Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2007 and 2006 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the accompanying consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Standards for the Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, the Corporation adopted on January 1, 2006 the newly issued Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the revisions of previously released Statements, which were revised to harmonize with SFAS Nos. 34 and 36.

July 20, 2007

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and financial statements shall prevail.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2007		2006	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,952,183	29	$ 797,758	23
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,924,626	29	1,141,603	32
Related parties (Note 18)	17,178	-	130,677	4
Other financial assets	823	-	100,965	3
Inventories, net (Notes 2 and 7)	1,817,176	27	902,050	26
Deferred income tax assets - current (Notes 2 and 13)	109,635	2	61,705	2
Restricted assets (Note 19)	31,179	-	15,058	-
Other	302,386	5	145,283	4
Total current assets	6,155,186	92	3,295,099	94
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	147,958	2	-	-
Financial assets carried at cost - noncurrent (Notes 2 and 8)	25,700	1	62,500	2
Total long-term investments	173,658	3	62,500	2
PROPERTIES (Notes 2 and 10)				
Cost				
Land	135,000	2	-	-
Testing equipment	67,795	1	27,957	1
Office equipment	8,568	-	6,170	-
Leasehold improvements	18,612	1	12,450	1
Other equipment	2,960	-	4,499	-
Total cost	232,935	4	51,076	2
Less: Accumulated depreciation	38,230	1	22,971	1
	194,705	3	28,105	1
Construction in progress	96,967	1	-	-
Prepayment for equipment	12,745	-	5,469	-
Net properties	304,417	4	33,574	1
INTANGIBLE ASSETS (Notes 2, 11 and 20)	83,539	1	69,339	2
OTHER ASSETS				
Guarantee deposits paid (Note 19)	4,500	-	48,486	1
Miscellaneous (Note 12)	3,229	-	2,080	-
Total other assets	7,729	-	50,566	1
TOTAL	$ 6,724,529	100	$ 3,511,078	100

	2007		2006	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$ 1,559,088	23	$ 951,356	27
Related parties (Note 18)	504,885	8	261,215	7
Income tax payable (Notes 2 and 13)	103,642	2	20,459	1
Accrued expenses (Note 18)	498,957	7	340,453	10
Other payables	-	-	45,000	1
Other	21,551	-	12,506	-
Total current liabilities	2,688,123	40	1,630,989	46
Total liabilities	2,688,123	40	1,630,989	46
SHAREHOLDERS' EQUITY (Note 15)				
Capital stock - NT$10 par value				
Authorized - 100,000 thousand shares in 2007 and 80,000 thousand shares in 2006				
Issued and outstanding - 76,577 thousand shares in 2007 and 52,708 thousand shares in 2006	765,771	11	527,081	15
Capital received in advance	-	-	1,190	-
Stock dividends to be issued	236,031	4	177,500	5
Capital surplus - additional paid-in capital	1,538,962	23	501,962	15
Retained earnings				
Legal reserve	235,243	3	128,122	4
Unappropriated retained earnings	1,260,399	19	544,234	15
Total retained earnings	1,495,642	22	672,356	19
Total shareholders' equity	4,036,406	60	1,880,089	54
TOTAL	$ 6,724,529	100	$ 3,511,078	100

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

(With Deloitte & Touche review report dated July 20, 2007)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	$ 8,485,647	100	$ 4,426,014	100
Less: Sales returns and allowances	76,783	1	53,845	1
Net sales	8,408,864	99	4,372,169	99
Service revenue	68,118	1	53,289	1
Total revenue	8,476,982	100	4,425,458	100
OPERATING COSTS (Notes 14 and 18)	7,423,287	87	3,789,249	85
GROSS PROFIT	1,053,695	13	636,209	15
OPERATING EXPENSES (Notes 14 and 18)				
Marketing	84,496	1	59,948	1
General and administrative	42,233	1	24,852	1
Research and development	190,623	2	131,427	3
Total operating expenses	317,352	4	216,227	5
OPERATING INCOME	736,343	9	419,982	10
NONOPERATING INCOME AND GAINS				
Equity in net gain of investees (Notes 2 and 9)	19,981	-	-	-
Foreign exchange gains, net (Note 2)	14,449	-	-	-
Interest income	10,500	-	5,278	-
Gain on disposal of investments, net (Notes 2 and 5)	825	-	3,398	-
Other	6,537	-	4,807	-
Total nonoperating income and gains	52,292	-	13,483	-
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	-	-	74,402	2
Foreign exchange loss, net (Note 2)	-	-	1,552	-
Other	757	-	35	-
Total nonoperating expenses and losses	757	-	75,989	2

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 787,878	9	$ 357,476	8
INCOME TAX EXPENSE (Notes 2 and 13)	109,999	1	11,738	-
CONSOLIDATED NET INCOME	$ 677,879	8	$ 345,738	8
ATTRIBUTED TO SHAREHOLDERS OF THE PARENT	$ 677,879	8	$ 345,738	8

	2007		2006	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 16)				
Basic	$ 10.80	$ 9.29	$ 6.79	$ 6.57
Diluted	$ 10.80	$ 9.29	$ 6.77	$ 6.55

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

(With Deloitte & Touche review report dated July 20, 2007) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Per Share Data)
(Reviewed, Not Audited)

