | | 58,766 | | 142,291 |
| Non-current items : | | | | |
| Pension expense | 7,110 | 1,422 | 8,876 | 2,219 |
| Investment income on foreign investments accounted for under the equity method | ( 848,782) | ( 169,756) | ( 368,201) | ( 92,050) |
| Unrealized permanent decline in market value financial assets carried at cost | 1,427 | 285 | 1,427 | 357 |
| Others | 3,345 | 1,368 | ( 824) | ( 206) |
| | | ( 166,681) | | ( 89,680) |
| | | ($ 107,915) | | $ 52,611 |

C. The significant differences between accounting income and tax income in 2009 and 2008 are as follows:

a) Permanent differences: For 2009, the income included gain on valuation of financial liabilities of approximately $157,700; in 2008, the income included stock dividend income of approximately $47,000.

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

D. The Company's data storage memory and computer peripheral equipment production is eligible for a five-year exemption on income tax under the Statute for Upgrading Industry. Details as of December 31, 2009 are as follows:

| Approval date and Number | Date of tax-exempt related equipment ready for production | Tax-exempt Periods | Cost of tax-exempt related equipment |
|---|---|---|---|
| Taipei-City-Chien-One No. 09470339400 on 7th November, 2005 | 1st October, 2005 | 1st October, 2005 – 30th September, 2010 | $ 76,089 |

E. For the years ended December 31, 2009 and 2008, the income tax expense included the additional 10% corporate income tax related to the 2008 and 2007 undistributed earnings amounting to $67,893 and $86,158, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2008 and 2007 earnings.

F. As of December 31, 2009, the Company's income tax returns for the years through 2007 have been assessed and approved by the Tax Authority.

11) Bonds payable

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| First domestic convertible bonds payable | $ 473,000 | $ 1,115,700 |
| Less: Discount of bonds payable | ( 17,536) | ( 63,925) |
| Due within one year | - | ( 1,051,775) |
| | $ 455,464 | $ - |

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 September 10, 2009, the adjusted conversion price was $73.7 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) As of December 31, 2009, bonds in the amount of $1,027,000 had been converted into 11,779,549 common shares based on the conversion price per share at date of conversion. The excess of the bond cost over par value of the shares amounting to $772,647 was credited to capital reserve.

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 or liabilities at fair value through profit or loss".

C. As of December 31 2008, due to the bonds conversion to common stock, the "Capital reserve from stock warrants" amounted to $48,622.

12) Long-term loans

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Long-term loans | $ - | $ 53, 198 |
| Less: Due within one year | - | ( 33, 460) |
| | $ - | $ 19, 738 |
| Annual interest rates | - | 1. 28%~5. 20% |

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, 2009 and 2008, the balance of the retirement fund with the Bank of Taiwan was $40,062 and $33,835, respectively.

C. The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2009 and 2008, are as follows:

| | 2009 | 2008 |
|---|---|---|
| Discount rate | 2.25% | 2.50% |
| Rate of increase in salary | 2.00% | 2.00% |
| Expected return on plan assets | 2.00% | 2.50% |

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

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Benefit obligation: | | |
| Vested benefit obligation | $ - | $ - |
| Non-vested benefit obligation | ( 60,524) | ( 54,005) |
| Accumulated benefit obligation | ( 60,524) | ( 54,005) |
| Effect of future salary increments | ( 27,896) | ( 25,877) |
| Projected benefit obligation | ( 88,420) | ( 79,882) |
| Fair value of plan assets | 40,062 | 33,835 |
| Funded status | ( 48,358) | ( 46,047) |
| Unrecognized net transition obligation | 17 | 18 |
| Unrecognized pension loss | 34,062 | 30,336 |
| Additional liability | ( 6,183) | ( 4,477) |
| Accrued pension liabilities | ($ 20,462) | ($ 20,170) |
| Vested benefit | $ - | $ - |

E. For the years ended December 31, 2009 and 2008, the details of the Company's net periodic pension costs are as follows:

| | For the years ended December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Service cost | $ 2,264 | $ 1,614 |
| Interest cost | 1,997 | 2,148 |
| Expected return on plan assets | ( 735) | ( 735) |
| Amortization of unrecognized net transition obligation | 1 | 1 |
| Amortization of unrecognized pension loss | 1,213 | 441 |
| Net pension cost | $ 4,569 | $ 3,469 |

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, 2009 and 2008 were $27,877 and $26,292, 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 and Transcend MD, 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

A. As of December 31, 2009, the Company's authorized capital was $5,000,000, and the paid-in capital was $4,238,603 with a par value of $10 (in dollars) per share.

B. On June 16, 2009, the stockholders at their annual stockholders' meeting adopted a resolution to capitalize retained earnings and employees' bonus of $282,853, (21,053 thousand shares). The amount of capitalization had been approved by the Securities and Futures Bureau on August, 2009 and had been registered.

