TRANSCEND INFORMATION, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR12000432

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, 2012 and 2011, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, wholly-owned subsidiaries, which statements reflect total assets of NT$636,489 thousand and NT$684,112 thousand, both constituting 3 percent of the related consolidated totals, as of December 31, 2012 and 2011, respectively, and total revenues of NT$2,958,740 thousand and NT$3,980,242 thousand, constituting 11 percent and 13 percent of the related consolidated totals, for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Transcend Information Inc. (USA) and Transcend Information Trading GmbH, Hamburg, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transcend Information, Inc. and subsidiaries as of December 31, 2012 and 2011, 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.

Transcend Information, Inc. adopts International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins (collectively referred herein as IFRSs) that are ratified by the Financial Supervisory Commission, R.O.C. (FSC) and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that are applicable in 2013 in the preparation of its consolidated financial statements effective January 1, 2013. Information relating to the adoption of IFRSs is disclosed in Note 13 under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Former FSC, R.O.C., dated February 2, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on Transcend Information, Inc. may also change.

March 21, 2013
Taipei, Taiwan
Republic of China

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan Dollars)

ASSETS	Notes	2012	2011
Current Assets			
Cash and cash equivalents	4(1)	$ 9,872,243	$ 9,708,263
Investments in bonds without active markets-current	4(2)	470,064	96,140
Notes receivable, net		9,987	7,780
Accounts receivable - third parties, net	4(3)	2,418,600	2,430,418
Accounts receivable - related parties, net	5	162,247	108,774
Other receivables		278,281	331,478
Inventories, net	4(5)	6,222,330	4,502,324
Other current assets - other	4(4)(10)	124,072	92,856
Total current assets		19,557,824	17,278,033
Funds and Investments			
Available-for-sale financial assets - noncurrent	4(6)	176,989	204,922
Financial assets carried at cost - noncurrent	4(7)	326,055	446,055
Other financial assets - noncurrent	6	2,904	3,028
Total funds and investments		505,948	654,005
Property, Plant and Equipment	4(8) and 6		
Cost			
Land		780,103	906,623
Buildings		2,864,163	3,020,494
Machinery and equipment		814,401	851,703
Transportation equipment		17,820	20,322
Office equipment		52,365	59,801
Miscellaneous equipment		66,298	68,027
Cost and revaluation increments		4,595,150	4,926,970
Less: Accumulated depreciation		(974,942)	(901,962)
Construction in progress and prepayments for equipment		2,898	26,870
Total property, plant and equipment, net		3,623,106	4,051,878
Intangible Assets			
Deferred pension costs	4(11)	-	14
Other intangible assets - other	4(9)	113,244	119,562
Total intangible assets		113,244	119,576
Other Assets	4(3)		
Rental assets - net		159,955	-
Refundable deposits		34,419	33,017
Other assets - other		4,501	6,385
Total other assets		198,875	39,402
TOTAL ASSETS		$ 23,998,997	$ 22,142,894

(Continued)

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	2012	2011
Current Liabilities			
Short-term loans		$ 168,200	$ -
Notes payable		3,608	167
Accounts payable		3,323,331	1,713,204
Income tax payable	4(10)	248,417	427,409
Accrued expenses		459,905	561,565
Other current liabilities - other		39,577	59,540
Total current liabilities		4,243,038	2,761,885
Other Liabilities			
Accrued pension liabilities	4(11)	14,216	20,054
Deferred income tax liabilities - noncurrent	4(10)	324,722	300,478
Other liabilities - other		30,427	32,815
Total other liabilities		369,365	353,347
Total liabilities		4,612,403	3,115,232
Stockholders' Equity			
Capital	4(12)		
Common stock		4,307,617	4,307,617
Capital Reserve	4(13)		
Paid-in capital in excess of par value of common stock		4,975,222	4,975,222
Capital surplus from donated assets		4,106	4,106
Capital surplus from merger		35,128	35,128
Retained Earnings	4(14)		
Legal reserve		2,448,801	2,162,186
Undistributed earnings		7,559,557	7,369,980
Other Stockholders' Equity Adjustments			
Cumulative translation adjustments		77,174	172,835
Unrecognized pension cost	4(11)	-	(6,334)
Unrealized gain or loss on financial instruments	4(6)	(21,011)	6,922
Total stockholders' equity		19,386,594	19,027,662
Commitments and Contingent Liabilities	5 and 7		
Significant Subsequent Event	9		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 23,998,997	$ 22,142,894

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 21, 2013.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan Dollars, except earnings per share amount)

	Notes	2012	2011
Operating Revenue			
Sales		$ 26,937,252	$ 30,887,961
Sales returns		(231,771)	(250,159)
Sales discounts		(489,520)	(418,070)
Net Sales	5	26,215,961	30,219,732
Operating Costs			
Cost of goods sold	4(5)(17)	(21,268,979)	(25,242,300)
Gross profit		4,946,982	4,977,432
Operating Expenses	4(17)		
Sales and marketing expenses		(982,033)	(1,114,977)
General and administrative expenses		(415,845)	(414,264)
Research and development expenses		(145,155)	(155,946)
Total Operating Expenses		(1,543,033)	(1,685,187)
Operating income		3,403,949	3,292,245
Non-operating Income and Gains			
Interest income	4(4)	95,494	64,541
Dividend income		24,584	19,190
Foreign exchange gain, net		-	294,855
Gain on valuation of financial assets		27,973	1,663
Other non-operating income	5	51,626	86,756
Non-operating Income and Gains		199,677	467,005
Non-operating Expenses and Losses			
Interest expense		(1,581)	(6,615)
Foreign exchange loss, net		(134,923)	-
Impairment loss on assets	4(7)	(120,000)	(309,000)
Loss on valuation of financial liabilities		-	(362)
Other non-operating losses		(3,375)	(32,390)
Non-operating Expenses and Losses		(259,879)	(348,367)
Income from continuing operations before income tax		3,343,747	3,410,883
Income tax expense	4(10)	(498,365)	(544,722)
Consolidated net income		$ 2,845,382	$ 2,866,161
Consolidated Net Income			
Consolidated Net Income Attributable to Parent Company		$ 2,845,382	$ 2,866,161

	Notes	2012 Before Tax	2012 After Tax	2011 Before Tax	2011 After Tax
Basic Earnings per Share (in dollars)	4(16)				
Consolidated net income		$ 7.76	$ 6.61	$ 8.00	$ 6.72
Diluted Earnings per Share (in dollars)	4(16)				
Consolidated net income		$ 7.74	$ 6.59	$ 7.98	$ 6.70

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 21, 2013.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(Expressed in thousands of New Taiwan Dollars)

			Retained Earnings					
	Common Stock	Capital Reserves	Legal Reserve	Undistributed Earnings	Cumulative Translation Adjustments	Unrecognized Pension Cost	Unrealized Gain or Loss on Financial Instruments	Total
2011								
Balance at January 1, 2011	$ 4,254,767	$ 4,717,549	$ 2,014,650	$ 5,927,785	($ 8,649)	($ 4,725)	$ 99,940	$17,001,317
Appropriations of 2010 earnings:(Note A)								
Legal reserve	-	-	147,536	(147,536)	-	-	-	-
Cash dividends	-	-	-	(1,276,430)	-	-	-	(1,276,430)
Conversion of bonds payable to capital stock	52,850	296,907	-	-	-	-	-	349,757
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(93,018)	(93,018)
Unrecognized pension cost	-	-	-	-	-	(1,609)	-	(1,609)
Cumulative translation adjustments	-	-	-	-	181,484	-	-	181,484
Consolidated net income for 2011	-	-	-	2,866,161	-	-	-	2,866,161
Balance at December 31, 2011	$ 4,307,617	$ 5,014,456	$ 2,162,186	$ 7,369,980	$ 172,835	($ 6,334)	$ 6,922	$19,027,662
2012								
Balance at January 1, 2012	$ 4,307,617	$ 5,014,456	$ 2,162,186	$ 7,369,980	$ 172,835	($ 6,334)	$ 6,922	$19,027,662
Appropriations of 2011 earnings:(Note B)								
Legal reserve	-	-	286,615	(286,615)	-	-	-	-
Cash dividends	-	-	-	(2,369,190)	-	-	-	(2,369,190)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(27,933)	(27,933)
Unrecognized pension cost	-	-	-	-	-	6,334	-	6,334
Cumulative translation adjustments	-	-	-	-	(95,661)	-	-	(95,661)
Consolidated net income for 2012	-	-	-	2,845,382	-	-	-	2,845,382
Balance at December 31, 2012	$ 4,307,617	$ 5,014,456	$ 2,448,801	$ 7,559,557	$ 77,174	$ -	($ 21,011)	$19,386,594

