TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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.

<u>Report of Independent Accountants</u>

82005073PWCR08003263

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, 2008 and 2007, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These 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 $738,732 thousand and $771,535 thousand, constituting 4 percent each of the related consolidated totals as of December 31, 2008 and 2007, respectively, and total revenues of $4,196,943 thousand and $4,429,349 thousand, constituting 12 percent each of the related consolidated totals for the years then ended, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Transcend Information, Inc. and subsidiaries as of December 31, 2008 and 2007, 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 generally accepted accounting principles in the Republic of China.

As stated in Note 3 to the financial statements, effective January 1, 2008, the Company adopted the EITF 96-052, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation.

March 5, 2009
Taipei, Taiwan
Republic of China

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 5,258,418	$ 4,586,291
Financial assets at fair value through profit or loss-current (Notes 4(2), 10 and 11)	520,778	1,580,472
Notes receivable, net	9,055	12,542
Accounts receivable – third parties, net (Note 4(3))	2,127,919	2,543,622
Accounts receivable – related parties, net (Notes 5 and 11)	328,441	420,016
Other receivables (Note 5)	175,848	287,249
Inventories, net (Note 4(4))	5,374,356	4,744,936
Prepayments	147,985	-
Other current assets (Note 4(9))	200,161	22,641
	14,142,961	14,197,769
Long-term Investments (Notes 4(5), 10 and 11)		
Financial assets carried at cost - noncurrent	839,125	839,125
Other Financial Assets - Noncurrent (Note 6)	3,275	3,243
Property, Plant and Equipment, net (Notes 4(6) and 6)		
Cost		
Land	898,682	871,123
Buildings	1,932,023	1,331,424
Machinery	791,708	434,621
Transportation equipment	25,551	18,357
Furniture and fixtures	93,271	76,641
Miscellaneous equipment	69,224	52,979
Total	3,810,459	2,785,145
Less: accumulated depreciation	(560,956)	(374,450)
Construction in progress and prepayments for equipment	90,997	314,632
	3,340,500	2,725,327
Intangible Assets		
Deferred pension costs (Note 4(12))	18	-
Other intangible assets (Note 4(7))	128,673	121,386
	128,691	121,386
Other Assets		
Refundable deposits	9,777	6,611
Other assets, other	1,723	18,522
	11,500	25,133
TOTAL ASSETS	$18,466,052	$ 17,911,983

	2008	2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans (Note 4(8))	$ 272,700	$ 108,315
Notes payable	70,785	27,724
Accounts payable	1,241,525	2,192,966
Income tax payable (Note 4(9))	466,066	474,475
Accrued expenses (Note 5)	746,347	373,144
Current portion of long-term liabilities (Notes 4(10)(11) and 10)	1,085,235	181,131
Other current liabilities	23,209	106,720
	3,905,867	3,464,475
Long-term Liabilities		
Bonds payable (Notes 4(10) and 10)	-	1,029,842
Long-term bank loans (Notes 4(11) and 10)	19,738	47,289
	19,738	1,077,131
Other Liabilities		
Accrued pension liabilities (Note 4(12))	20,170	17,978
Deferred income tax liabilities - noncurrent (Note 4(9))	89,680	12,316
Others liabilities, other	10,908	-
	120,758	30,294
Total Liabilities	4,046,363	4,571,900
Stockholders' Equity		
Capital stock (Note 4(13))		
Common stock	3,945,430	3,706,457
Capital reserve (Note 4(10)(14))		
Paid-in capital in excess of par value-common stock	2,801,742	2,950,000
Paid-in capital in excess of convertible bonds	1,313,672	1,189,168
Capital surplus from donated assets	4,106	-
Capital surplus from business combination	35,128	35,128
Capital reserve from stock warrants	114,872	66,250
Retained earnings (Note 4(15))		
Legal reserve	1,354,535	1,084,495
Unappropriated earnings	4,646,736	4,238,521
Other adjustments		
Cumulative translation adjustments	207,927	70,064
Net loss not recognized as pension cost (Note 4(12))	(4,459)	-
Total Stockholders' Equity	14,419,689	13,340,083
Commitments and Contingent Liabilities (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,466,052	$ 17,911,983

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 5, 2009.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

	2008	2007
Operating revenue		
Sales (Notes 5 and 11)	$ 35,329,353	$ 38,706,497
Less: Sales returns	(377,901)	(590,883)
Sales allowances	(544,453)	(246,247)
Net sales	34,406,999	37,869,367
Operating costs		
Cost of sales (Notes 4(18) and 11)	(30,293,103)	(33,554,997)
Gross profit	4,113,896	4,314,370
Operating expenses (Notes 4(18) and 5)		
Sales and marketing expenses	(1,155,116)	(982,798)
General and administrative expenses	(440,484)	(387,975)
Research and development expenses	(142,440)	(107,760)
Total operating expenses	(1,738,040)	(1,478,533)
Operating income	2,375,856	2,835,837
Non-operating income		
Interest income	62,217	69,221
Gain on valuation of financial assets (Note 4 (2))	-	17,936
Gain on valuation of financial liabilities (Note 4(2))	569	106,703
Dividend income	47,111	6,208
Exchange gain – net	1,106,399	337,976
Gain from price recovery of inventory	-	35,687
Other income (Note 5)	21,449	42,893
Total non-operating income	1,237,745	616,624
Non-operating expenses		
Interest expense	(27,604)	(45,488)
Loss on valuation of financial liabilities (Note 4 (2))	(4,813)	-
Provision for inventory obsolescence and market price decline	(641,485)	-
Other expenses	(5,981)	(16,405)
Total non-operating expenses	(679,883)	(61,893)
Income before income tax	2,933,718	3,390,568
Income tax expense (Note 4(9))	(686,681)	(690,172)
Consolidated net income	$ 2,247,037	$ 2,700,396
Attributable to:		
Equity holders of the Company	$ 2,247,037	$ 2,700,396

	2008 Before income tax	2008 After income tax	2007 Before income tax	2007 After income tax
Basic earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 7.47	$ 5.72	$ 9.26	$ 7.37
Diluted earnings per common share (in dollars)				
Consolidated net income (Note 4(17))	$ 7.22	$ 5.54	$ 8.65	$ 6.84

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

See report of independent accountants dated March 5, 2009.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