	Capital Stock Issued and Outstanding		Capital	Stock	Capital Surplus			Retained Earnings			Total Shareholders'
	Shares (Thousands)	Amount	Received in Advance	Dividends to Be Issued	Paid-in Capital in Excess of Par Value	Long-term Investment	Total	Legal Reserve	Unappropriated	Total	Equity (Note 15)
BALANCE, JANUARY 1, 2007	72,577	$ 725,771	$ -	$ -	$ 722,962	$ 562	$ 723,524	$ 128,122	$ 1,269,708	$ 1,397,830	$ 2,847,125
Appropriation of the 2006 earnings											
Legal reserve	-	-	-	-	-	-	-	107,121	(107,121)	-	-
Bonus to employees - stock	-	-	-	18,300	-	-	-	-	(18,300)	(18,300)	-
Bonus to employees - cash	-	-	-	-	-	-	-	-	(40,000)	(40,000)	(40,000)
Stock dividends - NT$2.84329 per share	-	-	-	217,731	-	-	-	-	(217,731)	(217,731)	-
Cash dividends - NT$3.79106 per share	-	-	-	-	-	-	-	-	(290,309)	(290,309)	(290,309)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(11,558)	(11,558)	(11,558)
Balance after appropriation	72,577	725,771	-	236,031	722,962	562	723,524	235,243	584,689	819,932	2,505,258
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	-	(562)	(562)	-	(2,169)	(2,169)	(2,731)
Issuance of capital stock as of June 14, 2007 - NT$214 per share	4,000	40,000	-	-	816,000	-	816,000	-	-	-	856,000
Consolidated net income in the six months ended June 30, 2007	-	-	-	-	-	-	-	-	677,879	677,879	677,879
BALANCE, JUNE 30, 2007	76,577	$ 765,771	$ -	$ 236,031	$ 1,538,962	$ -	$ 1,538,962	$ 235,243	$ 1,260,399	$ 1,495,642	$ 4,036,406
BALANCE, JANUARY 1, 2006	52,212	$ 522,121	$ -	$ -	$ 501,962	$ -	$ 501,962	$ 69,113	$ 676,382	$ 745,495	$ 1,769,578
Appropriation of the 2005 earnings											
Legal reserve	-	-	-	-	-	-	-	59,009	(59,009)	-	-
Bonus to employees - stock	-	-	-	19,500	-	-	-	-	(19,500)	(19,500)	-
Bonus to employees - cash	-	-	-	-	-	-	-	-	(23,000)	(23,000)	(23,000)
Stock dividends - NT$2.99088 per share	-	-	-	158,000	-	-	-	-	(158,000)	(158,000)	-
Cash dividends - NT$3.97523 per share	-	-	-	-	-	-	-	-	(210,000)	(210,000)	(210,000)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(8,377)	(8,377)	(8,377)
Balance after appropriation	52,212	522,121	-	177,500	501,962	-	501,962	128,122	198,496	326,618	1,528,201
Issuance of stock due to exercise of stock options	496	4,960	-	-	-	-	-	-	-	-	4,960
Capital received in advance	-	-	1,190	-	-	-	-	-	-	-	1,190
Consolidated net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	345,738	345,738	345,738
BALANCE, JUNE 30, 2006	52,708	$ 527,081	$ 1,190	$ 177,500	$ 501,962	$ -	$ 501,962	$ 128,122	$ 544,234	$ 672,356	$ 1,880,089

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

(With Deloitte & Touche review report dated July 20, 2007)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 677,879	$ 345,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax	23,185	(9,564)
Amortization	22,716	12,449
Equity in net gain of investees	(19,981)	-
Depreciation	9,493	5,983
Donates of shares of an equity-method investee	372	-
Gain on disposal of intangible assets	(197)	-
Losses on inventory valuation and obsolescence	-	74,402
Allowance for doubtful accounts	-	5,910
Gain on disposal of financial assets carried at cost - noncurrent	-	(2,139)
Gain on disposal of properties	-	(4)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	150,129	-
Notes and accounts receivable	222,459	(172,322)
Other financial assets	(658)	(94,990)
Inventories	(318,324)	(338,669)
Other current assets	(78,356)	(32,516)
Notes and accounts payable	(585,265)	356,311
Income tax payable	17,187	905
Accrued expenses	(25,234)	(48,294)
Other current liabilities	(3,067)	(16,745)
Accrued pension cost	(606)	-
Net cash provided by operating activities	91,732	86,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(234,839)	(14,779)
Increase in investments accounted for by the equity method	(45,500)	-
Increase in intangible assets	(13,759)	(15,928)
Increase in financial assets carried at cost - noncurrent	(5,700)	(42,500)
Increase in restricted assets	(2,162)	(99)
Decrease (increase) in guarantee deposits paid	488	(6,516)
Proceeds from disposal of intangible assets	200	-
Proceeds from disposal of financial assets carried at cost - noncurrent	-	6,789
Increase in other assets	-	(1,372)
Proceeds from disposal of properties	-	24
Net cash used in investing activities	(301,272)	(74,381)

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issuance of capital stock	$ 856,000	$ -
Remuneration to directors and supervisors	(375)	(374)
Proceeds from exercise of stock options	-	4,960
Capital received in advance	-	1,190
Net cash provided by financing activities	855,625	5,776
NET INCREASE IN CASH AND CASH EQUIVALENTS	646,085	17,850
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,306,098	779,908
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,952,183	$ 797,758
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 85	$ 33
Income tax paid	$ 69,627	$ 26,544
CASH INVESTING AND FINANCING ACTIVITIES		
Increase in properties	$ 236,293	$ 10,193
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	(1,454)	4,586
Cash paid	$ 234,839	$ 14,779
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Cash dividends	$ 290,309	$ 210,000
Bonus to employees	$ 40,000	$ 23,000
Remuneration to directors and supervisors	$ 11,183	$ 8,003

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

(With Deloitte & Touche review report dated July 20, 2007) (Concluded)

1. ORGANIZATION AND OPERATIONS

Phison Electronics Corp. (the "Corporation") was incorporated on November 8, 2000 under the Company Law of the Republic of China (ROC). The Corporation mainly designs and sells flash memory controllers and peripheral system applications as well as designs the TI DSP (Texas Instruments' digital signal processor) system.