Note A: Directors' and supervisors' remuneration of $2,951 and employees' bonus of $43,875 for 2010 had been deducted from the consolidated statement of income.
Note B: Directors' and supervisors' remuneration of $5,733 and employees' bonus of $85,985 for 2011 had been deducted from the consolidated statement of income.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 21, 2013.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 2,845,382	$ 2,866,161
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Gain on valuation of financial assets	(27,973)	(1,663)
Loss on valuation of financial liabilities	-	362
Bad debts expense	10,673	21,726
Loss on market price decline of inventory	16,395	2,064
Impairment loss	120,000	309,000
Depreciation (including rental assets)	237,463	206,204
(Gain) loss on disposal of property, plant and equipment	(746)	13,704
Amortization	2,956	2,932
Amortization of discount on bonds payable	-	5,878
Changes in assets and liabilities		
Financial assets at fair value through profit or loss	-	501,389
Notes and accounts receivable	(54,535)	344,348
Other receivables	53,197	(31,586)
Inventories	(1,736,401)	(1,241,352)
Prepayments	-	(1,147)
Deferred income tax assets and liabilities	24,134	82,791
Other current assets	(31,105)	31,198
Other intangible assets - other	3,634	-
Notes and accounts payable	1,613,568	360,428
Income tax payable	(178,992)	375,552
Accrued expenses	(101,660)	160,542
Other current liabilities	(19,963)	1,865
Accrued pension liabilities	510	300
Net cash provided by operating activities	2,776,537	4,010,696

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TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in bonds without active markets	(\$ 350,943)	(\$ 95,694)
Decrease in other receivables - loan	-	1,500,000
Decrease in other current assets - noncurrent	124	-
Acquisition of property, plant and equipment	(53,904)	(450,372)
Proceeds from disposal of property, plant and equipment	3,579	13,820
Increase in refundable deposits	(1,402)	(11,420)
Decrease in other assets-other	1,612	6,525
Net cash (used in) provided by investing activities	(400,934)	962,859
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	168,200	-
Payment of cash dividends	(2,369,190)	(1,276,430)
Repayment of convertible bonds	-	(12,700)
(Decrease) increase in other liabilities - other	(2,388)	4,060
Net cash used in financing activities	(2,203,378)	(1,285,070)
Effect of foreign exchange rate changes	(8,245)	181,484
Increase in cash and cash equivalents	163,980	3,869,969
Cash and cash equivalents at beginning of year	9,708,263	5,838,294
Cash and cash equivalents at end of year	\$ 9,872,243	\$ 9,708,263
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 753	\$ 151
Income tax	\$ 653,223	\$ 207,038
Financing activities which have no effect on cash flows		
Conversion of bonds payable to capital stock (Including conversion premium)	\$ -	\$ 349,757

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 21, 2013.

TRANSCEND INFORMATION, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Transcend Information, Inc. (the “Company”) was incorporated under the provisions of the Company Law of the Republic of China (R.O.C.) in August 1989. The main activities of the Company are manufacturing, processing and the sale of computer software and hardware, peripheral equipment and other computer components.

The Securities and Futures Commission of the Republic of China had approved the Company’s shares to be listed on the Taiwan Stock Exchange and the shares started trading on May 3, 2001. As of December 31, 2012, the Company and its subsidiaries had approximately 2,360 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and accounting principles generally accepted in the Republic of China. The Group’s significant accounting policies are summarized below:

(1) Basis for preparation of consolidated financial statements

A. Basis for preparation of consolidated financial statements

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

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

B. Subsidiaries included in the consolidated financial statements and their changes in 2012:

Investor	Subsidiary	Main activities	Ownership (%) December 31, 2012	Ownership (%) December 31, 2011	Description
Transcend Taiwan	Saffire Investment Ltd. (Saffire)	Investment holding company	100	100	-
〃	Transcend Japan Inc. (Transcend Japan)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information UK Limited (Transcend UK)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Inc. (Transcend USA)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Korea Inc. (Transcend Korea)	Wholesaler of computer memory modules and peripheral products	100	100	-
Saffire Investment Ltd.	Memhiro Pte. Ltd. (Memhiro)	Investment holding company	100	100	-
Memhiro Pte. Ltd.	Transcend Information Europe B.V. (Transcend Europe)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information Trading GmbH, Hamburg (Transcend Germany)	Wholesaler of computer memory modules and peripheral products	100	100	-
〃	Transcend Information (Shanghai), Ltd. (Transcend Shanghai)	Manufacturing, processing and sale of computer software and hardware, peripheral equipment and other computer components	100	100	-
〃	Transtech Trading (Shanghai) Co., Ltd. (Transtech Shanghai)	Wholesaler of computer memory modules, peripheral equipment and other computer components	100	100	-

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

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

E. Special operating risks in foreign subsidiaries: None.

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

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

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

(2) <u>Translation of financial statements of foreign subsidiaries</u>

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) <u>Foreign currency transactions</u>

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

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

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

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

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

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

b. Assets held mainly for trading purposes;

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

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

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

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

b. Liabilities arising mainly from trading activities;

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

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

(5) <u>Financial assets and financial liabilities at fair value through profit or loss</u>

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

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

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

(6) <u>Investment in bonds without active markets</u>

A. Investment in bonds without active markets is recognized and derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

B. This financial asset is carried at amortized cost.

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

(7) <u>Notes, accounts and other receivables</u>

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

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

(8) Inventories

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

(9) Available-for-sale financial assets

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

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

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

(10) Financial assets carried at cost

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

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

(11) Property, plant and equipment

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

B. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 2 to 55 years for buildings and 2 to 10 years for the other property, plant and equipment.

C. Transcend USA calculates depreciation using the straight-line method for buildings and the double declining balance method for the other property, plant and equipment. The estimated useful life of property, plant and equipment is 5 to 7 years, except for buildings.

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

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

F. Property, plant and equipment that are idle or have no value in use are reclassified to “other assets” at the lower of the fair value less costs to sell or book value. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

(12) Intangible assets

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

(13) Impairment of non-financial assets

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

(14) Pension plan

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

(15) Income tax

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

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

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

(16) Share-based payment ─ employee compensation plan

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

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

(17) Employees' bonuses and directors' and supervisors' remuneration

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

(18) Revenues, costs and expenses

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

(19) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(20) Operating segments

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

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

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes, accounts and other receivables

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

(2) Operating segments

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

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31,			
	2012		2011	
Petty cash and cash on hand	$	814	$	1,083
Checking and savings deposits		3,917,527		5,459,103
Time deposits		5,953,902		4,248,077
	$	9,872,243	$	9,708,263

(2) Investment in bonds without active markets - current

	December 31,	
	2012	2011
Funds-bonds	$ 470,064	$ 96,140

The Group recognized net gain of $27,973 and $422 for the year ended December 31, 2012 and 2011, respectively. Interest rates of the bonds are fixed by contracts. The bonds are due within one year.

(3) Accounts receivable

	December 31,	
	2012	2011
Accounts receivable	$ 2,475,867	$ 2,477,012
Less: Allowance for doubtful accounts	(57,267)	(46,594)
	$ 2,418,600	$ 2,430,418

As of December 31, 2012 and 2011, the Group reclassified uncollectible accounts receivable in the amount of $13,352 and $17,437, respectively, to other assets-others and fully provided with allowance for doubtful accounts.