			Retained Earnings					
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Pension Loss	Total
2007								
Balance at January 1, 2007	$ 3,375,206	$ 1,011,046	$ 841,347	$ 14,982	$ 3,056,173	$ 8,145	$ -	$ 8,306,899
Reversal of special reserve	-	-	-	(14,982)	14,982	-	-	-
Appropriations of earnings:								
Legal reserve	-	-	243,148	-	(243,148)	-	-	-
Directors' and supervisors' remuneration					(2,566)			(2,566)
Stock dividends	33,752	-	-	-	(33,752)	-	-	-
Cash dividends	-	-	-	-	(1,215,074)	-	-	(1,215,074)
Employees' bonus	11,547	-	-	-	(38,490)	-	-	(26,943)
Increase in capital through cash infusion	250,000	2,950,000	-	-	-	-	-	3,200,000
Cumulative translation adjustments	-	-	-	-	-	61,919	-	61,919
Conversion of bonds payable to capital stock	35,952	279,500	-	-	-	-	-	315,452
Consolidated net income for 2007	-	-	-	-	2,700,396	-	-	2,700,396
Balance at December 31, 2007	$ 3,706,457	$ 4,240,546	$1,084,495	$ -	$ 4,238,521	$ 70,064	$ -	$ 13,340,083
2008								
Balance at January 1, 2008	$ 3,706,457	$ 4,240,546	$1,084,495	$ -	$ 4,238,521	$ 70,064	$ -	$ 13,340,083
Capital reserve capitalized	148,258	(148,258)	-	-	-	-	-	-
Appropriations of 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
Change in the fair value of conversion price resetting option embedded in convertible bonds	-	48,622	-	-	-	-	-	48,622
Cumulative translation adjustments	-	-	-	-	-	137,863	-	137,863
Net loss not recognized as 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

Note：Employees' bonus of $141,055 for the year ended December 31, 2008 had been deducted from the consolidated statement of income for the corresponding period.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 5, 2009.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2008	2007
Cash flows from operating activities		
Consolidated net income	$ 2,247,037	$ 2,700,396
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Loss (gain) on valuation of financial assets	4,813	(17,936)
Gain on valuation of financial liabilities	(569)	(106,703)
Bad debts expense	13,175	28,357
Loss (gain) from price recovery of inventory	641,485	(35,687)
Depreciation	173,537	109,179
Gain on disposal of property, plant and equipment	(23)	(1,533)
Gain from price recovery of impairment of idle assets	-	(15,172)
Amortization	2,630	2,482
Amortization of discount on bonds payable	21,933	26,371
Changes in unrealized exchange loss (gain) on bonds payable	9,189	(743)
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	1,104,072	(465,838)
Notes and accounts receivable	516,112	(311,176)
Other receivables	77,898	108,509
Inventories	(1,270,905)	(340,307)
Prepayments	(147,985)	-
Deferred income tax assets and liabilities	(51,529)	53,059
Other current assets	93,310	174,287
Deferred assets	(87)	-
Other assets, other	(1,636)	-
Notes and accounts payable	(908,380)	199,463
Income tax payable	(8,409)	250,058
Accrued expenses	372,303	156,539
Other current liabilities	(82,619)	24,172
Accrued pension liabilities	(2,285)	(1,882)
Net cash provided by operating activities	2,803,067	2,535,895

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TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2008	2007
Cash flows from investing activities		
Decrease in other receivables - related parties	$ 33,503	$ 5,625
Increase in financial assets carried at cost	-	(760,000)
Acquisition of property, plant and equipment	(803,581)	(689,095)
Proceeds from disposal of property, plant and equipment	4,976	21,240
Increase in refundable deposits	(3,166)	(640)
Net cash used in investing activities	(768,268)	(1,422,870)
Cash flows from financing activities		
Increase in short-term bank loans – net	164,385	2,010
Decrease in long-term bank loans	(29,286)	(30,387)
Increase in capital through cash infusion	-	3,200,000
Payment of cash dividends	(1,482,575)	(1,215,071)
Payment of employees' bonus	(23,033)	(26,943)
Payment of directors' and supervisors' remuneration	(3,071)	(2,566)
Increase (decrease) in guarantee deposits received	10,908	(190)
Net cash (used in) provided by financing activities	(1,362,672)	1,926,853
Net increase in cash and cash equivalents	672,127	3,039,878
Cash and cash equivalents at beginning of year	4,586,291	1,546,413
Cash and cash equivalents at end of year	$ 5,258,418	$ 4,586,291
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 8,509	$ 20,756
Income tax	$ 744,079	$ 382,945
Financing activities which have no effect on cash flows:		
Unpaid cash dividends and employees' bonus	$ 8	$ 3
Conversion of bonds payable to capital stock	$ 155,124	$ 315,452

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

See report of independent accountants dated March 5, 2009.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

1) Transcend Information, Inc. (the "Company") was incorporated under the Company Law of the Republic of China (R.O.C.) in August 1989. As of December 31, 2008, the Company's authorized and total contributed capital were $5,000,000 and $3,945,430, respectively. The main activities of the Company are the manufacture, processing and sale of computer software, hardware, peripheral equipment and computer components.

The Securities and Futures Commission of the Republic of China had approved the Company's shares to be listed on the Taiwan Stock Exchange and the shares started trading on May 3, 2001. As of December 31, 2008, the Company and its subsidiaries had approximately 2,350 employees.

2) Consolidated subsidiaries:

Name	Relationship	Main activities	Ownership percentage as of December 31, 2008
Saffire Investment Ltd. (Saffire)	Note a	Investments holding company	100%
Transcend Japan Inc. (Transcend Japan)	〃	Wholesaler of computer memory modules and peripheral products	〃
Transcend Korea Inc. (Transcend Korea)	〃	〃	〃
Transcend Information UK Limited (Transcend UK)	〃	〃	〃
Memhiro Pte. Ltd. (Memhiro)	Note b	Investments holding company	〃
Transcend Information Inc. (Transcend USA)	Note c	Wholesaler of computer memory modules and peripheral products	〃

Name	Relationship	Main activities	Ownership percentage as of December 31, 2008
Transcend Information Europe B.V. (Transcend Europe)	Note c	Wholesaler of computer memory modules and peripheral products	100%
Transcend Information Trading GmbH, Hamburg (Transcend Germany)	〃	〃	〃
Transcend Information (Shanghai), Ltd. (Transcend Shanghai)	〃	Manufacture, processing and sale of computer software, hardware, peripheral equipment and computer components	〃
Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai)	〃	Wholesaler of computer memory modules and peripheral products	〃
Transcend Information Maryland, Inc. (Transcend MD)	Note d	〃	〃

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

3) Non-consolidated subsidiaries: None.