C. On June 13, 2008, the stockholders at their annual stockholders' meeting adopted a resolution to capitalize retained earnings and employees' bonus of $208,353 (20,835 thousand shares). The amount of capitalization had been approved by the Securities and Futures Bureau on August, 2008 and had been registered.

15) Capital reserve

A. The R.O.C. Securities and Exchange Law requires that capital reserve shall be exclusively used to cover accumulated deficits or to increase capital and shall not be used for any other purpose. However, capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficits and the amount to be capitalized does not exceed 10% of the paid-in capital.

B. Please see Note 4 (11) 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 regulation and balance stock dividend policy; thereafter, the Board of Directors shall propose and the stockholders shall approve to appropriate the amount of the residual earnings to be distributed. When distributing the remaining retained earnings, the Company should distribute 0.2% for the directors' and supervisors' remuneration and at least 3% for employees' profit sharing; the cash dividend shall be at least 5% of the dividend to be distributed.

B. Except for covering accumulated deficits or increasing capital, the legal reserve shall not be used for any other purpose. Capitalization of the legal reserve is permitted, provided that the balance of the reserve exceeds 50% of the Company's paid-in capital and the amount capitalized does not exceed 50% of the balance of the reserve.

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

D. The appropriation of 2008 and 2007 earnings had been resolved at the stockholders' meeting on June 16, 2009 and June 13, 2008 respectively. Details are summarized below:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 224, 704 | | $ 270, 040 | |
| Stock dividends | 40, 400 | $ 0. 1 | 37, 065 | $ 0. 1 |
| Cash dividends | 1, 303, 000 | 3. 3 | 1, 482, 583 | 4. 0 |
| Directors' and supervisors' remuneration | Note a | | 3, 071 | |
| Employees' stock bonus | Note a | | 23, 030 | |
| Employees' cash bonus | Note a | | 23, 033 | |
| Total | $ 1, 568, 104 | | $ 1, 838, 822 | |

Note a: Appropriation includes directors' and supervisors' remuneration of $2,700, employees' stock bonus of $84,633, and employees' cash bonus of $56,422.

Additionally, the stockholders at their annual stockholders' meeting on June 16, 2009 adopted a resolution to capitalize capital reserve of $157,820.

As of March 12, 2010, the appropriation of 2009 earnings had not been resolved by the Board of Directors. Information on the appropriation of the Company's earnings 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.

E. The actual creditable tax ratio of distributed earnings in 2008 was 24.39%. As of December 31, 2009, the imputation tax credit account balance was $1,031,720 and the estimated creditable tax ratio was 23.42%. As of December 31, 2008, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $7,311,643, respectively.

F. The estimated amounts of employees' bonuses of 2009 are $130,623 (excluding employees' award of 129,043), based on a certain percentage prescribed by the Company's Articles of Incorporation (about 3%) of net income in 2009 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. The actual distribution of 2008 earnings was as stated in the previous paragraph. Employees' stock bonus of 1,230,846 shares was distributed at $68.76 (in dollars) per share, and the remaining employees' bonus of $29 was distributed by cash. Employees' bonus of 2008 as resolved by the stockholders was in agreement with that amount recognized in the 2008 financial statements, and the difference between directors' and supervisors' remuneration of 2008 as resolved by the stockholders and that amount recognized in the 2008 financial statements, totaling $2,700, had been adjusted in the statement of income of 2009.

16) Share-based payment — employee compensation plan

A. As of December 31, 2009, the Company's share-based payment transactions are set forth below：

| Type of arrangement | Grant date | Quantity granted | 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 | 6. 79% | 5. 80% |

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

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | No. of shares | Weighted-average exercise price (in dollars) | No. of shares | Weighted-average exercise price (in dollars) |
| Options outstanding at beginning of year | 4, 240 | $ 113. 6 | 4, 464 | $ 120 |
| Options granted | - | - | - | - |
| Distribution of stock dividends/ adjustments for number of shares granted for one unit of option | - | - | - | - |
| Options waived | ( 288) | - | ( 224) | - |
| Options exercised | ( 80) | 107. 8 | - | - |
| Options revoked | - | - | - | - |
| Options outstanding at end of year | 3, 872 | 107. 8 | 4, 240 | 120 |
| Options exercisable at end of year | 1, 896 | 107. 8 | - | - |

C. Details of the employee stock options outstanding as of December 31, 2009 are set forth below:

| | Options outstanding at end of year | | | Options exercisable at end of year | |
|---|---|---|---|---|---|
| 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 | 3,872 | 3.79 years | $ 107.8 | 1,896 | $ 107.80 |

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.