(4) Prepayments

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

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

(5) Inventories

	December 31, 2012		
	Cost	Allowance	Book value
Raw materials	$ 3,532,935	($ 30,935)	$ 3,502,000
Work in process	898,082	(16,276)	881,806
Finished goods	1,877,955	(39,431)	1,838,524
	$ 6,308,972	($ 86,642)	$ 6,222,330

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

Expense and loss incurred on inventories for the years ended December 31, 2012 and 2011were as follows:

	For the year ended December 31, 2012	For the year ended December 31, 2011
Cost of inventories sold	$ 21,252,584	$ 25,240,236
Loss on market price decline	16,395	2,064
	$ 21,268,979	$ 25,242,300

(6) Available-for-sale financial assets - noncurrent

	December 31,	
	2012	2011
Listed (OTC) stock - Alcor Micro Corp.	$ 198,000	$ 198,000
Adjustment of available-for-sale financial assets	(21,011)	6,922
	$ 176,989	$ 204,922

(7) Financial assets carried at cost – noncurrent

Investee company	December 31, 2012	December 31, 2011
Listed (OTC) stock - Taiwan IC Packaging Corp.	$ 640,000	$ 640,000
Listed (OTC) stock – Hitron Tech. Inc.	44,580	44,580
Listed (OTC) stock - Alcor Micro Corp.	39,350	39,350
Unlisted stock– Skyviia Corp.	30,000	30,000
Unlisted stock - Dramexchange Tech. Inc.	1,125	1,125
	$ 755,055	$ 755,055
Accumulated impairment	(429,000)	(309,000)
	$ 326,055	$ 446,055

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

B. The Company recognized impairment loss of $90,000 and $309,000 for the years ended December 31, 2012 and 2011 respectively, since there has been objective evidence that the fair value of Taiwan IC Packaging Corp. has declined.

C. Due to Skyviia Corp. was not in good financial condition, the stockholders at their extraordinary stockholders' meeting on November 29, 2012 adopted a resolution for dissolution and liquidation. The Company recognized impairment loss of $30,000 for the year ended December 31, 2012.

(8) Property, plant and equipment

	December 31, 2012		
Item	Initial cost	Accumulated depreciation	Net book value
Land	$ 780,103	$ -	$ 780,103
Buildings	2,864,163	(544,802)	2,319,361
Machinery	814,401	(330,516)	483,885
Transportation equipment	17,820	(12,575)	5,245
Office equipment	52,365	(35,873)	16,492
Miscellaneous equipment	66,298	(51,176)	15,122
Construction in progress and prepayments for equipment	2,898	-	2,898
	$ 4,598,048	($ 974,942)	$ 3,623,106

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

(9) Other intangible assets

	December 31,	
	2012	2011
Land use right	$ 133,490	$ 137,693
Less: Accumulated amortization	(20,246)	(18,131)
	$ 113,244	$ 119,562

(10) Income tax

	December 31, 2012	December 31, 2011
Income tax expense	$ 498,365	$ 544,722
Net change of deferred income tax	(24,134)	(82,791)
(Under) over provision of prior year's income tax	(7,947)	125,412
Prepaid income tax	(217,867)	(159,934)
Income tax payable	$ 248,417	$ 427,409

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

A. As of December 31, 2012 and 2011, the deferred income tax assets and liabilities are as follows:

	December 31, 2012	December 31, 2011
Total deferred income tax assets	$ 140,036	$ 102,642
Total deferred income tax liabilities	$ 326,411	$ 304,878
Valuation allowance for deferred income tax assets	$ 73,173	$ 52,772

B. As of December 31, 2012 and 2011, details of deferred income tax assets and liabilities are as follows:

	December 31,			
	2012		2011	
Items	Amount	Tax Effect	Amount	Tax Effect
Current items :				
Allowance for doubtful accounts	$ 20,348	$ 7,437	$ 10,801	$ 4,346
Unrealized loss on decline in market value and inventory obsolescence	86,636	14,775	70,247	11,990
Unrealized profit on intercompany transactions	73,138	12,433	90,833	15,442
Unrealized exchange loss	50,405	8,569	11,337	1,927
Unrealized sales allowance	36,340	9,096	-	-
Others	46,659	12,864	16,066	11,765
		65,174		45,470
Non-current items :				
Pension expense	9,380	1,595	8,443	1,436
Investment income on foreign investments accounted for under the equity method	(1,827,087)	(310,605)	(1,585,169)	(269,478)
Cumulative translation adjustments	(92,980)	(15,806)	(208,235)	(35,400)
Unrealized permanent decline in market value of financial assets carried at cost	430,427	73,173	310,427	52,772
Others	176	94	6,921	2,964
Less：Valuation allowance		(73,173)		(52,772)
		(324,722)		(300,478)
		($ 259,548)		($ 255,008)

C. The significant differences between accounting income and tax income in 2012 and 2011 are as follows:

a. Permanent differences：For 2012, the income included exemption on income tax under "Incentives of Five-year Exemption on Profit-seeking Enterprise Income Tax for New Investments of Enterprises in Manufacturing Industry and Technology Services from July 1, 2008 to December 31, 2009", which amounted to $ 1,042,684；for 2011, the income included dividend income on the domestic investments amounting to $19,190.

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

D. The Company's investment plan are entitled to a five-year exemption on income tax under the "Incentives of Five-year Exemption on Profit-seeking Enterprise Income Tax for New Investments of Enterprises in Manufacturing Industry and Technology Services from July 1, 2008 to December 31, 2009" , which expires in December, 2016.

E. As of December 31, 2012, the Company's income tax returns for the years through 2010, except 2009, have been assessed and approved by the Tax Authority.

F. For the year ended December 31, 2012, the income tax expense included the additional 10% corporate income tax related to the 2011 undistributed earnings amounting to $21,036. This amount was recognized based on the resolution adopted in the Company's stockholders' meeting to retain the 2011 earnings.

(11) Pension plans

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

B. As of December 31, 2012 and 2011, the balance of the retirement fund with the Bank of Taiwan was $43,205 and $46,936, respectively.

C. The related actuarial assumptions used to calculate the net periodic pension cost based on the measurement dates as of December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	1.75%	2.00%
Rate of increase in salary	2.00%	2.00%
Expected return on plan assets	1.75%	2.00%

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

	December 31,	
	2012	2011
Benefit obligation:		
Vested benefit obligation	($ 3,096)	($ 4,095)
Non-vested benefit obligation	(47,812)	(62,895)
Accumulated benefit obligation	(50,908)	(66,990)
Effect of future salary increments	(18,833)	(26,775)
Projected benefit obligation	(69,741)	(93,765)
Fair value of plan assets	43,205	46,936
Funded status	(26,536)	(46,829)
Unrecognized net transition obligation	12	14
Unrecognized pension loss	12,308	33,109
Additional liability	-	(6,348)
Accrued pension liabilities	($ 14,216)	($ 20,054)
Vested benefit	$ 3,457	$ 4,718

E. For the years ended December 31, 2012 and 2011, the details of the Company's net periodic pension costs are as follows:

	For the years ended December 31,	
	2012	2011
Service cost	$ 1,600	$ 1,997
Interest cost	1,873	1,955
Expected return on plan assets	(972)	(967)
Amortization of unrecognized net transition obligation	1	1
Amortization of unrecognized pension loss	1,032	919
Pension reduction or liquidation loss	173	-
Net pension cost	$ 3,707	$ 3,905

F. Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The pension costs under the defined contribution pension plan for the years ended December 31, 2012 and 2011 were $35,274 and $30,201, respectively.

G. The Company's mainland subsidiaries have a funded defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on employees' monthly salaries and wages. Monthly contributions to the Plan are based on 12.5%~22% of the employees' monthly salaries and wages and the Company does not have other responsibilities for the employees' pension.

H. 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.

(12) Common stock

As of December 31, 2012, the Company's authorized capital was $5,000,000 (including $250,000 capital reserved for employee stock options), and the paid-in capital was $4,307,617 with a par value of $10 (in dollars) per share.

(13) Capital reserve

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

(14) 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 which should have no effect on the Company's normal operations, no violation of regulations and stock dividend policy; thereafter, the Board of Directors shall propose and the stockholders shall approve to appropriate the amount of the residual earnings to be distributed. When distributing the remaining retained earnings, the Company should distribute 0.2% for the directors' and supervisors' remuneration and at least 3% for employees' profit sharing; the cash dividend shall be at least 5% of the dividend to be distributed.