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

5) Special operating risk of foreign subsidiaries: None.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” 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. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries.

Significant intercompany transactions and assets and liabilities arising from intercompany transactions are eliminated.

2) Translation of foreign subsidiaries’ financial statements

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical exchange rates except for beginning retained earnings, which are carried forward from prior year’s balance. Profit and loss accounts are translated at weighted-average rates of the year.

The resulting translation differences are included in "Cumulative Translation Adjustments" under stockholders’ equity.

3) Foreign currency transactions

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

B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.
However, translation exchange gains or losses on intercompany accounts that are, in nature, deemed long-term are accounted for as a reduction in stockholders’ equity.

C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity.

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

4) Classification of current and non-current items

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

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

b) Assets held mainly for trading purposes;

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

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

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

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

b) Liabilities arising mainly from trading activities;

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

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

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

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

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

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

D. For call options and put options, which are embedded in bonds payable, please refer to Note 4 (10).

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

6) Allowance for doubtful accounts

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

7) Inventories

Inventories are stated at the lower of cost or market value based on the aggregate value method. Cost is determined using the weighted-average method for the Group, except for Transcend U.S.A which uses the first-in, first-out method. The market value for raw materials is determined based on the current replacement cost while the market values for work in process and finished goods are determined based on net realizable value. Allowance for obsolete inventories is provided when necessary.

8) Financial assets carried at cost

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

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

9) Property, plant and equipment

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

B. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Fully depreciated assets still in use are depreciated based on the salvage value over the remaining useful lives of the assets. The estimated useful lives are 2 to 55 years for buildings and 2 to 10 years for the other property, plant and equipment.

C. Transcend USA calculates depreciation using the straight-line method for buildings and the double declining balance method for the other property, plant and equipment. The estimated useful life of property, plant and equipment is 7 years, except for buildings, the estimated useful life of which is 2 to 55 years.

D. Significant renewals or betterments are capitalized and depreciated accordingly. Maintenance and repairs are charged to expense as incurred.

E. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current income.

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

10) Intangible assets

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

11) 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".

(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 abovementioned liability component plus the book value of the stock warrants.

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

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

C. 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 current period.

D. Convertible bonds with redemption rights are reported as current liabilities or long-term liabilities based on the expiry date of the right of redemption.

12) <u>Pension plan</u>

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 20 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

13) <u>Share-based payment — employee compensation plan</u>

A. The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072 "Accounting for Employee Stock Options" as prescribed by the Accounting Research and Development Foundation, R.O.C., dated March 17, 2003. Under the share-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share are prepared in accordance with the R.O.C. SFAS No. 39, "Accounting for Share-based Payment".
B. For the grant date of the share-based payment agreements set on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

14) Employees' bonuses and directors' and supervisors' remuneration

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

15) Revenue and expenses

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

16) Income tax

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

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

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

17) Impairment of non-financial assets

A. The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

B. The recoverable amount of goodwill, intangible assets with indefinite useful lives and intangible assets which have not yet been available for use shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of these assets is less than their respective carrying amount. Impairment loss of goodwill recognized in prior years is not recoverable in the following years.

18) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Share-based payment — employee compensation plan

Effective January 1, 2008, the Group adopted R.O.C. SFAS No. 39, “Accounting for Share-based Payment”. The adoption of SFAS No. 39 had no significant effect on net income.

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

Effective January 1, 2008, the Group adopted EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007. The adoption of EITF 96-052 decreased net income by $110,851 and earnings per share by $0.28 for the year ended December 31, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2008	2007
Petty cash and cash on hand	$ 917	$ 1,131
Checking and savings deposits	3,717,674	1,422,899
Time deposits	1,348,961	3,097,120
Bonds purchased with resale agreement	190,866	65,141
	$ 5,258,418	$ 4,586,291

As of December 31, 2008 and 2007, time deposits over 1 year amounted to $81,893 and $81,075, respectively.

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

	December 31, 2008	December 31, 2007
Financial assets held for trading		
Beneficiary certificates	$ 397,796	$ 1,550,075
Bonds	79,519	-
Adjustment of financial assets held for trading	(13,003)	16,782
	464,312	1,566,857
Designated as at fair value through profit or loss:		
Bonds	-	6,454
Adjustment of designated as at fair value through profit or loss	-	(114)
	-	6,340
Financial liabilities held for trading		
Derivative financial liabilities	(43,356)	(43,356)
Adjustment of financial liabilities held for trading	99,822	50,631
	56,466	7,275
	$ 520,778	$ 1,580,472

The Group recognized net loss of $4,244 and net gain of $124,639 for the years ended December 31, 2008 and 2007, respectively.

3) Accounts receivable

	December 31, 2008	December 31, 2007
Accounts receivable	$2,187,720	$2,613,205
Less: Allowance for doubtful accounts	(59,801)	(69,583)
	$2,127,919	$2,543,622

As of December 31, 2008, the Group reclassified uncollectible accounts receivable in the amount of $13,352 to other assets-others which was fully provided with allowance.

4) Inventories

	December 31,	
	2008	2007
Raw materials	$ 3,070,984	$ 2,070,738
Raw materials in transit	-	1,066,382
Work in process	1,227,168	431,781
Finished goods	1,717,124	1,128,096
Inventories in transit	54,303	101,738
	6,069,579	4,798,735
Less: Allowance for decline in market value and inventory obsolescence	(695,223)	(53,799)
	$ 5,374,356	$ 4,744,936

5) Financial assets carried at cost - noncurrent

	December 31,	
Investee company	2008	2007
Taiwan IC Packaging Corp.	$ 640,000	$ 640,000
Alcor Micro Corp.	198,000	198,000
Dramexchange Tech. Inc.	1,125	1,125
	$ 839,125	$ 839,125

The investments in Alcor Micro Corp. and Taiwan IC Packaging Corp. represent their shares issued through private placement, which are not allowed to be transferred within three years. The investment in Dramexchange Tech. Inc. is carried at cost because its shares are not quoted in an active market and the fair value cannot be reliably measured.