| | December 31, 2009 | |
|---|---|---|
| | Financial report | Pro Forma |
| Net income | $ 4, 354, 108 | $ 4, 316, 973 |
| Basic earnings per share (EPS) (in dollars) | 10. 42 | 10. 33 |
| Diluted EPS (in dollars) | 9. 88 | 9. 80 |

| | December 31, 2008 | |
|---|---|---|
| | Financial report | Pro Forma |
| Net income | $ 2, 247, 037 | $ 2, 175, 142 |
| Basic earnings per share (EPS) (in dollars) | 5. 43 | 5. 25 |
| Diluted EPS (in dollars) | 5. 27 | 5. 06 |

E. Estimations of increase in fair value by 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 |

17) Earnings per share

| | For the year ended December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted-average outstanding shares (in thousands) | Earnings per share (in dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| Basic earnings per share: | | | | | |
| Dilutive effect of common stock equivalents: | | | | | |
| Consolidated net income | $5, 634, 747 | $ 4, 354, 108 | 418, 010 | $ 13. 48 | $ 10. 42 |
| Convertible bonds | ( 139, 404) | ( 139, 404) | 6, 453 | | |
| Employee bonus | - | - | 1, 959 | | |
| Diluted earnings per share: | | | | | |
| Consolidated net income attributable to common stockholders plus dilutive effect of common stock equivalents | $5, 495, 343 | $ 4, 214, 704 | 426, 422 | $ 12. 89 | $ 9. 88 |

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. However, the accounting treatment for the appropriation of employees' bonus for 2007 earnings resolved at the stockholders' meeting held in 2008 is still in accordance with the regulations on capitalization of employees' bonus under paragraphs 19 and 39 of R.O.C. SFAS No. 24, "Earnings per Share".

| | For the year ended December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | 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 | $2, 933, 718 | $ 2, 247, 037 | 413, 668 | $ 7. 09 | $ 5. 43 |
| Dilutive effect of common stock equivalents: | | | | | |
| Convertible bonds | 21, 364 | 21, 364 | 13, 946 | | |
| Employee bonus | - | - | 2, 448 | | |
| Diluted earnings per share: | | | | | |
| Consolidated net income attributable to common stockholders plus dilutive effect of common stock equivalents | $2, 955, 082 | $ 2, 268, 401 | 430, 062 | $ 6. 87 | $ 5. 27 |

The above weighted-average number of outstanding common shares has been adjusted retroactively in proportion to retained earnings and capital reserve capitalized for the year ended December 31, 2009.

18) Personnel, depreciation, and amortization expenses

Personnel, depreciation and amortization expenses are summarized as follows:

| | For the year ended December 31, 2009 | | |
|---|---|---|---|
| | Operating costs | Operating expenses | Total |
| Personnel expenses | | | |
| Salaries | $ 462, 568 | $ 882, 237 | $ 1, 344, 805 |
| Labor and health insurance | 18, 965 | 66, 263 | 85, 228 |
| Pension expense | 27, 465 | 25, 166 | 52, 631 |
| Others | 34, 939 | 31, 909 | 66, 848 |
| Depreciation | 113, 086 | 73, 129 | 186, 215 |
| Amortization | 1, 246 | 2, 387 | 3, 633 |

| | For the year ended December 31, 2008 | | |
|---|---|---|---|
| | Operating costs | Operating expenses | Total |
| Personnel expenses | | | |
| Salaries | $ 522, 015 | $ 808, 167 | $ 1, 330, 182 |
| Labor and health insurance | 18, 975 | 70, 465 | 89, 440 |
| Pension expense | 22, 794 | 19, 084 | 41, 878 |
| Others | 34, 605 | 30, 160 | 64, 765 |
| Depreciation | 112, 355 | 61, 182 | 173, 537 |
| Amortization | 358 | 2, 272 | 2, 630 |

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. |
| Shanghai Transcend Information Inc. (Shanghai Transcend) | The Company's director is the general manager of Shanghai Transcend |
| 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) | Cheng Chuan is the major stockholder of the Company with more than 5% ownership |

2) Significant transactions and balances with related parties

A. Sales

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Transcend H.K. | $ 1,756,792 | 5 | $3,070,125 | 9 |
| C-Tech Corporation | 319,450 | 1 | 516,238 | 2 |
| | $ 2,076,242 | 6 | $3,586,363 | 11 |

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 to 30 days after monthly billings. The credit term to third parties is 30 to 60 days after monthly billings.

B. Accounts receivable

| | December 31, | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| Transcend H.K. | $ 184,570 | 5 | $ 287,336 | 11 |
| C-Tech Corporation | 31,296 | 1 | 41,105 | 2 |
| | $ 215,866 | 6 | $ 328,441 | 13 |

C. Other revenue

For the years ended December 31, 2009 and 2008, the amount of the sales of supplies to the related parties was $665 and $1,168, respectively.

D. 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(4).

b) On July 1, 2008, the Company signed a plant lease contract with C-Tech Corporation. The monthly rent payment required is $200 (exclusive of tax), which was determined based on the rent C-Tech Corporation offered the former lessee. The rent expense incurred in 2009 and 2008 amounted to $2,400 and $1,200, respectively.