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

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

D. a) The appropriation of 2011 and 2010 earnings had been resolved at the stockholders' meeting on June 15, 2012 and June 10, 2011 respectively. Details are summarized below:

	2011		2010	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 286,615		$ 147,536	
Cash dividends	2,369,190	$ 5.5	1,276,430	$ 3.0
Total	$ 2,655,805		$ 1,423,966	

Note:

	2011	2010
Directors' and supervisors' remuneration	$ 5,733	$ 2,951
Employees’ cash bonus	85,985	43,875
Total	$ 91,718	$ 46,826

The appropriation of 2011 earnings was proposed by the Board of Directors on March 22, 2012.

b) The appropriation of 2012 earnings and distribution of capital reserve had been proposed by the Board of Directors on March 21, 2013. Details are summarized below:

	2012	
	Amount	Dividends per share and distribution of capital reserve (in dollars)
Legal reserve	$ 284,538	
Cash dividends	2,584,570	$ 6.0
Cash distribution of capital reserve	215,381	0.5
Total	$ 3,084,489	

Note：

	2012
Directors’ and supervisors’ remuneration	$ 5,166
Employees’ cash bonus	85,361
Total	$ 90,527

As of March 21, 2013, the appropriation of 2012 earnings had not been resolved at the stockholders’ meeting.

E. The actual creditable tax ratio of distributed earnings in 2011 was 20.93%. As of December 31, 2012, the imputation tax credit account balance was $1,133,035 and the estimated creditable tax ratio was 17.91%. As of December 31, 2012, the Company’s undistributed earnings derived before and after the adoption of the imputation tax system were $121,097 and $7,438,460, respectively.

F. Employees' bonus for 2012 and 2011 are estimated and accrued at $78,711 and $88,805, respectively, and based on a certain percentage prescribed by the Company's Articles of Incorporation (about 3%) of net income in 2012 after taking into account the legal reserve and other factors. Appropriation of 2011 earnings are listed above. Employees' bonus of 2011 as resolved by the stockholders was in agreement with that amount recognized in the 2011 financial statements, and the difference between employees' bonus and directors' and supervisors' remuneration of 2011 as resolved by the stockholders and that amount recognized in the 2011 financial statements, totaling $2,820 and $5,733, respectively, had been adjusted in the statement of income of 2012.

G. Information on the appropriation of the appropriation of earnings, appropriation of the company's employees' bonuses and directors' and supervisors' remuneration as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(15) Share-based payment－employee compensation plan

A. As of December 31, 2012, the Company's share-based payment transactions are set forth below：

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

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

	December 31, 2012		December 31, 2011	
	No. of shares (in thousands)	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	2,124	$ 107.8	2,492	$ 107.8
Options granted	-	-	-	-
Distribution of stock dividends/ adjustments for number of shares granted for one unit of option	-	-	-	-
Options waived	-	-	-	-
Options exercised	-	-	-	-
Options revoked	(932)	107.8	(368)	107.8
Options outstanding at end of year	1,192	107.8	2,124	107.8
Options exercisable at end of year	1,192	107.8	2,124	107.8

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

	Options outstanding at end of 2012			Options exercisable at end of 2012	
Range of exercise price (in dollars)	No. of shares (in thousands)	Weighted-average expected remaining vesting period	Weighted-average exercise price (in dollars)	No. of shares (in thousands)	Weighted-average exercise price (in dollars)
$107.8	1,192	0.79 years	$107.8	1,192	$107.8

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

D. The following sets forth the pro forma net income and earnings per share based on the assumption that the compensation cost is accounted for using the fair value method for the stock options granted before the effectivity of R.O.C. SFAS No. 39.

	For the year ended December 31, 2012	
	Financial statements	Pro forma
Net income	$ 2,845,382	$ 2,845,382
Basic earnings per share (EPS) (in dollars)	6.61	6.61
Diluted EPS (in dollars)	6.59	6.59

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

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

Type of arrangement	Grant date	Stock pric	Exercise price	Expected price volatility	Expected vesting period	Expected dividend yield rate	Risk-free interest rate	Fair value per unit
Employee stock options	2007.10.15	$ 120	$ 120	39.68%	4.375 years	0%	2.61%	$ 43.32

(16) Earnings per share

	For the year ended December 31, 2012				
	Amount		Weighted-average outstanding shares	Earnings per share (in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Basic earnings per share:					
Consolidated net income	$ 3,343,747	$ 2,845,382	430,762	$ 7.76	$ 6.61
Dilutive effect of common stock equivalents:					
Employee bonus	-	-	1,045		
Diluted earnings per share:					
Consolidated net income attributable to common stockholders plus dilutive effect of common stock equivalents	$ 3,343,747	$ 2,845,382	431,807	$ 7.74	$ 6.59

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

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

(17) Personnel expenses, depreciation, and amortization

Personnel expenses, depreciation and amortization are summarized as follows:

	For the year ended December 31, 2012		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	$ 385,167	$ 840,387	$ 1,225,554
Labor and health insurance	54,320	78,229	132,549
Pension expense	19,842	23,280	43,122
Others	44,688	28,202	72,890
Depreciation	159,706	75,608	235,314
Amortization	309	2,647	2,956

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

5. RELATED PARTY TRANSACTIONS

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

Names of related parties	Relationship with the Company
C-Tech Corporation	The Company’s general manager is the chairman of C-Tech Corporation
Transcend (H.K.) Limited (Transcend H.K.)	The Company’s general manager is the director of Transcend H.K.
Won Chin Investment Inc.(Won Chin)	Won Chin is the major stockholder of the Company with more than 5% ownership
Cheng Chuan Technology Development Inc. (Cheng Chuan)	〃

(2) Significant transactions and balances with related parties

A. Sales

	2012			2011		
	Amount		%	Amount		%
Transcend H.K.	$	803,952	3	$	582,254	2
C-Tech Corporation		190,180	1		234,628	1
	$	994,132	4	$	816,882	3

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

B. Accounts receivable

	December 31,					
	2012			2011		
	Amount		%	Amount		%
Transcend H.K.	$	132,325	5	$	92,187	4
C-Tech Corporation		29,922	1		16,587	1
	$	162,247	6	$	108,774	5

C. Lease contracts

a) On April 8, 2009, the Company signed a land lease contract with its major stockholders, Won Chin and Cheng Chuan, to build a new plant on the leased land. The lease has a term of 10 years from April 10, 2009 to April 9, 2019. The annual rental payment is $35,633 (exclusive of tax), which was determined based on the average rent of land near the leased land shown in the appraisal report issued by CCIS Real Estate Joint Appraisers Firm. Rent is payable prior to the following year on the contract date and on the same month, same day as the contract date of each following year until the end of the lease. Future rent payments required under the lease are shown in Note 7 (2).

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

(3) Salaries/rewards information of key management

	For the years ended December, 31	
	2012	2011
Salaries and bonuses	$ 55,957	$ 62,870
Service execution fees	1,425	2,425
Directors'and supervisors' remuneration and employees' bonuses	45,464	33,654
	$ 102,846	$ 98,949

a) Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, rewards, etc.

b) Service execution fees include travel or transportation allowances, special expenditures, various allowances, housing & vehicle benefits, etc.

c) Directors' and supervisors' remuneration and employees' bonuses were those amounts estimated and accrued in the statement of income for the current year.

6. PLEDGED ASSETS

		Book Value	
Nature of assets	Purpose	December 31, 2012	December 31, 2011
Property, plant and equipment	Long-term and short-term loans	$ 1,021,236	$ 1,064,753
Other financial assets-noncurrent-time deposit	Patent deposit	2,904	3,028
		$ 1,024,140	$ 1,067,781

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2012, in addition to the lease contract shown in Note 5, the Group's significant commitments and contingent liabilities are summarized below:

A. As of December 31, 2012, the Group had unused letters of credit for purchase of merchandise amounting to $100,000.

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

Period of the lease	Amount
2013.01.01~2017.12.31	$ 187,074
2018.01.01~2019.04.09 (Present value: $34,937)	37,415
	$ 224,489

8. SIGNIFICANT CATASTROPHE

None.