6) Property, plant and equipment

	December 31, 2008		
Item	Original 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

	December 31, 2007		
Item	Original cost	Accumulated depreciation	Net book value
Land	$ 871,123	$ -	$ 871,123
Buildings	1,331,424	(198,368)	1,133,056
Machinery	434,621	(114,252)	320,369
Transportation equipment	18,357	(4,708)	13,649
Furniture and fixtures	76,641	(48,112)	28,529
Miscellaneous equipment	52,979	(9,010)	43,969
Construction in progress and prepayments for equipment	314,632	-	314,632
	$ 3,099,777	($ 374,450)	$ 2,725,327

7) Other intangible assets

	December 31,	
	2008	2007
Land use right	$ 137,681	$ 127,163
Less: Accumulated amortization	(9,008)	(5,777)
	$ 128,673	$ 121,386

8) Short-term bank loans

	December 31,	
	2008	2007
Short-term loans	$ 272,700	$ 108,315
Annual interest rates	1.21 1.41	1.23 5.23

9) Income tax

	2008	2007
Income tax expense	$ 686,681	$ 690,172
Net change of deferred income tax	51,529	(53,059)
Under provision of prior year's income tax	7,021	1,580
Prepaid income tax	(279,165)	(164,218)
Income tax payable	$ 466,066	$ 474,475

A. As of December 31, 2008 and 2007, the deferred income tax assets and liabilities are as follows:

	December 31,	
	2008	2007
Total deferred income tax assets	$ 205,374	$ 30,917
Total deferred income tax liabilities	$ 152,763	$ 29,835

B. As of December 31, 2008 and 2007, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2008		2007	
Items	Amount	Tax Effect	Amount	Tax Effect
Current:				
Allowance for doubtful accounts	$ 59,801	$ 12,725	$ 22,927	$ 9,221
Unrealized loss on decline in market value and inventory obsolescence	695,223	173,734	52,019	13,366
Unrealized profit on intercompany transactions	20,040	5,010	17,536	4,384
Unrealized exchange gain	(242,027)	(60,507)	(57,484)	(14,371)
Others	45,316	11,329	3,192	798
		142,291		13,398
Noncurrent:				
Pension expense	8,876	2,219	11,164	2,791
Investment income on foreign investments accounted for under the equity method	(368,201)	(92,050)	(61,854)	(15,464)
Unrealized permanent decline in market value of financial assets carried at cost	1,427	357	1,427	357
Others	(824)	(206)	-	-
		(89,680)		(12,316)
		$ 52,611		$ 1,082

C. The significant differences between accounting income and tax income in 2008 and 2007 are as follows:

a) Permanent differences: For 2008, the income included dividend income of approximately $47,000. For 2007, the income included gain on valuation of financial liabilities of approximately $107,000.

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

D. The Company was granted a five-year tax holiday with respect to income derived from its data storage memory and computer peripheral equipment production. The expiry date is as follows:

Approval date and number	Date of tax-exempt related equipment ready for production	Tax-exempt periods	Cost of tax-exempt related equipment
Taipei-City-Chien-One No. 09370306300 on 14th April, 2004	1st January, 2004	1st January, 2004 – 31st December, 2008	$ 35,061
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, 2008 and 2007, the income tax expense included the additional 10% corporate income tax related to the 2007 and 2006 undistributed earnings amounting to $86,158 and $91,343, respectively. These amounts were recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2007 and 2006 earnings.

F. As of December 31, 2008, the Company's income tax returns through 2006 have been assessed and approved by the Tax Authority.

10) Bonds payable

	December 31, 2008	December 31, 2007
First Euro convertible bonds payable	$ -	$ 145,935
Less: Due within one year	-	(145,935)
	-	-
First domestic convertible bonds payable	1,115,700	1,115,700
Less: Discount of bonds payable	(63,925)	(85,858)
Due within one year	(1,051,775)	-
	-	1,029,842
	$ -	$1,029,842

A. In July 2003, the Company issued 0% unsecured Convertible Bonds in the amount of US$35 million at par value due in 2008, which are listed in the Luxembourg Stock Exchange. The significant terms of the Bonds are summarized below:

a) As of December 31, 2008, bonds in the amount of US$35 million have been converted into 19,516,877 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 $1,011,352 was credited to capital reserve.

b) The fair value of put and call options embedded in bonds payable issued before December 31, 2005 was not separated in accordance with EITF 95-078.

B. As approved by the competent authority, the Company issued its first unsecured zero coupon domestic convertible bonds with a principal amount of $1,500,000 and an effective interest rate of 2.15%. The terms of 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 26, 2008, the adjusted conversion price was $92.7 per share.

d) Reset of conversion price:

Other than the abovementioned 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 Company's 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 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, 2008, bonds in the amount of $384,300 had been converted into 3,595,124 common shares based on the conversion price per share at date of conversion. The excess of the bond cost over par value of the shares amounting to $302,320 was credited to capital reserve.

The fair value of the convertible option was separated from bonds payable, and was recognized in "Capital reserve from stock warrants" in the amount of $89,070 in accordance with ROC SFAS No. 36. 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".

As of December 31 2008, due to the reset of conversion price, the change of price resetting amounting to $48,622 was credited to capital reserve.

11) Long-term loans

	December 31,	
	2008	2007
Long-term loans	$ 53,198	$ 82,484
Less: Due within one year	(33,460)	(35,195)
	$ 19,738	$ 47,289
Annual interest rates	1.28 5.20	1.28 5.20

12) Retirement plan

A. The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

B. As of December 31, 2008 and 2007, the balance of the retirement fund with the Bank of Taiwan was $33,835 and $27,066, respectively.

C. The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2008 and 2007 are as follows:

	2008	2007
Discount rate	2.50%	3.50%
Rate of increase in salary	2.00%	2.00%
Expected return on plan assets	2.50%	2.50%

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

	December 31,	
	2008	2007
Benefit obligation:		
Vested benefit obligation	$ -	$ -
Non-vested benefit obligation	(54,005)	(43,650)
Accumulated benefit obligation	(54,005)	(43,650)
Effects of future salary increments	(25,877)	(17,709)
Projected benefit obligation	(79,882)	(61,359)
Fair value of plan assets	33,835	27,066
Funded status	(46,047)	(34,293)
Unrecognized net transition obligation	18	19
Unrecognized pension loss	30,336	16,296
Additional liability	(4,477)	-
Accrued pension liabilities	($ 20,170)	($ 17,978)
Vested benefit	$ -	$ -

E. For the years ended December 31, 2008 and 2007, the details of the Company's net periodic pension costs are as follows:

	December 31,	
	2008	2007
Service cost	$ 1,614	$ 1,568
Interest cost	2,148	1,879
Expected return on plan assets	(735)	(596)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	441	293
Net periodic pension cost	$ 3,469	$ 3,145

F. Effective July 1, 2005, the Company established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act. Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The net pension cost recognized under the New Plan for the years ended December 31, 2008 and 2007 was $26,292 and $23,874, 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 12.5%~22% of employees' monthly salaries and wages. The Company's mainland subsidiaries have no other obligation aside from the monthly contributions.