The Corporation's shares have been traded on the Gre Tai Securities Market (the over-the-counter securities exchange of the ROC) since December 6, 2004.

As of June 30, 2007 and 2006, the Corporation and subsidiaries had 325 and 262 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China. In preparing consolidated financial statements in conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amount of allowance for sales returns and discounts; allowance for doubtful accounts, allowance for inventory valuation and obsolescence losses, pension, probable litigation loss, depreciation of properties, impairment loss on assets, and amortization of intangible assets, etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Basis of Consolidation

a. Basis of consolidation

The consolidated financial statements as of and for the six months ended June 30, 2006 have been prepared in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 7 - "Consolidated Financial Statements" and included the financial statements of the Corporation, its direct and indirect subsidiaries and other investees controlled by the Corporation and its subsidiaries

b. The consolidated subsidiaries included the following:

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of June 30, 2007	Percentage of Ownership as of June 30, 2006	Description
The Corporation	Lian Xu Dong Investment Corp.	Investment	100%	100%	-

c. No subsidiaries were excluded from the consolidated financial statements.

d. There were no significant transactions between the Corporation and subsidiaries.

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, assets held for trading or those to be converted to cash, sold or consumed within 12 months from the balance sheet date. Current liabilities are obligations held for trading and those expected to be due within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Short-term bills and bonds acquired under repurchase agreements that require them to be sold within three months are classified as cash equivalents.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss are financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value, with fair value changes recognized as profit or loss. On initial recognition, the financial instruments are recognized at fair value, and transaction costs are recognized as expense. When the instruments are remeasured at fair value, the fair value changes are recognized as profit or loss. On financial instrument disposal, the difference between the purchase or selling price and book value of the financial instrument is recognized as profit or loss. A regular purchase or sale of the financial instruments is recognized and de-recognized using trade date accounting.

Derivative financial instruments that do not meet the criteria for hedge accounting are classified as financial assets or liabilities held for trading. If the fair value of the derivative is a positive amount, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

The fair value of open-end funds is based on their net asset value on the balance sheet date.

Sales Recognition and Allowance for Doubtful Accounts

Sales are recognized when titles to products and risk of ownerships are transferred to customers, primarily upon shipment, since the earnings process is completed or virtually completed and earnings are realized or realizable. For products shipped for further processing, sales are not recognized because there is no transfer of titles and risks. Provisions for sales discounts and returns are estimated on the basis of historical experience and relevant factors.

Sales are determined at fair value, taking into account sales discounts agreed on by the Corporation and its customers. If the terms of sale receivables are within one year, the amounts of receivables are not significantly different from fair value, and the transactions are frequent, then the sale revenues are not discounted to fair value.

Allowance for doubtful accounts is provided on the basis of a periodic review of the collectibility of receivables, including the analysis of the aging of all receivables as well as the economic environment.

Inventories

Inventories are stated at the lower of weighted-average cost or market value. Market value is based on replacement cost or net realizable value. An allowance for slow-moving items is provided on the basis of the Corporation's policy to an appropriate percentage of the allowance for losses.

Financial Assets Carried at Cost

If there is no active market for an equity instrument and the fair value of the equity instrument cannot be reliably estimated, the equity instrument - unlisted stocks, emerging-market stock, etc - is measured at original cost. Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions of the original cost of investments if these dividends are declared on investees' earnings attributable to periods before the purchase of the investments. Stock dividends are not recognized as current income but are accounted for only as increase in the number of shares held. Impairment losses are recognized if a decrease in the fair value of the instruments can be objectively related to an event. The reversal of impairment loss is not allowed.

Investments Accounted for by the Equity Method

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on an investee are accounted for by the equity method.

Under the equity method, the investment is stated at cost on the acquisition date and subsequently adjusted for the Corporation's proportionate share in the investee's net income or net loss and in other changes in shareholders' equity of the investees in the same accounting period as that of the Corporation. If the Corporation subscribes for additional shares issued by an investee at a rate not equal to its current equity, the increase in the Corporation's equity in the investee's net assets is credited to capital surplus. Any decrease in the Corporation's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the debit is made against unappropriated earnings.

Cash dividends received are accounted for as reductions of the carrying values of the long-term investments. Stock dividends received are recorded as an increase in the number of shares held.

If an investee becomes impaired, as defined in Statement of Financial Accounting Standards No. 35 - "Accounting for Asset Impairment," the recoverable amount of the investment is calculated and compared with carrying value. If the recoverable amount is less than the carrying amount, an impairment loss is recognized and charged to current income, and the recoverable amount becomes the new investment carrying value.

Costs of long-term investments sold are determined using the weighted-average method.

Properties

Properties are stated at cost less accumulated depreciation. Significant, renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is calculated using the straight-line method over service lives estimated as follows: testing equipment, 3 to 6 years; office equipment, 3 years; leasehold improvements, 2 to 3 years; and other equipment, 2 to 5 years. If an asset is still in use beyond its initially estimated service life, its residual value is written off over its newly estimated service life.