9. SIGNIFICANT SUBSEQUENT EVENT

As of March 21, 2013, the appropriation of 2012 earnings had been proposed by the Board of Directors, please refer to Note 4 (14) D (b).

10. OTHERS

1) Information on financial instruments

A. Fair values of financial instruments

	December 31, 2012		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
<u>Non-derivative financial instruments</u>			
Assets			
Financial assets with fair values equal to book values	$12,741,358	$ -	$ 12,741,358
Investment in bonds without active markets -current	470,064	-	-
Available-for-sale financial instruments-noncurrent	176,989	176,989	-
Financial assets carried at cost noncurrent	326,055	-	-
Refundable deposits	34,419	-	34,419
Liabilities			
Financial liabilities with fair values equal to book values	3,955,044	-	3,955,044

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

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

a. For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, notes receivable, accounts receivable, short–term loans, notes payable, and accounts payable.

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

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

d. The fair value of the refundable deposits was based on the present value of expected cash flow amount. The discount rate was the one-year deposit rate of the Directorate General of Postal Remittances and Savings Bank.

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

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

B. As of December 31, 2012 and 2011, the financial assets with fair value and cash flow risk due to the change of interest amounted to $9,871,909 and $9,610,513, respectively.

C. For the years ended December 31, 2012 and 2011, total interest income for financial assets that are not at fair value through profit or loss amounted to $95,494 and $64,541, 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) For the purpose of managing assets, liabilities, revenue and expenditures effectively and control foreign exchange risk, the Group uses forward foreign exchange contracts as their hedging strategy.

E. Information on material financial risk

a. Investments in equity financial instruments

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

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

d) Cash flow interest rate risk

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

b. Investments in bills and bonds

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

d) Cash flow interest rate risk

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

c. 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.

d. Financial instruments with off-balance sheet credit risk

Item	December 31, 2012	December 31, 2011
Transcend Japan	¥ 500 million	¥ 500 million

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

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

(Foreign currency: functional currency)	December 31, 2012 Foreign Currency		December 31, 2012 Exchange Rate	December 31, 2011 Foreign Currency		December 31, 2011 Exchange Rate
Financial assets						
Monetary item						
USD:NTD	$	50,800	29.0400	$	25,908	30.2750
JPY:NTD		618,289	0.3364		65,715	0.3906
EUR:NTD		1,789	38.4900		2,045	39.1800
USD:EUR (Note)		1,580	0.7545		2,228	0.7727
Financial liabilities						
Monetary item						
USD:NTD	$	86,298	29.0400	$	36,405	30.2750
USD:RMB (Note)		5,105	6.2318		8,340	6.2981

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

11. ADDITIONAL DISCLOSURE REQUIRED BY THE SECURITIES AND FUTURES BUREAU

(1) Related information of significant transactions

A. Loans granted during the year ended December 31, 2012：None.

B. Endorsements and guarantees provided during the year ended December 31, 2012：

Name of the company	Name of parties being guaranteed	Relationship with the endorser/ guarantor	Ceiling of guarantee for single party	Maximum outstanding guarantee amount during the year ended December 31, 2012	Outstanding guarantee amount at December 31, 2012	Amount of guarantee secured with collateral placed	Ratio of accumulated guarantee amount to net worth value of the Company (%)	Ceiling on total amount of guarantee for provided
Transcend Taiwan	Transcend Japan	Note a	$ 3,877,319 Note b	$ 168,200 (￥ 500 million)	$ 168,200 (￥ 500 million)	-	1	$ 7,754,638 Note c

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

Note b: Not exceeding 20% of the Company's net asset value. ($19,386,594 × 20% ＝$3,877,319)

Note c: Not exceeding 40% of the Company's net asset value. ($19,386,594× 40% ＝ $7,754,638)

C. Marketable securities held as of December 31, 2012:

Securities held by	Marketable securities	Relationship with the Company	General ledger accounts	As of December 31, 2012 Number of shares or units	Book value	Percentage of company's ownership	Market value or net worth per share
Transcend Taiwan	Stocks						
	Alcor Micro Corp.	-	Available-for-sale financial assets-noncurrent	5,220,933	$ 176,989	6	$ 176,989
	Taiwan IC Packaging Corp.	-	Financial assets carried at cost-noncurrent	41,000,000	241,000	14	$ -
	Hitron Tech. Inc.	-	〃	3,060,017	44,580	2	-
	Alcor Micro Corp.	-	〃	1,000,000	39,350	1	-
	Skyviia Corp.	-	〃	259,812	-	2	-
	Dramexchange Tech Inc.	-	〃	60,816	1,125	1	-
					$ 326,055		
	Saffire	The Company's subsidiary	Long-term equity investments accounted for under the equity method	36,600,000	$ 3,006,865	100	$ 3,033,567
	Transcend Japan	〃	〃	6,400	152,407	100	152,407
	Transcend USA	〃	〃	625,000	102,820	100	102,820
	Transcend UK	〃	〃	50,000	5,587	100	5,587
	Shares						
	Transcend Korea	〃	〃	-	18,949	100	18,949
					$ 3,286,628		

Securities held by	Marketable securities	Relationship with the Company	General ledger accounts	As of December 31, 2012 Number of shares or units	Book value	Percentage of company's ownership	Market value or net worth per share
Saffire	Stocks						
	Memhiro	Subsidiary of Saffire	Long-term equity investments accounted for under the equity method	55,132,000	$ 2,996,163	100	$ 2,996,163
Memhiro	Stocks						
	Transcend Europe	Subsidiary of Memhiro	Long-term equity investments accounted for under the equity method	100	$ 148,954	100	$ 148,957
	Shares						
	Transcend Shanghai	〃	〃	-	2,746,408	100	2,746,525
	Transcend Germany	〃	〃	-	59,179	100	59,179
	Transtech Shanghai	〃	〃	-	12,318	100	12,318
					$ 2,966,859		
Transcend Shanghai	Finance products						
	NO. 128 in 2012 of "Happy Life Ⅱ" Financial Products of Industrial and Commercial Bank of China	-	Investment in bonds without active markets - current		$ 140,517	-	$ -
	NO. 315 in 2012 RMB Corporation Financial Products of Industrial and Commercial Bank of China	-	〃		46,712	-	-
	NO. 290 in 2012 "Gain Profit for VIP" Financial Products of Construction Bank of China	-	〃		141,758	-	-
	NO. 402 in 2012 "Gain Profit for VIP" Financial Products of Construction Bank of China	-	〃		93,955	-	-
	NO. 323 in 2012 "Gain Profit for VIP" Financial Products of Construction Bank of China	-	〃		47,122	-	-
					$ 470,064		

D. Acquisition or sale of the same security with the accumulated cost exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012: None.

E. Acquisition of real estate properties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012: None.

F. Disposal of real estate properties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012: None.

G. Purchases from or sales to related parties exceeding $100 million or 20% of the Company's paid-in capital during the year ended December 31, 2012

			Transactions				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)	
Purchaser	Counterparty	Relationship with the Company	Sales Purchases	Amount	Percentage of total sales (purchases)	Credit terms	Unit price	Credit terms	Balance	Percentage of total notes / accounts receivable (payable)
Transcend Taiwan	Transcend Japan	The Company's subsidiary	Sales	$ 2,388,009	9	120 days after monthly billings	No significant difference from those to third parties	To third parties is 30 to 60 days after monthly billings	$ 733,049	23
〃	Transcend Europe	Subsidiary of Memhiro	〃	2,271,499	9	〃	〃	〃	486,739	16
〃	Transcend USA	The Company's subsidiary	〃	1,303,509	5	〃	〃	〃	297,566	10
〃	Transcend H.K.	Transcend H.K.'s chairman is the Company's general manager	〃	803,952	3	〃	〃	〃	132,325	4
〃	Transcend Germany	Subsidiary of Memhiro	〃	553,412	2	〃	〃	〃	43,136	1
〃	Transcend Shanghai	Subsidiary of Memhiro	〃	425,885	2	〃	〃	〃	-	-
〃	Transcend Korea	The Company's subsidiary	〃	358,461	1	60 days after monthly billings	〃	〃	12,623	-
〃	C-Tech Corporation	C-Tech Corporation's chairman is the Company's general manager	〃	190,180	1	15 days after monthly billings	〃	〃	29,922	1
〃	Transtech Shanghai	Subsidiary of Memhiro	〃	132,958	1	120 days after monthly billings	〃	〃	21,541	1