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.

13) Capital stock

A. 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 20, 2008 and had been registered.

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

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

14) 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 (10) for detailed information.

15) Retained earnings

A. In accordance with the Company's Articles of Incorporation, the annual net income should be used initially to cover any accumulated deficit, 10% of the annual net income should be set aside as legal reserve; setting aside an additional special reserve pursuant to regulations; and reserving a certain amount with no effect on the Company's normal operations, no violation of regulation and balance stock dividend policy; thereafter, the Board of Directors shall propose and the stockholders shall approve to appropriate the amount of the residual earnings to be distributed. When distributing the remaining retained earnings, the Company should distribute 0.2% for the directors' and supervisors' remuneration and at least 3% for employees' bonuses. The cash dividend shall be at least 5% of the dividend to be distributed.

B. Except for covering accumulated deficit 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 R.O.C. Securities and Exchange Law, 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 2007 and 2006 earnings had been resolved at the stockholders' meeting on June 13, 2008 and June 11, 2007, respectively. Details are summarized below:

	2007		2006	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 270,040		$ 243,148	
Stock dividends	37,065	$ 0.1	33,752	$ 0.1
Cash dividends	1,482,583	4.0	1,215,074	3.6
Directors' and supervisors' remuneration	3,071		2,566	
Employees' stock bonus	23,030		11,547	
Employees' cash bonus	23,033		26,943	
Total	$ 1,838,822		$ 1,533,030	

In addition, the stockholders at their annual stockholders' meeting on June 13, 2008 adopted a resolution to capitalize capital reserve of $148,258.

As of March 5, 2009, the appropriation of 2008 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.

According to the resolution for the appropriation of 2007 earnings, employees' stock bonus of 2,303 shares, constituting 1% of the oustanding shares as at December 31, 2007, were distributed. The estimated earnings per share after accounting for the distribution of employees' bonus and directors' and supervisors' remuneration as expenses in 2007 is $6.65 (in dollars).

E. The actual creditable tax ratio of distributed earnings in 2007 was 19.48%. As of December 31, 2008, the imputation tax credit account balance was $719,546 and the estimated creditable tax ratio was 24.48%. 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 $4,525,639, respectively.

F. The estimated amount of employees' bonus for 2008 is $141,055, based on a certain percentage prescribed by the Company's Articles of Incorporation (about 6%) of net income in 2008 after taking into account the legal reserve and other factors. Information on the appropriation of the Company's employees' bonus 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.

16) Share-based payment — employee compensation plan

A. As of December 31, 2008, 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	7.77	7.77

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

	December 31, 2008	
	No. of shares	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	$ 4,464	$ 120
Options granted	-	-
Distribution of stock dividends/ adjustments for number of shares granted for one unit of option	-	-
Options waived	(224)	-
Options exercised	-	-
Options revoked	-	-
Options outstanding at end of year	$ 4,240	120
Options exercisable at end of year	$ -	-

C. Details of the employee stock options outstanding as of December 31, 2008 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)
$ 120	4,240	3.375 years	$ 120	-	-

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, 2008	
	Financial report	Pro Forma
Net income	$ 2,247,037	$ 2,175,142
Basic earnings per share (EPS) (in dollars)	5.72	5.54
Diluted EPS (in dollars)	5.54	5.37

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

Type of arrangement	Date granted	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	10 15, 2007	$ 120	$ 120	39.68	4.375	0	2.61	$43.32

17) Earnings per common share

	For the year ended December 31, 2008				
	Amount		Weighted average number of outstanding common shares (in thousands)	Earnings per common share (in NT dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per common share:					
Consolidated net income	$2,933,718	$2,247,037	392,884	$ 7.47	$ 5.72
Effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	21,364	21,364	13,946		
Employees' bonus	-	-	2,448		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$2,955,082	$2,268,401	409,278	$ 7.22	$ 5.54

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 increase from employees' stock bonus issuance in the caculation of the weighted-average number of common shares outstanding during the reporting year, 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, 2007				
	Amount		Weighted average number of outstanding common shares (in thousands)	Earnings per common share (in NT dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Basic earnings per common share:					
Consolidated net income	$3,390,568	$2,700,396	366,233	$ 9.26	$ 7.37
Effect of outstanding securities or rights that are potentially dilutive to common stock:					
Convertible bonds	(80,332)	(80,332)	16,633		
Diluted earnings per common share:					
Consolidated net income and the effect of outstanding securities or rights that are potentially dilutive to common stock	$3,310,236	$2,620,064	382,866	$ 8.65	$ 6.84

The above weighted-average number of outstanding common shares has been adjusted retroactively in proportion to retained earnings, capital reserve and employees' bonus capitalized for the year ended December 31, 2008.

18) Personnel, depreciation and amortization expenses

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

	For the year ended December 31, 2008		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 522,015	$ 808,167	$ 1,330,182
Insurance	18,975	70,465	89,440
Pension	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

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

5. RELATED PARTY TRANSACTIONS

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

Name	Relationship with the Company
C-Tech Corporation	The Company's general manager is the chairman of C-Tech Corporation
Transcend (H.K.) Limited (Transcend H.K.)	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

2) Significant transactions and balances with related parties

A. Sales

	2008		2007	
	Amount	% of net sales	Amount	% of net sales
Transcend H.K.	$ 3,070,125	9	$5,993,182	16
C-Tech Corporation	516,238	2	709,434	2
Shanghai Transcend	-	-	37,972	-
	$ 3,586,363	11	$6,740,588	18

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,			
	2008		2007	
	Amount	% of accounts receivable	Amount	% of accounts receivable
Transcend H.K.	$ 287,336	11	$ 302,407	10
C-Tech Corporation	41,105	2	105,961	4
Shanghai Transcend	-	-	45,151	1
	328,441	13	453,519	15
Reclassified to other receivables	-	-	(33,503)	(1)
	$ 328,441	13	$ 420,016	14

C. Other receivables

	December 31, 2008	December 31, 2007
Shanghai Transcend	$	$ 33,503

The Company's accounts receivable for sales with collection periods longer than those for non-related parties were reclassified to "Other receivables" in accordance with Accounting Research and Development Foundation No. 93-167. The aging of such account is shown below:

	December 31, 2007			
	210 days	360 days	730 days	Total
Shanghai Transcend	$ 21,078	$ 4,664	$ 7,761	$ 33,503

D. Accrued expenses

	December 31, 2007			
	2008		2007	
	Amount	% of accrued expenses	Amount	% of accrued expenses
Transcend H.K.	$ 2	-	$ 10,071	3

The payables arose from the advertising fees for global marketing.

