Phison Electronics Corp. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2008 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 sheet of Phison Electronics Corp. (the "Corporation") and its subsidiaries as of March 31, 2008, and the related consolidated statements of income and cash flows for the three 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.

Except as stated in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "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 consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 8 to the consolidated financial statements, the investments accounted for by the equity method as of March 31, 2008 amounted to NT$334,016 thousand, and the investment income for the three months ended March 31, 2008 was NT$6,033 thousand. This investment information and the related information of the investees disclosed in the notes to the consolidated financial statements were based on unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been made had the financial statements of the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements of Phison Electronic Corp. and its subsidiaries referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Interpretation No. 0960064020 by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan, and accounting principles generally accepted in the Republic of China.

As disclosed in Note 2 to the consolidated financial statements, in March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

As disclosed in Note 1 to the consolidated financial statements, the Corporation and its subsidiaries were allowed to prepare consolidated financial statements that cover only a single reporting period, starting with the consolidated financial statements for the three months ended March 31, 2008.

April 21, 2008

Notice to Readers

The accompanying consolidated 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 consolidated 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 consolidated 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 consolidated financial statements shall prevail.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	Amount	%
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	$ 1,700,206	20
Financial assets at fair value through profit or loss - current (Note 4)	381,559	5
Notes and accounts receivable		
Third parties, net (Note 5)	1,856,261	22
Related parties (Note 14)	76,920	1
Other financial assets (Note 14)	230,342	3
Inventories, net (Note 6)	2,730,552	32
Deferred income tax assets - current	178,194	2
Restricted assets (Note 15)	10,062	-
Other	176,545	2
Total current assets	7,340,641	87
LONG-TERM INVESTMENTS		
Investments accounted for by the equity method (Note 8)	334,016	4
Financial assets carried at cost - noncurrent (Note 7)	49,300	-
Total long-term investments	383,316	4
PROPERTIES (Notes 9 and 14)		
Cost		
Land	180,000	2
Testing equipment	88,399	1
Office equipment	10,345	-
Leasehold improvements	2,588	-
Other equipment	2,108	-
Total cost	283,440	3
Less: Accumulated depreciation	39,723	-
	243,717	3
Construction in progress	379,261	5
Prepayment for land and equipment	36,183	-
Net properties	659,161	8
INTANGIBLE ASSETS (Notes 10 and 16)	64,283	1
OTHER ASSETS		
Guarantee deposits paid	6,128	-
Deferred income tax assets - noncurrent	2,376	-
Miscellaneous	3,836	-
Total other assets	12,340	-
TOTAL	$ 8,459,741	100

LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Financial liabilities at fair value through profit or loss - current (Note 4)	$ 705	-
Notes and accounts payable		
Third parties	1,455,530	17
Related parties (Note 14)	1,600,782	19
Income tax payable	126,655	2
Accrued expenses (Note 11)	201,898	2
Other	20,562	-
Total current liabilities	3,406,132	40
OTHER LIABILITIES		
Guarantee deposits received	287	-
Deferred credits (Note 14)	13,605	-
Total other liabilities	13,892	-
Total liabilities	3,420,024	40
SHAREHOLDERS' EQUITY (Note 11)		
Capital stock - NT$10.00 par value		
Authorized - 130,000 thousand shares		
Issued and outstanding - 101,180 thousand shares	1,011,802	12
Capital surplus		
Additional paid-in capital	1,767,962	21
Retained earnings		
Legal reserve	235,243	3
Unappropriated retained earnings	2,152,355	25
Total retained earnings	2,387,598	28
Other equity		
Treasury stock - 750 thousand shares	(127,645)	(1)
Total shareholders' equity	5,039,717	60
TOTAL	$ 8,459,741	100

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

(With Deloitte & Touche review report dated April 21, 2008)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Amount	%
OPERATING REVENUE (Note 14)		
Gross sales	$ 4,473,729	100
Less: Sales returns and allowances	21,134	-
Net sales	4,452,595	100
Service revenue	2,760	-
Total operating revenue	4,455,355	100
OPERATING COSTS (Note 14)	4,065,528	91
GROSS PROFIT	389,827	9
OPERATING EXPENSES		
Marketing	41,563	1
General and administrative	45,938	1
Research and development	77,459	2
Total operating expenses	164,960	4
OPERATING INCOME	224,867	5
NONOPERATING INCOME AND GAINS		
Equity in net gain of investees (Note 8)	6,033	-
Interest income	4,800	-
Other (Note 14)	53,994	2
Total nonoperating income and gains	64,827	2
NONOPERATING EXPENSES AND LOSSES		
Foreign exchange losses, net	72,246	2
Other	811	-
Total nonoperating expenses and losses	73,057	2
CONSOLIDATED INCOME BEFORE INCOME TAX	216,637	5
INCOME TAX EXPENSE	14,485	-
CONSOLIDATED NET INCOME	$ 202,152	5
ATTRIBUTED TO SHAREHOLDERS OF THE PARENT	$ 202,152	5