			Transactions				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)	
Purchaser	Counterparty	Relationship with the Company	Sales Purchases	Amount	Percentage of total sales (purchases)	Credit terms	Unit price	Credit terms	Balance	Percentage of total notes / accounts receivable (payable)
Transcend Europe	Transcend Germany	Together with Transcend Europe are controlled by parent company	Sales	749,516	31	30 days after receipt of goods	No significant difference from those to third parties	To third parties is 7 to 60 days after receipt of goods	76,197	28
Transcend Shanghai	Transtech Shanghai	Together with Transcend Shanghai are controlled by parent company	〃	108,738	1	60 days after monthly billings	〃	To third parties is 30 to 60 days after monthly billings	9,223	-
Transcend Taiwan	Transcend Shanghai	Subsidiary of Memhiro	Purchases	(1,433,255)	6	60 days after receipt of goods	Note A	To third parties is 7 to 30 days after receipt of goods	(637,908)	17

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

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

H. Receivables from related parties exceeding $100 million or 20% of the Company's paid-in capital as of December 31, 2012

					Overdue receivables			
Name of the company	Name of the counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Amount	Action adopted for overdue accounts	Subsequent collections	Bad debts allowance Provided
Transcend Taiwan	Transcend Japan	Subsidiary of the Company	733,049	2.77	$ -	-	$ 495,885	$ -
〃	Transcend Europe	Subsidiary of Memhiro	486,739	4.36	-	-	569,153	-
〃	Transcend USA	Subsidiary of the Company	297,566	4.22	-	-	224,223	-
〃	Transcend H.K.	Transcend H.K.'s chairman is the Company's general manager	132,325	7.16	-	-	152,715	-
Transcend Shanghai	Transcend Taiwan	parent company	637,908	7.49	-	-	610,531	-

I. Derivative financial instruments undertaken during the year ended December 31, 2012: Refer to Note 4(3).

(2) Disclosure information of investee company

Investors	Investees	Location	Main activities	Initial Investment Amount: Balance as of 12/31/12	Initial Investment Amount: Balance as of 12/31/11	Shares held as at December 31, 2012: No.of Shares (in thousands)	Shares held as at December 31, 2012: Ownership (%)	Shares held as at December 31, 2012: Book value	Net income (loss) of investee	Investment income(loss) Recognized by the Company (Note A)	Relationship with the Company
Transcend Taiwan	Saffire	B.V.I.	Investments holding company	$ 1,202,418	$ 1,202,418	36,600,000	100	$ 3,006,865	$ 196,396	$ 194,809	Note B
〃	Transcend Japan	Japan	Wholesaler of computer memory modules and peripheral products	89,103	89,103	6,400	100	152,407	23,579	23,579	Note B
〃	Transcend USA	United States of America	Wholesaler of computer memory modules and peripheral products	38,592	38,592	625,000	100	102,820	19,808	19,808	Note B
〃	Transcend Korea	Korea	Wholesaler of computer memory modules and peripheral products	6,132	6,132	-	100	18,949	3,724	3,724	Note B
〃	Transcend UK	United Kingdom	Wholesaler of computer memory modules and peripheral products	2,883	2,883	50,000	100	5,587	2	2	Note B
Saffire	Memhiro	Singapore	Investments holding company	1,156,920	1,156,920	55,132,000	100	2,996,163	196,419	196,419	Note C
Memhiro	Transcend Europe	Netherlands	Wholesaler of computer memory modules and peripheral products	1,693	1,693	100	100	148,954	17,999	18,001	Note D

Note A：The Company does not directly recognize the investment income (loss) except for the subsidiaries the Company directly holds.

Note B：Subsidiaries of the Company.

Note C：Subsidiary of Saffire.

Note D：Subsidiaries of Memhiro.

Investors	Investees	Location	Main activities	Initial Investment Amount: Balance as of 12/31/12	Initial Investment Amount: Balance as of 12/31/11	Shares held as at December 31, 2012: No.of Shares (in thousands)	Shares held as at December 31, 2012: Ownership (%)	Shares held as at December 31, 2012: Book value	Net income (loss) of investee	Investment income(loss) Recognized by the Company (Note A)	Relationship with the Company
Memhiro	Transcend Shanghai	Mainland China	Manufacturer and seller of computer memory modules,storage products and disks	$ 1,134,178	$ 1,134,178	-	100	$ 2,746,408	$ 156,572	$ 156,557	Note B
〃	Transcend Germany	Germany	Wholesaler of computer memory modules and peripheral products	2,288	2,288	-	100	59,179	9,825	9,825	Note B
〃	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	12,318	12,340	12,340	Note B

Note A：The Company does not directly recognize the investment income (loss) except for the subsidiaries the Company directly holds.

Note B：Subsidiaries of Memhiro.

(3) Disclosure of information on indirect investments in Mainland China

1. Information on Mainland China investments

Investee in Mainland China	Main activities	Paid-in capital (Note C)	Investment method	Accumulated amount of remittance to Mainland China as of January 1, 2012 (Note C)	Amount remitted to Mainland China during the year	Amount remitted back to Taiwan during the year	Accumulated amount of remittance to Mainland China as of December 31, 2012 (Note C)	Ownership held by the Company (direct and indirect)	Investment income (loss) recognized by the Company for the year (Note B)	Book value of investments in Mainland China as of December 31, 2012	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2012
Transcend Shanghai	Manufacturer and seller of computer memory modules, storage products and disks	$ 1,134,178	Note A	$ 1,134,178	$ -	$ -	$ 1,134,178	100%	$ 156,557	$ 2,746,408	$ -
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	Note A	16,310	-	-	16,310	100%	12,340	12,318	-

2. The ceiling of investment in Mainland China

Investee in Mainland China	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2012	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note D)
Transcend Shanghai	$ 1,134,178	$ 1,134,178	$ -
Transtech Shanghai	16,310	16,310	-
	$ 1,150,488	$ 1,150,488	$ 11,631,956
	(USD 35,100 Thousands)	(USD 35,100 Thousands)	

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

Note B: The Company recognized investment income under equity method for current period, the investment income was measured by audited financial statements of investee during the same period.

Note C: (a) Transcend Shanghai: the paid-in capital was USD 34,600 thousand, and the accumulated amount of remittance to Mainland China as of January 1 and December 31, 2012 was USD 34,600 thousand.

(b) Transtech Shanghai: the paid-in capital was USD 500 thousand, and the accumulated amount of remittance to Mainland China as of January 1 and December 31, 2012 was USD 500 thousand.

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

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

(4) Significant inter-company transactions

For the year ended December 31, 2012

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Japan	A	Sales	$ 2,388,009	There is no significant difference in unit price from those to third parties	9%
〃	〃	Transcend Europe	〃	〃	2,271,499	〃	9%
〃	〃	Transcend USA	〃	〃	1,303,509	〃	5%
〃	〃	Transcend Germany	〃	〃	553,412	〃	2%
〃	〃	Transcend Shanghai	〃	〃	425,885	〃	2%
〃	〃	Transcend Korea	〃	〃	358,461	〃	1%
1	Transcend Europe	Transcend Germany	C	〃	749,516	〃	3%
0	Transcend Taiwan	Transcend Shanghai	A	Purchase	1,433,255	Processing with supplied materials. No other similar transactions can be used for comparison.	5%
〃	〃	Transcend Japan	〃	Accounts Receivable	733,049	120 days after monthly billings	3%
〃	〃	Transcend Europe	〃	〃	486,739	〃	2%
〃	〃	Transcend USA	〃	〃	297,566	〃	1%
〃	〃	Transcend Shanghai	〃	Accounts Payable	637,908	60 days after receipt of goods	3%

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

(a) Parent company: 0

(b) Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:

(a) Parent company to subsidiary.

(b) Subsidiary to parent company.

(c) Subsidiary to subsidiaries.