E. The following sets forth the salaries/rewards information of key management, such as directors, supervisors, general manager, vice general manager, etc.

	For the years ended December 31,	
	2008	2007
Salaries	$ 65,029	$ 51,651
Bonuses	14,698	10,244
Service execution fees	7,629	4,506
Earnings distribution	48,656	37,543
Total	$ 136,012	$ 103,944

(A) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.

(B) Bonuses include various bonuses and rewards.

(C) Service execution fees include travel allowances, special expenditures, various allowances, dorms & vehicles offering, etc.

(D) Earnings distribution means directors' and supervisors' remuneration and employees' bonus accrued in current year.

(E) The relevant information above was posted in the Company's annual report.

F. Other revenue

As of December 31, 2008 and 2007, the balance of the sales of supplies to the related parties was $1,168 and $1,297, respectively.

6. PLEDGED ASSETS

		Book Value	
		December 31,	
Nature of Assets	Nature of liability secured	2008	2007
Property, plant and equipment	Long-term and short-term loans	$1,490,370	$1,529,446
Other financial assets-noncurrent-time deposit	Patent deposit	3,275	3,243
		$1,493,645	$1,532,689

7. COMMITMENTS AND CONTINGENT LIABILITIES

A. SanDisk Corp. filed a lawsuit with the United States International Trade Commission (ITC) against 47 manufacturers and importers of flash memory storage devices, including the Company and its subsidiaries, on October 23, 2007, alleging infringement, among others, of its five patents 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 against the same defendants, on October 24, 2007, alleging infringement, among others, of its patent on flash memory controller. The sales of the Company to its U.S. subsidiary, in charge of sales in the U.S. territory, accounted for 7% of consolidated sales for the year ended December 31, 2008, which generated net income of $7,139 for the Company. At present, the Company has attorneys in this area tending to the two cases. As of March 5, 2009, the United States District Court of the State of Wisconsin was still waiting for ITC's ruling results to come out. As the lawsuits are still pending, the Company did not recognize the estimated amounts of any possible loss that may result from the lawsuits.

B. As of December 31, 2008, the Company has unused letters of credit for purchases of merchandise amounting to $200,000.

8. SIGNIFICANT LOSS OR DAMAGE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Financial statement presentation

Certain accounts in the 2007 financial statements were reclassified to conform with the 2008 financial statement presentation.

Fair values of financial assets

	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	$7,912,733	$ -	$7,912,733
Financial assets at fair value through profit or loss-current	464,312	464,312	-
Financial assets carried at cost-noncurrent	839,125	-	-
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

	December 31, 2007		
		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	$7,859,574	$ -	$7,859,574
Financial assets at fair value through profit or loss-current	1,573,197	1,566,857	6,340
Financial assets carried at cost-noncurrent	839,125	-	-
Liabilities			
Financial liabilities with fair values equal to book values	3,357,755	-	3,357,755
Bonds payable	1,175,777	307,923	1,029,842
Long-term loans	82,484	-	82,484
Derivative financial instruments			
Assets:			
Financial assets at fair value through profit or loss-current	7,275	-	7,275

A. Fair values of financial instruments

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

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

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

(C) The fair value of the corporate bonds issued on or before December 31, 2005 is their market value, whereas the fair value of those issued after January 1, 2006 is the present value of their expected future cash flows discounted by the initial effective interest rate on the bonds.

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

B. As of December 31, 2008 and 2007, the financial assets with fair value and cash flow risk due to the change of interest amounted to $5,254,881 and $4,520,366, respectively, and the financial liabilities amounted to $325,898 and $190,799, respectively.

C. For the years ended December 31, 2008 and 2007, total interest income for financial assets that are not at fair value through profit or loss amounted to $57,486 and $68,129, respectively.

D. Strategies for controlling financial risk

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

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

E. Information on material financial risk

(A) Investments in equity financial instruments

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

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

d) Cash flow interest rate risk

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

(B) Investments in bills and bonds

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

(C) Liabilities on debt financial instruments

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

(D) Loans

a) Market risk

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

b) Credit risk

No credit risk is expected to arise.

c) Liquidity risk

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

d) Cash flow interest rate risk

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

(E) Receivables

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

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

Item	December 31, 2008	December 31, 2007
Direct/indirect subsidiaries of the Company		
Letter of credit (Transcend Japan)	1,500 million	500 million
Letter of credit (Transcend USA)	US$ 2.5 million	US$ 2.5 million

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

11. ADDITIONAL DISCLOSURES REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others:

January 1, 2008 – December 31, 2008

Name of the company	Name of the borrowers	Accounts used to record such lending	Maximum balance for the year ended December 31, 2008	Ending balance	Interest rate	Reason for lending	Amount of sales to (purchases from) the borrower for the year ended December 31, 2008	Reason for short-term lending	Bad debts allowance provided	Collateral and its value	Credit limit for the respective borrower	Ceiling of fund financing for the borrower
Transcend Taiwan	Shanghai Transcend	Other receivables	$ 33,503	-	-	Business transaction-Sales	$ 33,503	-	$ -	$ -	$ 33,503	$ 33,503
〃	C-Tech Corporation	〃	5,841	-	-	〃	5,841	-	-	-	5,841	5,841
Saffire	Memhiro	Due from subsidiary	US$ 1,250 Thousand	US$ 1,250 Thousand	-	For short-term lending	-	To maintain working capital	$ -	$ -	US$ 10,919 Thousand (Note)	US$ 13,649 Thousand (Note)

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

B. Endorsements and guarantees for others:

January 1, 2008 – December 31, 2008

Name of the company	Name of parties being guaranteed	Relationship with party guaranteed	Ceiling of guarantee for single party	Maximum outstanding guarantee amount for the year ended December 31, 2008	Outstanding guarantee amount at December 31, 2008	Amount of guarantee with collateral placed	Ratio of accumulated guarantee amount to net worth value of the Company (%)	Ceiling of the outstanding guarantee for the respective party
Transcend Taiwan	Transcend USA.	Note b	Not exceeding 20% of the Company's net asset value. ($14,419,689 × 20% ＝ $2,883,938)	US$2,500,000	US$2,500,000	-	1%	Not exceeding 40% of the Company's net asset value. ($14,419,689× 40% ＝ $5,767,876)
〃	Transcend Japan	Note a	〃	1,500,000,000	1,500,000,000	-	4%	〃