When properties are retired or disposed of the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to nonoperating income in the current period.

Intangible Assets

Intangible assets, consisting of costs to acquire royalty, patents, trademarks and the costs of acquiring computer software, are amortized using the straight-line method over 1 to 6 years.

Asset Impairment

If the carrying value of assets (including properties, intangible assets and investments accounted for by the equity method) is less than their recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Investments in which the Corporation has significant influence over investees are tested for impairment separately at their carrying amounts. Any subsequent reversal of the impairment loss due to the increase in recoverable amount is recognized as income. However, the increased carrying amount should not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized.

Pension Costs

The Corporation has two types of pension plans: Defined benefit and defined contribution.

Pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. Pension costs under the defined contribution pension plan are recognized as current expenses during the employees' service periods.

Income Tax

The Corporation uses inter-period tax allocation, in which deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused investment tax credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability should be classified as current or noncurrent according to the classification of the related asset or liability for financial reporting. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or noncurrent on the basis of the expected realization date of the temporary difference.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training expenditures are accounted for by the flow-through method.

Adjustments of prior years' tax are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings generated annually since 1998 are recorded as expense in the year when the stockholders resolve to retain these earnings.

Foreign-currency Transactions

Assets, liabilities, revenues or expenses denominated in foreign currencies as a result of nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of the transactions.

On the balance sheet date, monetary assets or liabilities denominated in foreign currencies are translated at the prevailing exchange rates, and the resulting exchange differences are included in gain or loss for the current period.

The exchange rates used in currency translation are based on the average of the buying and selling rates of major banks.

Reclassification

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2006 have been reclassified to be consistent with the presentation of consolidated financial statements as of and for the six months ended June 30, 2007.

3. ACCOUNTING CHANGES

Effective January 1, 2006, the Corporation and subsidiaries adopted the newly issued Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the related revisions of previously released Statements. These accounting changes had no effect on consolidated income for the six months ended June 30, 2006.

Starting on January 1, 2006, the Corporation and subsidiaries adopted the newly revised SFAS No. 1 - "Conceptual Framework of Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under Purchase Method." These accounting changes had no effect on the consolidated income for the six months ended June 30, 2006.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2007	**2006**
Cash on hand	$ 155	$ 165
Savings accounts	1,063,822	277,561
Certificates of deposits	160,011	99,047
Foreign savings accounts	348,381	180,625
Checking accounts	368	22
Short-term bills and bonds acquired under repurchase agreements	379,446	240,338
	$ 1,952,183	$ 797,758

5. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Corporation entered into forward exchange contracts to hedge exposures due to exchange rate fluctuations. The purpose of the hedge strategy was to reduce most of the risks arising from changes in market prices and cash flows. All of the forward exchange contracts had matured as of June 30, 2007 and 2006.

On the financial instruments held for trading in the six months ended June 30, 2007 and 2006, net gains on financial assets were $909 thousand and $1,259 thousand, respectively, and net losses on financial liabilities were $84 thousand and $165 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	June 30 2007	June 30 2006
Notes receivable	$ 12,029	$ 20,015
Accounts receivable	1,934,725	1,146,983
	1,946,754	1,166,998
Less: Allowance for sales returns and discounts	-	1,652
Allowance for doubtful accounts	22,128	23,743
	$ 1,924,626	$ 1,141,603

The factored accounts receivable in the six months ended June 30, 2007 were as follows:

Factor	Factored Amount	Settlement Amount	Prepayment	Discounting Rate (%)	Factor's Limit
Standard Chartered Bank	$2,452	$2,298	$154	6.0201-6.0412	US$2,000 thousand

The limit above is used on a revolving basis.

The factor is Standard Chartered Bank (SCB). This sale is without recourse.

7. INVENTORIES, NET

	June 30 2007	June 30 2006
Finished goods	$ 17,921	$ 35,563
Semifinished goods	179,819	201,102
Work-in-process	316,913	108,586
Raw materials	1,495,714	703,802
	2,010,367	1,049,053
Less: Allowance for inventory valuation and obsolescence losses	193,191	147,003
	$ 1,817,176	$ 902,050

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	June 30 2007	June 30 2006
Common stock - unlisted stocks	$ 25,700	$ 62,500

These stocks were measured at cost because they had no active market and their fair values could not be reliably measured.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2007		2006	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 147,958	23	$ -	-

In June 2006, the Corporation invested in Aptos Technology, which assembles and tests memory cards to stabilize the production of the Corporation's memory cards.

In September 2006, the Investment Commission of the Ministry of Economic Affairs authorized the Corporation to invest in Dong Ke Hong Technology (Shenzhen). As of June 30, 2007, the Corporation has no capital outflow on this investment.

The carrying value of the equity-method investment was $19,981 thousand gain in the six months ended June 30, 2007, which determined on the basis of audited financial statements.

10. PROPERTIES

	June 30	
	2007	2006
Accumulated depreciation		
Testing equipment	$ 21,015	$ 12,289
Office equipment	4,176	2,681
Leasehold improvements	11,439	5,219
Other equipment	1,600	2,782
	$ 38,230	$ 22,971

11. INTANGIBLE ASSETS

	June 30	
	2007	2006
Computer software	$ 50,165	$ 30,760
Royalty	29,359	35,019
Patents	2,668	1,526
Technology license fees	1,347	1,970
Trademarks	-	64
	$ 83,539	$ 69,339

12. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. The Corporation employees subject to the Labor Standards Law (the "Law") as of June 30, 2005 were allowed to choose to continue to be subject to the pension plan under the Law or to be subject instead to the new pension plan under the Act, with their service years accumulated as of June 30, 2005 to be retained. Those hired on or after July 1, 2005 automatically become subject to the pension plan under the Act.