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

For the year ended December 31, 2011

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Transcend Taiwan	Transcend Europe	A	Sales	$ 3,057,347	There is no significant difference in unit price from those to third parties	10%
〃	〃	Transcend Japan	〃	〃	2,234,437	〃	7%
〃	〃	Transcend USA	〃	〃	1,844,045	〃	6%
〃	〃	Transcend Korea	〃	〃	567,575	〃	2%
〃	〃	Transcend Germany	〃	〃	544,673	〃	2%
〃	〃	Transcend Shanghai	〃	Purchase	1,721,710	Processing with supplied materials. No other similar transactions can be used for comparison.	6%
〃	〃	Transcend Japan	〃	Accounts Receivable	991,852	120 days after monthly billings	4%
〃	〃	Transcend Europe	〃	〃	554,144	〃	3%
〃	〃	Transcend USA	〃	〃	319,686	〃	1%
〃	〃	Transcend Shanghai	〃	Accounts Payable	871,209	60 days after receipt of goods	4%
1	Transcend Europe	Transcend Germany	C	Sales	1,182,774	There is no significant difference in unit price from those to third parties	4%

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

(a) Parent company: 0

(b) Subsidiaries were numbered from 1.

Note 2: Relationships between the counterparties:

(a) Parent company to subsidiary.

(b) Subsidiary to parent company.

(c) Subsidiary to subsidiaries.

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

12. SEGMENT INFORMATION

(1) General information

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

(2) Revenue information by category

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

(3) Revenue information by geographic area

Areas	2012		2011	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 2,602,962	$ 2,158,906	$ 2,327,801	$ 2,195,462
Asia	13,312,390	1,681,772	16,231,512	1,914,661
America	2,191,069	59,024	2,591,785	62,298
Europe	7,305,217	35,523	8,464,233	38,435
Others	804,323	-	604,401	-
Total	$ 26,215,961	$ 3,935,225	$ 30,219,732	$ 4,210,856

(4) Information on major customers

There is no sale to a single customer constituting more than 10% of the Group's consolidated net sales in 2012 and 2011.

13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), relevant interpretations and interpretative bulletins and "Rules Governing the Preparation of Financial Statements by Securities Issuers" (which is adopted in 2013) that are ratified by the Financial Supervisory Commission.
The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin- Guan- Zheng- Shen- Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

(1) Major contents and status of execution of the Company's plan for IFRSs adoption:

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

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

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

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

Material differences identified by the Company that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future and the effects of exemptions selected by the Company under IFRS 1 - First -time Adoption of International Financial Reporting Standards (refer to Note 13(3)) are set forth below:

A) Reconciliation of significant differences for balance sheet accounts as of January 1, 2012

	R.O.C GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Available-for-sale financial assets	$ 204,922	$ 252,826	$ 457,748	(a)
Financial asset carried at cost-noncurrent	446,055	(446,055)	-	(a)
Property, plant and equipment-net	4,051,878	(343,688)	3,708,190	(b)(f)
Investment property	-	316,818	316,818	(b)
Other intangible assets	119,562	(119,562)	-	(h)
Long-term rental prepayment	-	119,562	119,562	(h)
Others	17,320,477	53,050	17,373,527	(c)(d)(f)(g)
Total Assets	$ 22,142,894	($ 167,049)	$ 21,975,845	
Accrued expenses	$ 561,565	$ 27,745	$ 589,310	(c)
Accrued pension liabilities	20,054	30,931	50,985	(d)
Others	2,533,613	-	2,533,613	
Total Liabilities	$ 3,115,232	$ 58,676	$ 3,173,908	
Retained earnings	$ 9,532,166	($ 42,015)	$ 9,490,151	(a)(c)(d)(e)(g)
Cumulative translation adjustments	172,835	(172,835)	-	(c)(e)
Others	9,322,661	(10,875)	9,311,786	(a)(d)
Total stockholders' equity	$ 19,027,662	($ 225,725)	$ 18,801,937	

Reasons for reconciliation are outlined below:

a) Financial assets: equity instruments

In accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" before amendment on July 7, 2011, unlisted stocks and emerging stocks held by the Group were measured at cost and recognized as "Financial assets measured at cost". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability in the range of reasonable fair value estimates is insignificant for that instrument, or the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value) should be measured at fair value. Therefore, in accordance with the amendment of "Rules Governing the Preparation of Financial statements by Securities Issuers", dated December 22, 2011, the Group designated "Financial assets carried at cost-noncurrent" to "Available-for-sale financial assets", thus decreasing "Financial assets carried at cost - noncurrent" by $446,055, increasing "Available-for-sale financial assets" by $252,826 and decreasing retained earnings by $176,020, decreasing other adjustments to stockholders' equity by $17,209 for the difference between fair value and book value at the date of transition to IFRSs.

b) Investment property

In accordance with current accounting standards in R.O.C., the Group's property that is leased to others is presented in the "Property, Plant and Equipment" account. In accordance with IAS 40, "Investment Property", property that meets the definition of investment property is classified and accounted for as "Investment property". Therefore, the Group increased "Investment Property' by $316,818, and decreased "Property, Plant and Equipment" by $316,818 at the date of transition to IFRSs.

c) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Group increased "Accrued expenses" by $27,745, decreased retained earnings by $21,986, decreased "Cumulative translation" by $112 and increased "Deferred income tax assets" (presents as "other assets") by $5,647 at the date of transition to IFRSs.

d) Pensions

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

ii. In accordance with the Group's accounting policies, unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits.

However, the transitional provisions in IAS 19 are not applied to the Group as the first-time adopter of IFRSs, so the Group has no unrecognized transitional liabilities.

iii. In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet ("minimum pension liability"). However, IAS 19, 'Employee Benefits', has no regulation regarding the minimum pension liability.

iv. The Group elected to recognize all accumulated actuarial gain or loss with respect to the employee benefit plans in retained earnings at the date of transition to IFRSs.

v. Therefore, the Group increased accrued pension liabilities by $30,931, decreased deferred pension cost (presented as "other assets") by $14, decreased retained earnings by $30,942, increased unrecognized pension cost (presented as "other adjustment to stockholders' equity") by $6,334, and increased deferred income tax assets (presented as "other assets") by $6,337 at the date of transition to IFRSs.

e) The Group elected to recognize cumulative translation adjustment as zero at the date of transition to IFRSs. Therefore, the Group decreased the cumulative translation adjustment by $172,723 and increased retained earnings by $172,723 at the date of transition to IFRSs.

f) Property, Plant and Equipment

Prepayment for acquisition of property, plant and equipment is presented in "Property, plant and equipment" in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers". However, such prepayment should be presented in "Other non-current assets" based on its nature under IFRSs. Therefore, the Company decreased property, plant and equipment by $26,870, and increased other assets by $26,870 at the date of transition to IFRSs.

g) Deferred Income Tax Asset

Regarding tax rates that shall apply to the deferred income tax assets or liabilities associated with unrealized gains or losses arising from transactions between parent company and subsidiaries by buyer tax rate or seller tax rate, the current accounting standards in R.O.C. do not specify the rules for this issue; while, the Group adopts seller tax rate for computation. However, under IAS 12, 'Income Taxes', temporary differences in the consolidated financial statements are determined by comparing the carrying amounts of assets and liabilities in those statements and applicable taxation basis. The Company's taxation basis is determined by reference to the Group entities' income tax returns. Accordingly, buyer tax rate shall apply to the deferred tax assets or liabilities in the consolidated financial statements. Therefore, the Company increased deferred income tax assets (presented as "other assets") by $14,210, and increased retained earnings by

$14,210 at the date of transition to IFRSs.

h) Long-term rental prepayment

The current accounting standards in R.O.C. specify that royalties paid on acquisition of land use right shall be presented as “Other intangible assets”. However, IAS 17, “Leases”, specifies that royalties on land use right, which meets the definition of long-term operating lease, shall be presented as “Long-term rental prepayment”. Therefore, the Group decreased other intangible assets by $119,562, and increased long-term rental prepayment by $119,562 at the date of transition to IFRSs.

i) Special reserve

The Company’s first-time adoption of IFRSs led to net reduction of retained earnings. Therefore, no special reserve was set aside by the Company.