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

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

C. Marketable securities at December 31, 2008:

				December 31, 2008			
Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	Number of shares or units	Book value	Percentage of company's ownership	Market value or net worth per share
Transcend Taiwan	Beneficiary certificates						
	Fidelity Sterling Currency Fund	-	Financial assets at fair value through profit or loss-current	37,223	$ 37,828	-	$ 37,828
	NITC Bond Fund	-	〃	588,789	100,005	-	100,005
	ING Taiwan Bond Fund	-	〃	16,716,427	260,155	-	260,155
					397,988		397,988
	Bonds						
	PSC ECB	-	〃	2,000	3,909	-	3,909
	Lemel CB			730,000	62,415	-	62,415
					66,324		66,324
					$ 464,312		$ 464,312
	Stocks						
	Alcor Micro Corp.	-	Financial assets carried at cost-noncurrent	5,220,933	$ 198,000	7	$ -
	Dramexchange Tech Inc.	-	〃	54,300	1,125	1	-
	Taiwan IC Packaging Corp.	-	〃	41,000,000	640,000	14	-
	Saffire	The Company's subsidiary	Long-term equity investments accounted for under equity method	36,600,000	1,784,925	100	1,790,747
	Transcend Japan	〃	〃	6,400	92,316	100	92,316
	Transcend UK	〃	〃	50,000	(1,965)	100	(1,965)
	Add: credit balance of long-term investment reclassified to other liabilities		Other liabilities		1,965		
	Shares						
	Transcend Korea	The Company's subsidiary	Long-term equity investments accounted for under equity method	-	2,997	100	2,997
					$ 2,719,363		

Name of the company	Type and name of marketable securities	Relationship with the Company	General ledger accounts	December 31, 2008 Number of shares or units	Book value	Percentage of Company's ownership	Market value or net worth per share
Saffire	Stocks						
	Memhiro	The Company's subsidiary	Long-term equity investments accounted for under equity method	55,132,000	$ 1,748,465	100	$ 1,748,465
Memhiro	Shareholding						
	Transcend Shanghai	The Company's subsidiary	Long-term equity investments accounted for under equity method	-	$ 1,658,511	100	$ 1,658,525
	Transtech Shanghai	〃	〃	-	(37,280)	100	(37,280)
	Transcend Germany	〃	〃	-	6,603	100	6,611
	Stocks						
	Transcend USA	〃	〃	625,000	65,893	100	65,893
	Transcend Europe	〃	〃	100	92,863	100	93,071
					$ 1,786,590		$ 1,786,820
Transcend Europe	Transcend MD	The Company's subsidiary	Long-term equity investments accounted for under equity method	200,000	$ 6,808	100	$ 6,808

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

January 1, 2008 –December 31, 2008

Name of the company	Name of the securities	General ledger accounts	Counterparty	Relationship with the Company	Beginning balance: Number of shares (thousand units)	Beginning balance: Amount (Note A)	Addition: Number of shares (thousand units)	Addition: Amount	Disposal: Number of shares (thousand units)	Disposal: Sales Price	Disposal: Book value	Disposal: Gain (loss) from disposal	Ending balance: Number of shares (thousand units)	Ending balance: Amount (Note A)
Transcend Taiwan	Yuanta WAN TAI BOND FUND	Financial assets at fair value through profit or loss	-	-	3,525	$ 50,000	38,111	$ 545,000	41,636	$ 597,234	$ 595,000	$ 2,234	-	$ -
	Yuanta Option Pro--equity PE Fund	〃	-	-			10,000	100,000	10,000	100,499	100,000	499	-	-
	JF (Taiwan) First Bond Fund	〃	-	-	24,594	350,080	-	-	24,594	352,111	350,080	2,031	-	-
	Fu-Hwa Bond Fund	〃	-	-	22,213	300,000	19,028	260,000	41,241	564,089	560,000	4,089	-	-
	Polaris De- Li Fund	〃	-	-	22,286	340,000	16,481	255,000	38,767	599,475	595,000	4,475	-	-
	Polaris De-Po Fund	〃	-	-	15,151	170,154	-	-	15,151	171,020	170,154	866	-	-
	Pca Well Pool Fund	〃	-	-	25,191	320,000	61,391	790,000	86,582	1,113,919	1,110,000	3,919	-	-
	UPAMC James Bond Fund	〃	-	-	-	-	12,713	200,000	12,713	200,900	200,000	900	-	-
	Lemel CB	〃	-	-	-	-	1,000	100,000	270	27,970	27,000	970	730	73,000
	ING Taiwan Bond	〃	-	-	-	-	32,887	510,000	16,171	250,273	250,000	273	16,716	260,000
	NITC Bond	〃	-	-	91	15,133	589	100,000	91	15,281	15,133	148	589	100,000

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

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

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

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

January 1, 2008 – December 31, 2008

			Description of the transactions				Description of and reasons for difference in transaction terms compared to non-related party transactions		Accounts or notes receivable (payable)	
Name of the Company	Name of the counterparty	Relationship	Purchases (sales)	Amount	% of total purchases (sales)	Credit terms	Unit price	Credit terms	Balance	% of total accounts or notes receivable (payable)
Transcend Taiwan	Transcend Europe	Subsidiary of Memhiro	Sales	$ 3,769,382	11	120 days after monthly billings	No significant difference from those to third parties	To third parties is 30 to 60 days after monthly billings	$ 489,138	16
〃	Transcend H.K.	Substantial related party	〃	3,070,125	9	〃	〃	〃	287,336	9
〃	Transcend Japan	The company's subsidiary	〃	2,951,843	9	〃	〃	〃	930,910	30
〃	Transcend USA	Subsidiary of Memhiro	〃	2,227,756	6	〃	〃	〃	424,788	14
〃	Transcend Germany	〃	〃	1,699,189	5	〃	〃	〃	172,487	5
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	516,238	2	15~30 days after monthly billings	〃	〃	41,105	1
	Transtech Shanghai	Subsidiary of Memhiro	〃	166,401	-	120 days after monthly billings	〃	〃	66,476	2
〃	Transcend Shanghai	Subsidiary of Memhiro	Purchases	(3,299,705)	11	60 days after receipt of goods	Note A	To third parties is 7 to 30 days after receipt of goods	(421,685)	39