The Act provides for a defined contribution pension plan. Based on this plan, the rate of the Corporation's required monthly contributions, starting on July 1, 2005, to the employees' individual pension accounts is at 6% of monthly salaries and wages. The Corporation recognized defined contribution pension cost of $4,115 thousand and $3,016 thousand in the six months ended June 30, 2007 and 2006, respectively.

The Law provides for a defined benefit pension plan. This pension plan provides benefits based on the employee's length of service and average basic salary or wage of the year before retirement. The Corporation contributes an amount equal to 2% of monthly salaries and wages to a pension fund. The fund is administered by the employees' pension fund committee and deposited in the committee's name in the Central Trust of China.

Other information on the defined benefit pension plan is summarized as follows:

a. Net pension costs in the six months ended June 30, 2007 and 2006 were $134 thousand and $113 thousand, respectively.

b. Changes in the pension fund

	Six Months Ended June 30	
	2007	**2006**
Balance, beginning of period	$ 8,179	$ 5,786
Contributions	740	1,485
Interest earned	184	101
Balance, end of period	$ 9,103	$ 7,372

c. Changes in prepaid pension cost (included in other assets - miscellaneous)

	Six Months Ended June 30	
	2007	**2006**
Balance, beginning of period	$ (2,441)	$ (375)
Net periodic pension cost	134	113
Contributions	(740)	(1,485)
Balance, end of period	$ (3,047)	$ (1,747)

13. INCOME TAX

The Basic Income Tax Act (BITA) took effect on January 1, 2006. Based on the BITA, basic income is the sum of the taxable income under the Income Tax Law, plus tax-exempt income under other laws. Basic tax is the basic income multiplied by a 10% tax rate. The tax payable of the current year is the higher of the basic income tax or the income tax payable the Income Tax Law. BITA had no effect on the tax liabilities in the six months ended June 30, 2007 and 2006.

a. A reconciliation of income tax on pretax income at statutory rate and current income tax payable was as follows:

	Six Months Ended June 30	
	2007	2006
Income tax on pretax income at statutory rate (25%)	$ 196,960	$ 89,359
Add (deduct) tax effects of		
Permanent difference	(5,285)	(876)
Temporary difference	(1,193)	17,461
Tax-exempt income	(38,716)	(75,555)
Additional 10% tax on unappropriated earnings	38,619	11,220
Investment tax credits	(95,193)	(20,805)
Current income tax payable	$ 95,192	$ 20,804

b. Income tax expense consisted of:

Current income tax payable	$ 95,192	$ 20,804
Deferred income tax	23,185	(9,564)
Adjustment to prior years taxes	(8,378)	498
Income tax expense	$ 109,999	$ 11,738

c. Deferred income tax assets and liabilities consisted of:

	June 30	
	2007	2006
Current, net		
Investment tax credits	$ 58,898	$ 20,805
Allowance for inventory valuation and obsolescence losses	48,298	36,751
Foreign exchange loss	1,656	859
Allowance for doubtful accounts	622	2,691
Others	161	599
	109,635	61,705
Less: Valuation allowance	-	-
	$ 109,635	$ 61,705
Noncurrent, net		
Investment tax credits	$ -	$ 79,553
Others	182	333
	182	79,886
Less: Valuation allowance	-	79,553
	$ 182	$ 333

The effective tax rate used for computing deferred income tax assets as of June 30, 2007 and 2006 was 25%.

d. As of June 30, 2007, investment tax credits were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 105,627	$ 13,183	2010
		45,715	45,715	2011
		$ 151,342	$ 58,898	

e. The Corporation's net operating income generated from the following expansion projects is exempt from income taxes:

	Tax-exemption Period
First expansion and construction of the Corporation's factories	September 15, 2002 to September 14, 2007
Second expansion and construction of the Corporation's factories	August 1, 2004 to July 31, 2009
Third expansion and construction of the Corporation's factories	February 28, 2006 to February 27, 2011

f. Integrated income tax information was as follows:

	June 30	
	2007	2006
Balance of imputation credit account (ICA):		
The Corporation	$ 105,719	$ 38,318
Subsidiary - Lian Xu Dong Investment Corp.	$ -	$ -

The estimated creditable ratio for the 2006 earnings appropriation and the actual creditable ratio for the 2005 earnings appropriation were 8.33% and 5.67%, respectively.

The tax credits allocable to the shareholders are based on the balance of ICA on the dividend distribution date. Accordingly, the expected imputed tax credit ratio for 2006 may be adjusted because the actual tax credit may differ from the expected tax credit.

g. As of June 30, 2007, there were no unappropriated earnings generated before January 1, 1998.

h. Income tax returns through 2004 had been examined by the tax authorities. However, the Corporation disputed the tax authorities' rejection of a tax-exempt income on the 2002 return. The Corporation will file an appeal for tax authorities to reexamine the 2002 return. Nevertheless, the Corporation believed that any tax liabilities would not be material.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Six Months Ended June 30					
	2007			2006		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 30,703	$111,322	$142,025	$ 13,598	$ 61,965	$ 75,563
Labor and health insurance	1,477	5,079	6,556	1,069	3,890	4,959
Pension cost	986	3,263	4,249	846	2,283	3,129
Other	4,570	11,527	16,097	2,422	7,490	9,912
	$ 37,736	$131,191	$168,927	$ 17,935	$ 75,628	$ 93,563
Depreciation	$ 2,178	$ 7,315	$ 9,493	$ 1,189	$ 4,794	$ 5,983
Amortization	-	22,716	22,716	-	12,449	12,449