3) Salaries/rewards information of key management

| | For the years ended December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Salaries and bonuses | $ 94, 583 | $ 79, 727 |
| Service execution fees | 3, 107 | 7, 629 |
| Directors' and supervisors' remuneration and employees' bonuses | 47, 841 | 48, 656 |
| Total | $ 145, 531 | $ 136, 012 |

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

| | | Book Value | |
|---|---|---|---|
| Nature of Assets | Nature of liability secured | December 31, 2009 | December 31, 2008 |
| Property, plant and equipment | Long-term and short-term loans | $ 1, 455, 729 | $ 1, 490, 370 |
| Other financial assets-noncurrent-time deposit | Patent deposit | 3, 199 | 3, 275 |
| | | $ 1, 458, 928 | $ 1, 493, 645 |

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2009, in addition to the endorsements and guarantees shown in Note 5, the Company's significant commitments and contingent liabilities are summarized below:

A. SanDisk Corp. filed a lawsuit with the United States International Trade Commission (ITC) against 25 manufacturers and importers of flash memory storage devices, including the Company, Transcend USA and Transcend MD, on October 23, 2007, alleging infringement, among others, of its five patents (The Company was accused of infringing U.S. Patent Nos. 6426893, 6763424 and 6947332) and thereby requested an injunction from ITC that those products against the five patents should not be manufactured nor be sold in the United States. SanDisk Corp. also filed a lawsuit with the United States District Court of the State of Wisconsin (Court) against the Company, Transcend USA and Transcend MD, on October 24, 2007, alleging infringement, among others, of its U.S. Patent Nos. 6426893, 6763424, 6947332, 6149316 and 6757842. The status of these litigations as of March 12, 2010 are summarized below:

a) Regarding the lawsuit with ITC, the Company had resolved not to sell products related to U.S. Patent No. 6426893 in the United States and SanDisk Corp. had revoked the investigation on infringement of U.S. Patent No. 6947332 in 2008. Besides, ITC had rendered a final judgment on October 24, 2009 that the Company did not infringe U.S. Patent No. 6763424.

b) Regarding the lawsuit with the Court, on March 8, 2010, the Court approved SanDisk Corp.'s request made on March 5, 2010 to revoke the lawsuit against the Company.

B. As of December 31, 2009, the Company has unused letters of credit for purchase of merchandise amounting to $200,000.

C. As of December 31, 2009, the Company had outstanding commitments on new plant building contracts totaling $261,401.

D. 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 |
|---|---|
| 2010 ~ 2015 | $ 187,074 |
| 2015 ~ 2019 (Present value: $141,199) | 149,659 |
| | $ 336,733 |

8. SIGNIFICANT CATASTROPHE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

In addition to the lawsuits described in Note 7(1), Infineon Technologies North America Crop(Infineon) filed a lawsuit with the United States International Trade Commission (ITC) against 19 manufacturers and importers of flash memory storage devices, including the Company and Transcend USA, on February 19, 2010, alleging infringement, among others, of its four patents and thereby requested an injunction from ITC that those products against the four patents should not be manufactured nor be sold in the United States. As of March 12, 2010, the lawsuit was in formality examination with ITC, but not yet in substantive examination.

10. OTHERS

1) Financial statement presentation

Certain accounts in the 2008 financial statements have been reclassified to conform to the 2009 financial statement presentation.

2) The fair values of the financial instruments

| | December 31, 2009 | | |
|---|---|---|---|
| | | 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 | $11, 3642, 958 | $ - | $ 11, 364, 758 |
| Financial assets at fair value through profit or loss-current | 567, 665 | 567, 665 | - |
| Available-for-sale financial instruments | 212, 690 | 212, 690 | - |
| Financial assets carried at cost-noncurrent | 800, 475 | - | - |
| Refundable deposits | 19, 777 | - | 19, 777 |
| Liabilities | | | |
| Financial liabilities with fair values equal to book values | 2, 334, 135 | - | 2, 334, 135 |
| Bonds payable | 455, 464 | - | 470, 571 |
| Derivative financial instruments | | | |
| Assets | | | |
| Financial assets at fair value through profit or loss-current | 113, 567 | - | 113, 567 |

| | December 31, 2008 | | |
|---|---|---|---|
| | | 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 | $ 7, 902, 956 | $ - | $ 7, 902, 956 |
| Financial assets at fair value through profit or loss-current | 464, 312 | 464, 312 | - |
| Financial assets carried at cost-noncurrent | 839, 125 | - | - |
| Refundable deposits | 9, 777 | - | 9, 777 |
| Liabilities | | | |
| Financial liabilities with fair values equal to book values | 2, 830, 883 | - | 2, 830, 883 |
| Bonds payable | 1, 051, 775 | - | 1, 076, 221 |
| Long-term loans | 53, 198 | - | 53, 198 |
| Derivative financial instruments | | | |
| Assets | | | |
| Financial assets at fair value through profit or loss-current | 56, 466 | - | 56, 466 |

A. Fair values of financial instruments

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

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

(B) 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, 2009 and 2008, the financial assets with fair value and cash flow risk due to the change of interest amounted to $7,334,184 and $5,248,986, respectively, and the financial liabilities amounted to $0 and $325,898, respectively.