B) Reconciliation of significant differences for balance sheet accounts as of December 31, 2012

	R.O.C GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Available-for-sale financial assets	$ 176,989	$ 240,328	$ 417,317	(a)
Financial asset carried at cost-noncurrent	326,055	(326,055)	-	(a)
Property, plant and equipment-net	3,623,106	(149,215)	3,473,891	(b)(f)
Investment property	-	306,272	306,272	(b)
Other intangible assets	113,244	(113,244)	-	(h)
Long-term rental prepayment	-	113,244	113,244	(h)
Others	19,759,603	(139,606)	19,619,997	(b)(c)(d)(f)(g)
Total Assets	$ 23,998,997	($ 68,276)	$ 23,930,721	
Accrued expenses	$ 459,905	$ 8,297	$ 468,202	(c)
Accrued pension liabilities	14,216	15,224	29,440	(d)
Others	4,138,282	378	4,138,660	(d)
Total Liabilities	$ 4,612,403	$ 23,899	$ 4,636,302	
Retained earnings	$ 10,008,358	$ 80,255	$ 10,088,613	(a)(c)(d)(e)(g)
Cumulative translation adjustments	77,174	(172,723)	(95,549)	(e)
Others	9,301,062	293	9,301,355	(a)
Total stockholders' equity	$ 19,386,594	($ 92,175)	$ 19,294,419	

C) Reconciliation of significant differences for income statement accounts for the year ended December 31, 2012:

	R.O.C GAAP	Effect of transition from R.O.C. GAAP to IFRSs	IFRSs	Remark
Operating revenues	$ 26,215,961	$ -	$ 26,215,961	
Operating costs	(21,268,979)	-	(21,268,979)	
Operating expenses	(1,543,033)	16,427	(1,526,606)	(c)(d)
Operating gain	3,403,949	16,427	3,420,376	
Non-operating revenue and expenses	(60,202)	90,000	29,798	(a)
Profit before income tax	3,343,747	106,427	3,450,174	
Income tax expense	(498,365)	(3,474)	(501,839)	(c)(d)(g)
Consolidated net income	$ 2,845,382	$ 102,953	$ 2,948,335	

Reasons for reconciliation are outlined below:

a) Financial assets: equity instruments

In accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” before amendment on July 7, 2011, unlisted stocks and emerging stocks held by the Group were measured at cost and recognized as ‘Financial assets measured at cost’. However, in accordance with IAS 39, ‘Financial Instruments: Recognition and Measurement’, investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability in the range of reasonable fair value estimates is insignificant for that instrument, or the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value) should be measured at fair value. Therefore, in accordance with the amendment of “Rules Governing the Preparation of Financial statements by Securities Issuers”, dated December 22, 2011, the Group designated “Financial assets carried at cost-noncurrent” to “Available-for-sale financial assets”, thus decreasing “Financial assets carried at cost-noncurrent” by $326,055, increasing “Available-for-sale financial assets” by $240,328, decreasing retained earnings by $176,020, increasing Non-operating Revenue and Expenses by $90,000 and increasing other adjustments to stockholders’ equity by $293 for the difference between fair value and book value on December 31, 2012.

b) Investment property

In accordance with current accounting standards in R.O.C., the Group’s property that is leased to others is presented in the “Property, Plant and Equipment” account. In accordance with IAS 40, “Investment Property”, property that meets the definition of investment property is classified and accounted for as “Investment property”. Therefore, the Group increased “Investment Property” by $306,272, decreased “Property, Plant and Equipment” by $146,317 and decreased “Rental Assets – Net” (presented as “other assets”) by $159,955 on December 31, 2012.

c) Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Group decreased retained earnings by $21,986, increased “Accrued expenses” by $8,297, decreased salary by $13,689, increased “Deferred income tax assets” (presents as “other assets”) by $1,411 and decreased income tax expenses $1,411 on December 31, 2012.

d) Pensions

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

ii. In accordance with the Group’s accounting policies, unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, the transitional provisions in IAS 19 are not applied to the Group as the first-time adopter of IFRSs, so the Group has no unrecognized transitional liabilities.

iii. In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet (“minimum pension liability”). However, IAS 19, ‘Employee Benefits’, has no regulation regarding the minimum pension liability.

iv. In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Group is recognized in net pension cost of current period using the “corridor” method. However, in accordance with IAS 19, “Employee Benefits”, the Group elects to recognize immediately actuarial pension gain or loss in other comprehensive income.

v. Therefore, the Group increased accrued pension liabilities by $15,224, decreased retained earnings by $30,942, increased other comprehensive income - actuarial gain (loss) on defined benefit plan (presented as “retained earnings”) by $19,317, increased income tax expense by $465, decreased operating expenses by $2,738, increased deferred income tax assets (presented as “other assets”) by $6,250 and increased income tax payable (presented as “other liability”) by $378 on December 31, 2012.

e) The Group elected to recognize cumulative translation adjustment as zero at the date of transition to IFRSs. Therefore, the Group decreased the cumulative translation adjustment by $172,723 and increased retained earnings by $172,723 on December 31, 2012.

f) Property, Plant and Equipment

Prepayment for acquisition of property, plant and equipment is presented in “Property, plant and equipment” in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”. However, such prepayment should be presented in “Other non-current assets” based on its nature under IFRSs. Therefore, the Company decreased property, plant and equipment by $2,898, and increased other assets by $2,898 on December 31, 2012.

g) Deferred Income Tax Asset

Regarding tax rates that shall apply to the deferred income tax assets or liabilities associated with unrealized gains or losses arising from transactions between parent company and subsidiaries by buyer tax rate or seller tax rate, the current accounting standards in R.O.C. do not specify the rules for this issue; while, the Group adopts seller tax rate for computation. However, under IAS 12, ‘Income Taxes’, temporary differences in the consolidated financial statements are determined by comparing the carrying amounts of assets and liabilities in those statements and applicable taxation basis. The Company’s taxation basis is determined by reference to the Group entities’ income tax returns. Accordingly, buyer tax rate shall apply to the deferred tax assets or liabilities in the consolidated financial statements. Therefore, the Company increased deferred income tax assets (presented as “other assets”) by $9,790, increased income tax expense by $4,420 and increased retained earnings by $14,210 on December 31, 2012.

h) Long-term rental prepayment

The current accounting standards in R.O.C. specify that royalties paid on acquisition of land use right shall be presented as ‘Other intangible assets’. However, IAS 17, ‘Leases’, specifies that royalties on land use right, which meets the definition of long-term operating lease, shall be presented as ‘Long-term rental prepayment’. Therefore, the Group decreased other intangible assets by $113,244, and increased long-term rental prepayment by $113,244 on December 31, 2012.

C. Exemptions elected in accordance with IFRS 1,"First-time Adoption of International Financial Reporting Standards" and the "Rule Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 are set forth below:

1. Business combinations

   The Group has elected not to apply the requirements in IFRS 3, 'Business Combinations', retrospectively to business combinations that occurred prior to the date of transition to IFRSs ("the transition date").

2. Compound financial instruments

   The Group has elected not to segregate between liability components and equity components of compound financial instruments whose liability components were no longer outstanding at the transition date.

3. Designation of previously recognized financial instruments

   The Group has elected to designate investments which were originally measured at cost, as available-for-sale financial assets.

4. Employee benefits

   The Group has elected to recognize all cumulative actuarial gains and losses relating to all employee benefit plans in 'retained earnings' at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, 'Employee Benefits', based on their prospective amounts for financial periods from the transition date.

5. Share-based payment transactions

   The Group has elected not to apply the requirements in IFRS 2, 'Share-based Payment', retrospectively to equity instruments/liabilities that were vested arising from share-based payment transactions prior to the transition date.

6. Cumulative translation differences

   The Group has elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, 'The Effects of Changes in Foreign Exchange Rates'.

The accounting policies and election of exemptions listed above may be different from those applied in the first year-end IFRSs consolidated financial statements due to the issuance of related regulations by regulatory authorities, changes in economic environment, or changes in the evaluation of the impact of application of accounting policies and exemptions by the Group.