15. STOCKHOLDERS' EQUITY

a. Capital

In their meeting on November 1, 2006, the Corporation's shareholders decided to issue up to 13,500 thousand common shares by private placem, as follows: (1) on November 2, 2006, the board of directors resolved to issue 2,000 thousand common shares at NT$10.00 par value and set December 15, 2006 as the fund raising deadline, with NT$120.5 as the offering price. This common share issuance was approved by and registered with the government authorities on January 12, 2007. The difference in price between par value and offering price was NT$221,000 thousand, recognized as additional paid-in capital. (2) on April 26, 2007, the board of directors resolved to issue 4,000 thousand common shares at NT$10.00 par value and set June 14, 2007 as the fund raising deadline, with NT$214 as the offering price. This common share issuance was approved by and registered with the government authorities on July 4, 2007. The difference in price between par value and offering price was $816,000 thousand, recognized as additional paid-in capital. As of June 30, 2007, there were 7,500 thousand common shares had not been privately placed.

b. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the issue of shares in excess of par value, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time. Capital surplus on long-term equity investments should not be used for any purpose.

c. Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that, under the board of directors' resolution, annual net income (less any deficit and 10% as legal reserve) less special reserve based on relevant laws and regulations and any portion decided to be retained plus unappropriated earnings of prior years should be distributed as follows:

1) 1.5%, as remuneration to directors and supervisors;
2) 9% to 14%, as bonus to employees; and
3) The remainder, as dividends.

If the bonus to employees is distributed as stock dividend, the employees of the Corporation must be matched certain specific terms when the stock dividend be distributed.

The Corporation's dividend appropriation is based on its profitability. In addition, since the Corporation is expanding fast, dividends will be appropriated considering the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, balance between cash and stock dividends, and the Corporation's long-term financial plans. The board of directors prepares the proposal on annual earnings distribution for the stockholders' approval. Profits may be distributed as cash or stock dividend; however, cash dividends should be at least 10% of total distribution.

Legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. The reserve can only be used to offset an accumulated deficit. When the reserve exceeds 50% of the Corporation's paid-in capital, the excess may be distributed as follows: (a) if the Corporation has no earnings, the excess may be declared as dividends or bonus; and (b) if the Corporation has no deficit, only the excess portion that is over 25% of the Corporation's paid-in capital may be declared as stock dividends.

The appropriation of earnings should be resolved by the shareholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

Under the Imputed Income Tax System, ROC-resident shareholders are allowed tax credits for the income tax paid by the Corporation. Tax credits allocated to shareholders are based on the balance of the imputation credit account (ICA) on the dividend distribution date.

On June 13, 2007 and June 14, 2006, the shareholders approved the Board of Directors' proposal on the appropriation and dividends per share of the 2006 and 2005 earnings, as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2006	**For Fiscal Year 2005**	**For Fiscal Year 2006**	**For Fiscal Year 2005**
Legal reserve	$ 107,121	$ 59,009	$ -	$ -
Bonus to employees - stock	18,300	19,500	-	-
Bonus to employees - cash	40,000	23,000	-	-
Stock dividends	217,731	158,000	2.84329	2.99088
Cash dividends	290,309	210,000	3.79106	3.97523
Remuneration to directors and supervisors	11,558	8,377	-	-
	$ 685,019	$ 477,886		

The appropriation of the 2006 earnings had been approved by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan. The Board of Directors resolved that August 11, 2007 should be the ex-dividend date.

c. Stock options

On May 16, 2003 and October 21, 2003, the Securities and Futures Commission approved the Corporation's Employee Stock Option Plans (the "Plans"), under which qualified employees obtained 640 thousand and 1,200 thousand units of option rights, respectively, with each unit representing one common share. The option rights on both Plans are valid for three years from the date of issuance and exercisable at certain percentages after the second year of issuance.

Under the Plans, the options are granted at an exercise price equal to the closing price of the Corporation's common shares as shown on the OTC exchange on the grant date. Based on the Plans, the number of outstanding options and exercise prices have been adjusted to reflect the appropriation of dividends.

The changes in outstanding stock options in the six months ended June 30, 2006 were as follows:

	Six Months Ended June 30 2006	
	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)
Beginning balance	615	$10
Options granted	(615)	10
Ending balance	-	

As of December 31, 2006, all of the outstanding options had been converted to common stock.

On April 26, 2007, the board of directors approved the Corporation's Employee Stock Option Plan, granting qualified employees 1,000 thousand units of option rights, with each unit representing one common share. This option right is valid for three years from the issuance date, and its exercise price is decided through procedure stated in the plan. The plan had been approved by the Financial Supervisory Commission, Executive Yuan. As of July 20, 2007, the date of the accompanying auditors' report, the board of directors had not resolved the unit issuance date.

16. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) were as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Six months ended June 30, 2007					
Basic EPS					
Consolidated income available to common shareholders	$ 787,878	$ 677,879	72,949	$ 10.80	$ 9.29
Effect of dilutive potential common stock - stock options	-	-	-		
Diluted EPS					
Consolidated income available to common shareholders (including effect of dilutive potential common stock)	$ 787,878	$ 677,879	72,949	$ 10.80	$ 9.29
Retroactive adjustment due to the recording of dividend appropriation after the financial statement date					
Pro forma basic EPS	$ 787,878	$ 677,879	95,521	$ 8.25	$ 7.10
Pro forma diluted EPS	$ 787,878	$ 677,879	95,521	$ 8.25	$ 7.10

(Continued)

	Amounts (Numerator)		Number of	EPS (NT$)	
	Before Income Tax	After Income Tax	Shares (Denominator) (in Thousands)	Before Income Tax	After Income Tax
Six months ended June 30, 2006					
Basic EPS					
Consolidated income available to common shareholders	$ 357,476	$ 345,738	52,646	$ 6.79	$ 6.57
Effect of dilutive potential common stock - stock options	-	-	169		
Diluted EPS					
Consolidated income available to common shareholders (including effect of dilutive potential common stock)	$ 357,476	$ 345,738	52,815	$ 6.77	$ 6.55
Retroactive adjustment due to the recording of dividend appropriation after the financial statement date					
Pro forma basic EPS	$ 357,476	$ 345,738	69,445	$ 5.15	$ 4.98
Pro forma diluted EPS	$ 357,476	$ 345,738	69,662	$ 5.13	$ 4.96

(Concluded)

The average number of shares outstanding for EPS calculation had been adjusted retroactively for the distribution of stock dividends and stock bonuses.

17. FINANCIAL INSTRUMENTS

a. Fair value

	June 30			
	2007		2006	
Nonderivative financial instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 1,952,183	$ 1,952,183	$ 797,758	$ 797,758
Notes and accounts receivable	1,941,804	1,941,804	1,272,280	1,272,280
Other financial assets	823	823	100,965	100,965
Restricted assets	31,179	31,179	15,058	15,058
Financial assets carried at cost - noncurrent	25,700		62,500	
Guarantee deposits paid	4,500	4,500	48,486	48,486
Liabilities				
Notes and accounts payable	2,063,973	2,063,973	1,212,571	1,212,571

Effective January 1, 2006, the Corporation adopted newly issued SFAS No.34 - "Accounting for Financial Instruments"; thus, the derivative financial instruments were not recognized in the 2005 financial statements. Note 3 describes the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of SFAS No. 34.

b. The methods and assumptions applied in determining fair values of financial instruments are as follows:

1) Short-term financial instruments - the carrying value reported in the balance sheets is a reasonable basis for estimating fair value because these instruments have short maturities. These instruments included cash and cash equivalents, notes and accounts receivables, other financial assets, restricted assets, notes and accounts payable.

2) Financial assets carried at cost - noncurrent have no active market; thus, their fair value cannot be reliably estimated.

3) For guarantee deposits paid, fair values are estimated at their carrying amount because these deposits do not have specific due dates.

The above list of financial instruments did not include certain financial instruments and all nonfinancial instruments. Thus, the aggregate fair value presented above does not represent the underlying value of the Corporation.

c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation methods.

d. No gain or loss was recognized for changes in fair value estimates based on valuation methods in the six months ended June 30, 2007 and 2006.

e. The financial assets exposed to fair value interest rate risk amounted to $570,636 thousand and $394,443 thousand as of June 30, 2007 and 2006, respectively. The financial assets exposed to cash flow interest rate risk amounted to $1,412,203 thousand and $458,186 thousand as of June 30, 2007 and 2006, respectively.

f. Financial risks:

1) Market risk

All derivative transactions are used to hedge exchange rate fluctuations of net foreign currency-denominated assets or liabilities. Gains or losses on these hedging derivative are likely to offset the gains or losses on the hedged items. Thus, the market risk is immaterial.

2) Credit risk

Credit risk represents the potential impact on financial assets that the Corporation might encounter if counter-parties or third parties breach financial instrument contracts. Other factors that affect financial assets include credit risk concentration, components of financial instruments, contract amount and other receivables. The maximum credit risk exposure of each financial instrument is the same as its carrying value.

3) Liquidity risk

The Corporation has no cash flow risks because it has sufficient operating capital to meet cash needs and had no forward exchange contracts outstanding as of June 30, 2007. However, as of June 30, 2007, the Corporation had equity instruments without any active market; thus, it expects to have significant liquidity risk.

4) Cash flow interest rate risk.

Market interest rate fluctuations have an impact on assets and liabilities with floating interest rate, thus affecting cash flows. However, the Corporation had no liabilities with floating interest rate; thus, it has no significant cash flow interest rate risks.

18. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other notes to the consolidated financial statements, the Corporation's related-party transactions were as follows:

a. The Corporation and subsidiaries' related parties were as follows:

Related Party	Relationship with the Corporation
Toshiba Corporation, Japan ("Toshiba")	Board director
Toshiba Europe GmbH	Subsidiary of Toshiba
Toshiba International Procurement Hong Kong Ltd.	Subsidiary of Toshiba
Toshiba Of Canada Limited	Subsidiary of Toshiba
Toshiba America Information	Subsidiary of Toshiba
Toshiba Singapore Pte Ltd Computer System Division	Subsidiary of Toshiba
Toshiba Digital Media Network Taiwan Corporation	Subsidiary of Toshiba
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
M-Systems B.V	Board director (merged into Sandisk on March 15, 2007)
M-Systems Flash Disk Pioneers ("M-Systems")	Parent company of M-Systems B.V (merged with Sandisk on March 15, 2007).
M-Systems Asia Ltd.	Subsidiary of M-Systems B.V (merged with Sandisk on March 15, 2007)
TwinSys Data Storage Limited Partnership ("TwinSys")	Subsidiary of M-Systems (merged with Sandisk on March 15, 2007)
Aptos Technology	Equity - method investee since August 31, 2006

b. The significant transactions with the related parties are summarized as follows:

The terms of sales to related parties were similar to those for third parties.