C. For the years ended December 31, 2009 and 2008, total interest income for financial assets that are not at fair value through profit or loss amounted to $16,692 and $57,486 respectively.

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

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

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

E. Information on material financial risk

(A) Investments in equity financial instruments

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

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

d) Cash flow interest rate risk

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

(B) Investments in bills and bonds

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

(C) Liabilities on debt financial instruments

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

(D) 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) Letter of credit loans

a) Market risk

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

b) Credit risk

No credit risk is expected to arise.

c) Liquidity risk

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

d) Cash flow interest rate risk

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

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

| Item | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Transcend Japan | ¥ 500 million | ¥ 1,500 million |
| Transcend USA | - | US$ 2.5 million |

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

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Loans granted during the year ended December 31, 2009

| Creditor | Borrower | General ledger account | Maximum outstanding balance during the year ended December 31,2009 | Ending Balance | Interest rate | Nature of loan | Amount of sales to (purchases from) the borrower | Reason for short-term financing | Allowance for doubtful account | Collateral and its value | Limit on loans granted to a single party | Ceiling on total loans granted |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Transcend Taiwan | Shanghai Transcend | Other receivables | $ 4,964 | - | - | Business transaction -Sales | $ 4,964 | - | $ - | $ - | $ 4,964 | $ 4,964 |
| Saffire | Memhiro | Due from subsidiary | US$ 1,250 Thousand | US$ 1,200 Thousand | - | For short-term lending | - | To maintain working capital | $ - | $ - | US$ 13,530 Thousand (Note) | US$ 16,913 Thousand (Note) |

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

B. Endorsements and guarantees provided during the year ended December 31, 2009

| 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, 2009 | Outstanding guarantee amount at December 31, 2009 | 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 USA. | Note b | Not exceeding 20% of the Company's net asset value. ($18,126,390 × 20% = $3,625,278) | US$ 2,500,000 | US$ - | - | 0% | Not exceeding 40% of the Company's net asset value. ($18,126,390× 40% = $7,250,556) |
| 〃 | Transcend Japan | Note a | 〃 | ¥ 1,500,000,000 | ¥ 500,000,000 | - | 1% | 〃 |

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

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

C. Marketable securities held as at December 31, 2009:

| Securities held by | Marketable securities | Relationship with the Company | General ledger accounts | As of December 31, 2009: Number of shares or units | Book value | Percentage of company's ownership | Market value or net worth per share |
|---|---|---|---|---|---|---|---|
| Transcend Taiwan | Beneficiary certificates | | | | | | |
| | Fidelity Sterling Currency Fund | - | Financial assets at fair value through profit or loss-current | 37,223 | $ 41,380 | - | $ 41,380 |
| | FSITC Taiwan Bond Fund | - | 〃 | 407,304 | 69,420 | - | 69,420 |
| | JF First Bond Fund | - | 〃 | 8,268,196 | 120,202 | - | 120,202 |
| | Fu-Hwa Bond Fund | - | 〃 | 2,248,112 | 31,061 | - | 31,061 |
| | Jih Sun Bond Fund | - | 〃 | 9,000,378 | 127,057 | - | 127,057 |
| | Shin Ji-Xing Bond Fund | - | 〃 | 7,435,018 | 110,130 | - | 110,130 |
| | | | | | 499,250 | | 499,250 |
| | Bonds | | | | | | |
| | PSC ECB | - | 〃 | 2,000 | 5,246 | - | 5,246 |
| | Lemel CB | - | 〃 | 563,000 | 63,169 | - | 63,169 |
| | | | | | 68,415 | | 68,415 |
| | | | | | $ 567,665 | | $ 567,665 |
| | Stocks | | | | | | |
| | Alcor Micro Corp. | - | Available-for-sale financial assets-noncurrent | 3,021,169 | $ 212,690 | 4 | $ 212,690 |
| | | | Financial assets carried at cost-noncurrent | 3,199,764 | $ 159,350 | 4 | - |
| | Dramexchange Tech Inc. | - | 〃 | 54,300 | 1,125 | 1 | - |
| | Taiwan IC Packaging Corp. | - | 〃 | 41,000,000 | 640,000 | 14 | - |
| | | | | | $ 800,475 | | |
| | Saffire | The Company's subsidiary | Long-term equity investments accounted for under equity method | 36,600,000 | 2,158,484 | 100 | 2,164,142 |
| | Transcend Japan | 〃 | 〃 | 6,400 | 97,949 | 100 | 97,949 |
| | Transcend UK | 〃 | 〃 | 50,000 | 4,578 | 100 | 4,578 |
| | Shares | | | | | | |
| | Transcend Korea | The Company's subsidiary | Long-term equity investments accounted for under equity method | - | 7,967 | 100 | 7,967 |
| | | | | | $ 2,268,978 | | |