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

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

H. Receivables from related parties exceeding $100,000 or 20% of contributed capital as of December 31, 2008.

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	$ 930,910	2.86	$ -	-	$ 440,077	$ -
	Transcend Europe	Subsidiary of Memhiro	489,138	6.21	-	-	263,280	-
	Transcend USA	〃	424,788	6.33	-	-	196,749	-
	Transcend Germany	〃	172,487	7.01	-	-	136,976	-
	Transcend H.K.	C-Tech Corporation's chairman is the Company's general manager	287,336	10.41	-	-	100,722	-
Transcend Shanghai	Transcend Taiwan	The Company	421,685	3.76	-	-	417,505	-

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

2) Related information of investee companies as of December 31, 2008:

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount December 31, 2008	Original Investment Amount December 31, 2007	Holding Status Shares	Holding Status Percentage	Holding Status Book value	Net income (loss) of investee Company	Recognized investment income (loss)	Relationship with the Company
Transcend Taiwan	Transcend Japan	Japan	Wholesaler of computer memory modules and peripheral products	$ 89,103	$ 89,103	6,400	100%	$ 92,316	($ 31,020)	($ 31,020)	Subsidiary of the Company
	Saffire	B.V.I.	Investments holding company	1,202,418	1,202,418	36,600,000	100%	1,784,925	333,383	331,865	〃
	Transcend UK	United Kindom	Wholesaler of computer memory modules and peripheral products	2,883	2,883	50,000	100%	(1, 965)	8,002	8,002	〃
	Transcend Korea	Korea	Wholesaler of computer memory modules and peripheral products	6,132	-	-	100%	2,997	(2,500)	(2,500)	〃
Saffire	Memhiro	Singapore	Investments holding company	1,156,920	1,156,920	55,132,000	100%	1,748,465	333,425	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%	65,893	7,139	〃	Subsidiary of Memhiro Pte Ltd.
	Transcend Europe	Netherlands	〃	1,693	1,693	100	100%	92,863	19,398	〃	〃
	Transcend Germany	Germany	〃	2,288	2,288	-	100%	6,603	6,856	〃	〃
	Transcend Shanghai	Mainland China	Manufacturer and seller of computer memory modules, storage products and disks	1,134,178	1,134,178	-	100%	1,658,511	329,656	〃	〃

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

Investor Company	Name of the investee companies	Address	Major operating activities	Original Investment Amount December 31, 2008	December 31, 2007	Holding Status Shares	Percentage	Book value	Net income (loss) of investee Company	Recognized investment income (loss)	Relationship with the Company
Memhiro	Transtech Shanghai	Mainland China	Manufacturer and seller of computer memory modules, Storage products and disks. Wholesaler and agent of computer memory modules and Peripheral products. Retailer of computer components	$ 16,310	$ 16,310	-	100%	($ 37,280)	($ 29,307)	Note A	Subsidiary of Memhiro Pte Ltd.
Transcend Europe	Transcend MD	United States of America	Wholesaler of computer memory modules and peripheral products	6,570	6,570	200,000	100%	6,808	275	〃	Subsidiary of Transcend Information Europe B.V.

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

3) Information on Mainland China investments for the year ended December 31, 2008

1. Information on Mainland China investments

Investee in Mainland China	Main activities	Paid-in capital	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2008	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, 2008	Ownership held by the Company (direct and indirect)	Investment income (loss) recognized by the Company for the year	Book value of investments in Mainland China as of December 31, 2008	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2008
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%	$ 328,124	$ 1,658,511	$ -
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%	(29,307)	(37,280)	-

Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2008	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	$ 1,150,488	$ 8,651,813
(USD 35,100 Thousand)	(USD 35,100 Thousand)	

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 intercompany transactions
January 1, 2008– 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 those 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 compared with.	10%
〃	〃	Transcend Japan	〃	Accounts Receivable	930,910	Based on operating condition	5%
〃	〃	Transcend Europe	〃	〃	489,138	〃	3%
〃	〃	Transcend USA	〃	〃	424,788	〃	2%
〃	〃	Transcend Shanghai	〃	Accounts Payable	421,685	〃	2%

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

Note 2: Relationships between the counterparties:
A. Parent company to subsidiary.
B. Subsidiary to parent company.
C. Subsidiary to subsidiaries.

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

January 1, 2007 – December 31, 2007

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction: General ledger account	Transaction: Amount	Transaction: Transaction terms	Transaction: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Europe	A	Sales	$ 4,501,829	There is no significant difference in unit price compared to third parties	12%
〃	〃	Transcend Japan	〃	〃	3,124,796	〃	8%
〃	〃	Transcend USA	〃	〃	2,010,920	〃	5%
〃	〃	Transcend Germany	〃	〃	1,871,136	〃	5%
		Transcend Shanghai		Purchases	1,936,075	Processing with supplied materials. No other similar transactions can be compared with.	6%
〃	〃	Transcend Japan	〃	Accounts Receivable	1,136,497	Based on operating condition	6%
〃	〃	Transcend Europe	〃	〃	724,864	〃	4%
〃	〃	Transcend USA	〃	〃	279,046	〃	2%
〃	〃	Transcend Germany	〃	〃	312,622	〃	2%
〃	〃	Transcend Shanghai	〃	Accounts Payable	163,897	〃	1%

Note 1: Transaction information between parent company and subsidiaries should be noted in the first column, the number is written as below:

A. Parent company: 0
B. Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:

A. Parent company to subsidiary.
B. Subsidiary to parent company.
C. Subsidiary to subsidiaries.

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

12. FINANCIAL REPORTING ON BUSINESS SEGMENTS

1) Financial information by business segments:

   Not applicable as the Company and its investees are engaged only in one industry.

2) Financial information by geographic areas:

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

3) Information about the Company's export sales:

Areas	2008	2007
Asia	$ 14,655,307	$ 15,468,267
Europe	10,700,565	11,890,604
America	2,404,119	2,381,539
Others	641,211	695,387
Total	$ 28,401,202	$ 30,435,797

4) Information about important customers

   There is a sale to a single customer constituting more than 10% of the Company's consolidated net sales in 2008 and 2007.

Customer	2008		2007	
	Amount	% of net sales	Amount	% of net sales
Customer A	$3,070,125	9	$5,993,182	16