	Six Months Ended June 30			
	2007		2006	
	Amount	%	Amount	%
1) Net sales				
M-Systems	$ -	-	$ 173,960	4
Other	53,992	-	107,316	2
	$ 53,992	-	$ 281,276	6
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 1,737,645	23	$ 1,310,608	34
Other	-	-	7,079	-
	$ 1,737,645	23	$ 1,317,687	34
3) Royalty expenses (included in sales expenses)				
M-Systems	$ 7,803	9	$ 16,946	28
4) Processing expenses (included in manufacture expenses)				
Aptos Technology	$ 56,647	8	$ -	-

	June 30							
	2007				2006			
	Amount		%		Amount		%	
5) Notes and accounts receivable								
M-Systems	$	-	-		$	78,001	6	
Other		17,178	1			52,676	4	
	$	17,178	1		$	130,677	10	
6) Notes and accounts payable								
Toshiba Electronics Taiwan Corp.	$	504,885	24		$	261,215	22	
7) Accrued expense								
M-Systems	$	-	-		$	22,458	7	

19. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for bank loans and for the issuance of letters of credit for purchasing materials and as refundable deposits for the Customs Bureau and the court:

	June 30	
	2007	2006
The issuance of L/C for purchasing materials - certificates of deposits	$ 21,000	$ 5,000
Refundable deposits for the Customs Duty Bureau - certificates of deposits	10,179	10,058
Guarantee deposits paid - certificates of deposits	-	40,000
	$ 31,179	$ 55,058

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation and subsidiaries significant commitments and contingencies as of June 30, 2007 were as follows:

a. The Corporation rents its office from a third party under operating lease agreements expiring on February 2010.

As of June 30, 2007, future remaining lease payments were as follows:

Period/Year	Amount
2007 (from July to December)	$ 5,701
2008	3,113
2009	2,302
2010	228
	$ 11,344

b. Unused letters of credit amounted to JPY$2,178 thousand, US$5 thousand and $644,830 thousand.

c. In November 2004, the Corporation signed a license agreement on pen drive products with M-Systems. Under this agreement, the Corporation should pay M-Systems royalties and commissions at a percentage of net sales over six years.

d. On February 21, 2006, the Corporation received a formal complaint from Carry Computer Eng Co., Ltd. ("Carry") on its product, a UFD with display which can show the density and related data. Carry claimed that the Corporation, the Corporation's president and engineers infringed Carry's copyright, reneged, and accessed Carry's trade secrets.

   The Corporation believes that Carry's charges are groundless because of the following reasons:

   1) There is no evidence that the information in question is Carry's copyrighted or trade secret.

   2) The product concept in question was presented by Carry during the 2005 Cebit Show held in Germany.

   3) Carry is not an inventor of the product in question. In addition, many inventions are posted on the patent database, which the public, including the Corporation, can research and use as basis for making its own products.

   4) The Corporation has the same kind of product, but this product is based on a different technology.

   In addition, the Corporation's shipped less than 10 thousand units of the product; thus, the Corporation believes the complaint would not have material effect on the Corporation's financial statements.

21. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Corporation and its investees:

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities held: Table 1 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: None

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: Table 2 (attached)

f. Disposal of individual real estate at prices of at least $100 million or 20% of the paid-in capital: None

g. Total purchase from or sale to related parties amounting to at least $100 million or 20% of the paid-in capital: Table 3 (attached)

h. Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital: None

i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 4 (attached)

j. Derivative transactions: Notes 5 and 17

k. Investment in Mainland China: None

i. Intercompany relationships and significant intercompany transactions: None

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market value or Net Asset Value	
Phison Electronics Corp.	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Investments accounted for by the equity method	2,000	$ 20,311	100.00	$ 20,311	Note 2
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	11,621	147,958	23.26	147,958	Note 3
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	20,288	Note 2
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	5,700	19.00	5,637	Note 2

Note 1: The Corporation held marketable securities that had not been guaranteed, pledged or mortgaged as collaterals or restricted by other commitments.

Note 2: The calculation of the net asset value was based on the investee’s financial statements, which had not been audited.

Note 3: The calculation of the net asset value was based on the investee’s financial statements, which had been audited.

TABLE 2

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Phison Electronics Corp.	Land	January 18, 2007	$135,000	Full payment	Kuan Yuan Paper MAG. Co., Ltd. and Ms. June Shu Hsieh	-	-	-	-	$ -	Valuation report	For constructing a building	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phison Electronics Corp.	Toshiba Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 1,737,645	23	Net 30 days after monthly closing	None	None	$ (504,885)	(24)	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2007
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2007			Net Income of the Investee	Investment Income (Note)	Note
				June 30, 2007	June 30, 2006	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Phison Electronics Corp.	Lian Xu Dong Investment Corp.	Hsinchu, Taiwan	Investment	$ 20,000	$ 20,000	2,000	100.00	$ 20,311	$ 122	$ 122 (Note 1)	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	124,447	79,320	11,621	23.26	147,958	87,549	19,981 (Note 2)	Investment by the equity method

Note 1: The calculation of the investee carrying value was based on the investee's financial statements, which had not been audited.

Note 2: The calculation of the investee carrying value was based on the investee's financial statements, which had been audited.