| Securities held by | Type and name of marketable securities | Relationship with the Company | General ledger accounts | December 31, 2009 Number of shares or units | Book value (in thousand) | Percentage of Company's ownership | Market value or net worth per share (in thousand) |
|---|---|---|---|---|---|---|---|
| Saffire | Stocks | | | | | | |
| | Memhiro | The Company's subsidiary | Long-term equity investments accounted for under equity method | 55,132,000 | $ 2,122,950 | 100 | $ 2,122,950 |
| Memhiro | Shareholding | | | | | | |
| | Transcend Shanghai | The Company's subsidiary | Long-term equity investments accounted for under equity method | - | $ 1,988,647 | 100 | $ 1,988,825 |
| | Transtech Shanghai | 〃 | 〃 | - | ( 26,265) | 100 | ( 26,265) |
| | Transcend Germany | 〃 | 〃 | - | 20,709 | 100 | 20,711 |
| | Stocks | | | | | | |
| | Transcend USA | 〃 | 〃 | 625,000 | 70,337 | 100 | 70,337 |
| | Transcend Europe | 〃 | 〃 | 100 | 106,928 | 100 | 106,928 |
| | | | | | $ 2,160,356 | | $ 2,160,356 |
| Transcend Europe | Transcend MD | The Company's subsidiary | Long-term equity investments accounted for under equity method | 200,000 | $ 5,132 | 100 | $ 5,132 |

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, 2009

| | | | | | Balance as at January 1, 2009 | | Addition | | Disposal | | | | Balance as at December 31, 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | Fubon Fund | Financial assets at fair value through profit or loss | - | - | - | $ - | 28,692 | $ 430,000 | 28,692 | $ 430,134 | $ 430,000 | $ 134 | - | $ - |
| | Jih Sun Bond Fund | 〃 | - | - | - | - | 38,271 | 539,000 | 29,271 | 412,357 | 411,988 | 369 | 9,000 | 127,012 |
| | Fu-Hwa Bond Fund | 〃 | - | - | - | - | 26,376 | 364,000 | 24,128 | 333,078 | 332,952 | 126 | 2,248 | 31,048 |
| | ING Taiwan Bond | 〃 | - | - | 16,716 | 260,000 | 7,700 | 120,000 | 24,416 | 380,291 | 380,000 | 291 | - | - |
| | JF(Taiwan) First Bond Fund | 〃 | - | - | - | - | 30,290 | 440,000 | 22,022 | 320,000 | 319,805 | 195 | 8,268 | 120,195 |
| | Shin Ji-Xing Bond Fund | 〃 | - | - | - | - | 36,482 | 540,000 | 29,047 | 430,000 | 429,891 | 109 | 7,435 | 110,109 |
| | FSITC Taiwan Bond Fund | 〃 | - | - | 589 | 100,000 | 1,469 | 250,000 | 1,651 | 281,000 | 280,589 | 411 | 407 | 69,411 |

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, 2009: None.

F. Disposal of real estate properties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2009: 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, 2009

| | | | Transactions | | | | Differences in transaction terms compared to third party transactions | | Notes/accounts receivable (payable) | |
|---|---|---|---|---|---|---|---|---|---|---|
| Purchaser | Counterparty | Relationship with the Company | Purchases (sales) | Amount | Percentage of total purchases (sales) | Credit terms | Unit price | Credit terms | Balance | Percentage of total notes / accounts receivable (payable) |
| Transcend Taiwan | Transcend Japan | The Company's subsidiary | Sales | $ 3,000,182 | 9 | 120 days after monthly billings | No significant difference from those to third parties | To third parties is 30 to 60 days after monthly billings | $ 910,403 | 21 |
| 〃 | Transcend Europe | Subsidiary of Memhiro | 〃 | 2,736,680 | 8 | 〃 | 〃 | 〃 | 379,224 | 9 |
| 〃 | Transcend USA | 〃 | 〃 | 2,324,802 | 7 | 〃 | 〃 | 〃 | 386,547 | 9 |
| 〃 | Transcend H.K. | Substantial related party | 〃 | 1,756,792 | 5 | 〃 | 〃 | 〃 | 184,570 | 4 |
| 〃 | Transcend Germany | Subsidiary of Memhiro | 〃 | 1,463,361 | 4 | 〃 | 〃 | 〃 | 122,909 | 5 |
| | Transcend Korea | The Company's subsidiary | | 327,292 | 1 | 60 days after monthly billings | 〃 | 〃 | 26,462 | 1 |
| 〃 | C-Tech Corporation | C-Tech Corporation's chairman is the Company's general manager | 〃 | 319,450 | 1 | 15~30 days after monthly billings | 〃 | 〃 | 31,296 | 1 |
| | Transcend Shanghai | Subsidiary of Memhiro | 〃 | 260,724 | 1 | 120 days after monthly billings | 〃 | 〃 | - | - |
| 〃 | 〃 | 〃 | Purchases | ( 2,451,479) | ( 9) | 60 days after receipt of goods | Note A | To third parties is 7 to 30 days after receipt of goods | ( 291,943) | ( 30) |

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, 2009

| Name of the company | Name of the counterparty | Relationship | Balance of receivables from related parties | Turnover rate | Overdue receivables: Amount | Overdue receivables: Action adopted for overdue accounts | Subsequent collections | Bad debts allowance provided |
|---|---|---|---|---|---|---|---|---|
| Transcend Taiwan | Transcend Japan | Subsidiary of the Company | $ 910,403 | 3.26 | $ - | - | $ 327,968 | $ - |
| | Transcend USA | Subsidiary of Memhiro | 386,547 | 5.73 | - | - | 203,095 | - |
| | Transcend Europe | 〃 | 379,224 | 6.30 | - | - | 276,566 | - |
| | Transcend H.K | Substantial related party | 184,570 | 7.45 | - | - | 114,146 | - |
| | Transcend Germany. | C-Tech Corporation's chairman is the Company's general manager | 122,909 | 9.91 | - | - | 122,909 | - |
| Transcend Shanghai | Transcend Taiwan | The Company | 291,943 | 8.96 | - | - | 291,493 | - |

I. Derivative financial instruments undertaken during the year ended December 31, 2009: Refer to Note 10.

2) Disclosure information of investee company

| | | | | Initial Investment Amount | | Shares held as at December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investors | Investees | Loction | Main activities | Balance as at 12/31/09 | Balance as at 12/31/08 | No.of Shares (in thousands) | Ownership (%) | Book value | Net income (loss) of investee | Investment income(loss) Recognized by the Company | Relationship with the Company |
| Transcend Taiwan | Transcend Japan | Japan | Wholesaler of computer memory modules and peripheral products | $ 89,103 | $ 89,103 | 6,400 | 100% | $ 97,949 | $ 10,171 | $ 10,171 | Subsidiary of the Company |
| | Saffire | B.V.I. | Investments holding company | 1,202,418 | 1,202,418 | 36,600,000 | 100% | 2,158,484 | 453,822 | 453,985 | 〃 |
| | Transcend UK | United Kindom | Wholesaler of computer memory modules and peripheral products | 2,883 | 2,883 | 50,000 | 100% | 4,578 | 6,717 | 6,717 | 〃 |
| | Transcend Korea | Korea | Wholesaler of computer memory modules and peripheral products | 6,132 | 6,132 | - | 100% | 7,967 | 4,488 | 4,488 | 〃 |
| Saffire | Memhiro | Singapore | Investments holding company | 1,156,920 | 1,156,920 | 55,132,000 | 100% | 2,122 ,950 | 453,869 | Note A | Subsidiary of Saffire Investment Ltd. |
| Memhiro | Transcend USA | United States of America | Wholesaler of computer memory modules and peripheral products | 38,592 | 38,592 | 625,000 | 100% | 70,337 | 6,268 | 〃 | Subsidiary of Memhiro Pte Ltd. |
| | Transcend Europe | Netherlands | 〃 | 1,693 | 1,693 | 100 | 100% | 106,928 | 14,663 | 〃 | 〃 |
| | Transcend Germany | Germany | 〃 | 2,288 | 2,288 | - | 100% | 20,709 | 14,084 | 〃 | 〃 |
| | Transcend Shanghai | Mainland China | Manufacturer and seller of computer memory modules, storage products and disks | 1,134,178 | 1,134,178 | - | 100% | 1,988,647 | 409,439 | 〃 | 〃 |

Note A: The Company did not directly recognize the investment income (loss).

| | | | | Initial Investment Amount | | Shares held as at December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investors | Investees | Loction | Main activities | Balance as at 12/31/09 | Balance as at 12/31/08 | No.of Shares (in thousands) | Ownership (%) | Book value | Net income (loss) of investee | Investment income(loss) Recognized by the Company | Relationship with the Company |
| Memhiro | Transtech Shanghai | Mainland China | Manufacturer and seller of computer memory modules, Storage products and disks. Wholesaler and agent of computer memory modules and Peripheral products. Retailer of computer components | $ 16,310 | $ 16,310 | - | 100% | ($ 26,265) | $ 10,058 | Note A | Subsidiary of Memhiro Pte Ltd. |
| Transcend Europe | Transcend MD | United States of America | Wholesaler of computer memory modules and peripheral products | 6,570 | 6,570 | 200,000 | 100% | 5,132 | ( 2,162) | 〃 | Subsidiary of Transcend Information Europe B.V. |

Note A： The Company did not directly recognize the investment income (loss).

3) Disclosure of information on indirect investments in Mainland China

1. Information on Mainland China investments

| Investee in Mainl and China | Main activities | Paid-in capital | Investment method | Accumulated amount of remittance to Mainland China as of January 1, 2009 | 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 31,2009 | Ownership held by the Company (direct andindirect) | Investment income(loss) recognized by the Company for the year | Book value of investments in Mainland China as of December 31,2009 | Accumulated amount of investment income remitted back to Taiwan as of December 31,2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 ( USD 34,600 Thousand) | $ - | $ - | $ 1,134,178 ( USD 34,600 Thousand) | 100% | $ 409,269 | $ 1,988,647 | $ - |
| 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% | 10,058 | ( 26,265) | - |

| Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2009 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA(Note B) |
|---|---|---|
| $ 1,150,488 ( USD 35,100 Thousand) | $ 1,150,488 ( USD 35,100 Thousand) | $ 10,875,834 |

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

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

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

4) Significant inter-company transactions

For the year ended December 31, 2009:

| | | | | Transaction | | | |
|---|---|---|---|---|---|---|---|
| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | General ledger account | Amount | Transaction terms | Percentage of consolidated total operating revenues or total assets (Note 3) |
| 0 | Transcend Taiwan | Transcend Japan | A | Sales | $ 3,000,182 | There is no significant difference in unit price from those to third parties | 11% |
| 〃 | 〃 | Transcend Europe | 〃 | 〃 | 2,736,680 | 〃 | 9% |
| 〃 | 〃 | Transcend USA | 〃 | 〃 | 2,324,802 | 〃 | 6% |
| 〃 | 〃 | Transcend Germany | 〃 | 〃 | 1,463,361 | 〃 | 5% |
| 〃 | 〃 | Transcend Shanghai | | Purchase | 2,451,479 | Processing with supplied materials. No other similar transactions can be used for comparison. | 10% |
| 〃 | 〃 | Transcend Japan | 〃 | Accounts Receivable | 910,403 | 120 days after monthly billings | 5% |
| 〃 | 〃 | Transcend USA | 〃 | 〃 | 386,547 | 〃 | 3% |
| 〃 | 〃 | Transcend Europe | 〃 | 〃 | 379,224 | 〃 | 2% |
| 〃 | 〃 | Transcend Shanghai | 〃 | Accounts Payable | 291,943 | 60 days after receipt of goods | 2% |

Note 1: Transaction information between parent company and subsidiaries should be noted in the first column, the number is written as below:
(a) Parent company: 0
(b) Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:
(a) Parent company to subsidiary.
(b) Subsidiary to parent company.
(c) Subsidiary to subsidiaries.

Note 3: For balance sheet accounts, the percentage is calculated using consolidated assets, for income statement accounts, the percentage is calculated using consolidated revenue.

For the year ended December 31, 2008:

| 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 | $ 3,769,382 | There is no significant difference in unit price from these to third parties | 11% |
| 〃 | 〃 | Transcend Japan | 〃 | 〃 | 2,951,843 | 〃 | 9% |
| 〃 | 〃 | Transcend USA | 〃 | 〃 | 2,227,756 | 〃 | 6% |
| 〃 | 〃 | Transcend Germany | 〃 | 〃 | 1,699,189 | 〃 | 5% |
| | | Transcend Shanghai | | Purchases | 3,299,705 | Processing with supplied materials. No other similar transactions can be used for comparison. | 10% |
| 〃 | 〃 | Transcend Japan | 〃 | Accounts receivable | 930,910 | 120 days after monthly billings | 5% |
| 〃 | 〃 | Transcend Europe | 〃 | 〃 | 489,138 | 〃 | 3% |
| 〃 | 〃 | Transcend USA | 〃 | 〃 | 424,788 | 〃 | 2% |
| 〃 | 〃 | Transcend Shanghai | 〃 | Accounts payable | 421,685 | 60 days after receipt of goods | 2% |

Note 1: Transaction information between parent company and subsidiaries should be noted in the first column, the number is written as below:
(a) Parent company: 0
(b) Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:
(a) Parent company to subsidiary.
(b) Subsidiary to parent company.
(c) Subsidiary to subsidiaries.

Note 3: For balance sheet accounts, the percentage is calculated using consolidated assets, for income statement accounts, the percentage is calculated using consolidated revenue.

## 12. SEGMENT INFORMATION

1) Financial information by industry

Not applicable as the Group is engaged in only one industry.

2) Financial information by geographic areas

Not applicable as there are no operations located outside of the R.O.C.

3) Export sales by geographic area

| Areas | 2009 | 2008 |
|---|---|---|
| Asia | $ 15, 300, 002 | $ 14, 655, 307 |
| Europe | 9, 953, 435 | 10, 700, 565 |
| America | 2, 934, 746 | 2, 404, 119 |
| Others | 881, 125 | 641, 211 |
| Total | $ 29, 069, 308 | $ 28, 401, 202 |

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 2009 and 2008.