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 12)		
Basic	$ 2.15	$ 2.01
Diluted	$ 2.15	$ 2.00

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES	
Consolidated net income	$ 202,152
Adjustments to reconcile net income to net cash provided by operating activities:	
Gain on disposal of intangible assets	(35,465)
Amortization	16,533
Reversal of allowance for doubtful accounts	(11,449)
Deferred income tax	(10,450)
Equity in net gain of investees	(6,033)
Depreciation	4,903
Loss on disposal of properties, net	29
Net changes in operating assets and liabilities	
Financial assets at fair value through profit or loss - current	(381,559)
Notes and accounts receivable	(83,591)
Other financial assets	(229,101)
Inventories	(947,454)
Other current assets	90,699
Financial liabilities at fair value through profit or loss - current	705
Notes and accounts payable	645,316
Income tax payable	14,985
Accrued expenses	(6,122)
Other current liabilities	(8,909)
Accrued pension cost	(133)
Net cash used in operating activities	(744,944)
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of properties	(130,668)
Increase in investments accounted for by the equity method	(112,500)
Proceeds from disposal of intangible assets	50,000
Increase in intangible assets	(5,194)
Proceeds from disposal of properties	2,134
Decrease in guarantee deposits	584
Decrease in restricted assets	191
Net cash used in investing activities	(195,453)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash paid for acquisition of treasury stock	(127,645)
Increase in guarantee deposit received	287
Net cash used in financing activities	(127,358)

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (1,067,755)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,767,961
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,700,206
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest paid	$ 21
Income tax paid	$ 9,951
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS	
Increase in properties	$ 131,080
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	(412)
Acquisition of properties	$ 130,668

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Interpretation No. 0960064020 by the Securities and Futures Bureau (SFB) under the Financial Supervisory Commission, Executive Yuan, and accounting principles generally accepted in the Republic of China. Under the foregoing SFB interpretation, only those accounting policies that differ from, or not included in, those presented in the notes to the Corporation and subsidiaries' 2007 consolidated financial statements may be shown in the notes to the consolidated financial statements

Basis of Consolidation

a. Basis of consolidation

The consolidated financial statements as of and for the three months ended March 31, 2008 have been prepared in accordance with the 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.

The Corporation adopted in July 2007 Interpretation No. 0960018929 by the Securities and Futures Bureau (SFB) under the Financial Supervisory Commission, Executive Yuan, which allows the preparation of consolidated financial statements that cover only a single reporting period, starting with the consolidated financial statements for the three months ended March 31, 2008

b. The consolidated subsidiaries included the following:

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of March 31, 2008	Description
The Corporation	Lian Xu Dong Investment Corp.	Investment	100%	-

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

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

2. ACCOUNTING CHANGES

In March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remunerations to directors and supervisors beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in decreases of $24,409 thousand in net income and of $0.24 in basic earnings per share after income tax for the three months ended March 31, 2008.

3. CASH AND CASH EQUIVALENTS

	March 31, 2008
Cash on hand	$ 193
Savings accounts	578,953
Certificates of deposits	679,237
Foreign savings accounts	220,003
Checking accounts	17
Short-term bills and bonds acquired under repurchase agreements	221,803
	$ 1,700,206

4. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments classified as held for trading were as follows:

	March 31, 2008
Financial assets held for trading	
Beneficiary certificates - open-end funds	$ 381,559
Financial liabilities held for trading	
Forward exchange contracts	$ 705

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. Outstanding forward exchange contracts as of March 31, 2008 were as follows:

	Currency	Maturity Date	Contract Amount (in Thousands)
March 31, 2008			
Sell	US$/NT$	2008/4/10-2008/4/22	US$4,000/NT$120,772

Net gain on financial assets held for trading in the three months ended on March 31, 2008 was $1,559 thousand. Net gain on financial liabilities held for trading in the three months ended on March 31, 2008 was $657 thousand.

5. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	March 31, 2008
Notes receivable	$ 349
Accounts receivable	1,871,861
	1,872,210
Less: Allowance for doubtful accounts	15,949
	$ 1,856,261

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepayment	Discounting Rate (%)	Factor's Limit
Three months ended March 31, 2008					
Standard Chartered Bank	$ 5,295	$ 3,455	$ 1,840	3.1237-4.4027	US$2,000 thousand

The limit above is used in revolving bases.

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

6. INVENTORY, NET

	March 31, 2008
Finished goods	$ 15,772
Semifinished goods	642,001
Work in process	248,355
Raw materials	2,100,261
	3,006,389
Less: Allowance for inventory valuation and obsolescence losses	275,837
	$ 2,730,552

7. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31, 2008
Common stock - unlisted stocks	$ 42,700
Foreign beneficiary certificate	6,600
	$ 49,300

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

8. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31, 2008	
	Carrying Amount	% of Owner-ship
Unlisted stocks		
Aptos Technology	$ 276,976	24.82
Flexmedia Electronics Corporation	57,040	30.00
	$ 334,016	

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 November 2007, the Corporation and Wintek Corp., a TFT-LCD panel manufacturer, jointly established Flexmedia Electronics Corporation, which researches, develops, produces and sells high-tech multimedia products.

In September 2006, the Investment Commission of the Ministry of Economic Affairs (MOEA) authorized the Corporation to invest in Dong Ke Hong Technology (Shenzhen). As of September 2007, the Corporation had not remitted out any capital. Under MOEA regulations, if the Corporation does not remit out any capital within one year from the authorization date, the authorization loses its validity.

The investment gain and loss were recognized by the equity-method as follows:

	Three Months Ended March 31, 2008
Unreviewed	
Aptos Technology	$ 8,952
Flexmedia Electronics Corporation	(2,919)
	$ 6,033

9. PROPERTIES

	March 31, 2008
Accumulated depreciation	
Testing equipment	$ 31,032
Office equipment	5,176
Leasehold improvements	2,481
Other equipment	1,034
	$ 39,723

10. INTANGIBLE ASSETS

	March 31, 2008
Computer softwares	$ 37,791
Royalty	23,071
Patents	2,540
Technology license fee	881
	$ 64,283

11. SHAREHOLDERS' EQUITY

a. Capital

In their meeting on March 24, 2008, the Corporation's shareholders decided to issue up to 5,000 thousand common shares by private place, as follows: (1) on March 25, 2008, the board of directors resolved to issue 1,200 thousand common shares at $10.00 par value and set June 16, 2008 as the fund raising deadline, with $128 as the offering price. (2) on April 21, 2008, the board of directors resolved to issue 2,100 thousand common shares at $10.00 par value and set June 23, 2008 as the fund raising deadline, with $165 as the offering price.

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 shareholders' approval. Profits may be distributed as cash or stock dividend; however, cash dividends should be at least 10% of total distribution.

For the three months ended March 31, 2008, the bonus to employees and bonus to directors and supervisors, representing 14% and 1.5% of net income, respectively, were accrued based on past experiences. Material differences between the estimated bonuses and remunerations and the amounts proposed by the Board of Directors in the following year are retroactively adjusted in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as changes in accounting estimate.

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 50% of the Corporation's paid-in capital may be declared as stock dividends.

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.

The appropriations of earnings for 2007 had been proposed in the board meetings on March 25, 2008. The appropriations and dividends per share were as follows:

	Appropriation of Earnings For Fiscal Year 2005	Dividends Per Share (NT$) For Fiscal Year 2006
Legal reserve	$ 139,238	$ -
Bonus to employees - stock	22,000	-
Bonus to employees - cash	60,000	-
Stock dividends	200,860	2
Cash dividends	602,582	6
Remuneration to directors and supervisors	13,484	-
	$ 1,038,164	

When the number of shares outstanding for distribution have increase or decrease on the dividend distribution date, the board of directors is authorized to change these dividend amounts on the basis of the actual number of shares outstanding on the dividend distribution date.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Stock options

On May 23, 2007, the Financial Supervisory Commission, Executive Yuan approved the Corporation's Employee Stock Option Plan ("the third plan"), under which qualified employees obtained 1,000 thousand units of option rights. For this plans, each unit represents one common share, and the option rights 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 information about employee stock options was as follows:

	Three Months Ended March 31, 2008	
	Number of Options (in Thousands)	Exercise Price (NT$)
Balance, beginning of period	1,000	$ 176
Options granted	-	-
Options exercised	-	-
Balance, end of period	1,000	

The information on the outstanding options of the third plan as of March 31, 2008 is as follows:

March 31, 2008	
Range of Exercise Price (NT$)	Weighted- average Remaining Contractual Life (Years)
$176	2.29

The third plan was priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

Grant-date share price (NT$)	$176
Exercise price (NT$)	$176
Expected volatility	53.12%
Expected life (years)	2.50
Expected dividend yield	0%
Risk-free interest rate	2.2%

The pro forma information for the three months ended March 31, 2008 assuming employee stock options granted before January 1, 2008 were accounted for under Statement of Financial Accounting Standards No. 39 - "Accounting for Share-Based Payments" is as follows:

	Three Months Ended March 31, 2008
Net income	$ 193,689
After income tax basic earnings per share (NT$)	$ 1.92

On November 22, 2007, the board of directors approved the Corporation's Employee Stock Option Plan, under which qualified employees received 500 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 under procedures stated in the plan. On January 3, 2008, the plan was approved by the Financial Supervisory Commission under the Executive Yuan. As of April 21, 2008, the date of the accompanying auditors' report, the Corporation's president had not determined the unit issuance date.

e. Treasury stock

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Three months ended March 31, 2008				
For transfer to employees	-	750	-	750

Under the Securities and Exchange Act, the Company shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

12. 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
Three months ended March 31, 2008					
Basic EPS					
Consolidated income available to common shareholders	$ 216,637	$ 202,152	100,772	$ 2.15	$ 2.01
Effect of dilutive potential common stock - stock options	-	-	64		
Diluted EPS					
Consolidated income available to common shareholders (including effect of dilutive potential common stock)	$ 216,637	$ 200,152	100,836	$ 2.15	$ 2.00

13. FINANCIAL INSTRUMENTS

a. Fair value

	March 31, 2008	
	Carrying Value	Fair Value
Nonderivative financial instruments		
Assets		
Cash and cash equivalents	$ 1,700,206	$ 1,700,206
Financial assets at fair value through profit or loss - current	381,559	381,559
Notes and accounts receivable	1,933,181	1,933,181
Other financial assets	230,342	230,342
Restricted assets	10,062	10,062
Financial assets carried at cost - noncurrent	49,300	
Guarantee deposits paid	6,128	6,128
Liabilities		
Notes and accounts payable	3,056,312	3,056,312
Accrued expenses	201,898	201,898
Guarantee deposits received	287	287

(Continued)

	March 31, 2008	
	Carrying Value	Fair Value
Derivative financial instruments		
Forward exchange contract-sell $US dollars	$ -	$ (705)
Derivative financial instruments- according to the region		
Forward exchange contract-Taiwan	-	(705)

(Concluded)

b. The methods and assumptions applied in determining fair values of financial instruments were 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 and accrued expenses.

2) Fair values of financial assets at fair value through profit or loss - current were based on their quoted market price.

3) Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

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

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

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. The gain was recognized $854 thousand for fair value changes based on of using valuation methods for the three months ended March 31, 2008.

e. The financial assets exposed to fair value interest rate risk amounted to $911,102 thousand as of March 31, 2008. The financial assets exposed to cash flow interest rate risk amounted to $798,956 thousand as of March 31, 2008.

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 instruments 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 and subsidiaries might encounter if counter-parties or third parties breach the 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 and subsidiaries have no cash flow risks because it has sufficient operating capital to meet cash needs. However, as of March 31, 2008, the date of the accompanying reviewers' report, the Corporation and subsidiaries had equity instruments with no quoted prices in an active market; thus, it expects to have significant liquidity risk

4) Cash flow interest rate risk.

Due to market interest rate fluctuations, assets and liabilities with floating interest rate will affect cash flows. However, the Corporation and subsidiaries had no liabilities with floating interest rate; thus, it expects to have no significant cash flow interest rate risks.

14. RELATED PARTY TRANSACTIONS

The related-party transactions of the Corporation and subsidiaries were as follows

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

Related Party	Relationship with the Corporation and Subsidiaries
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
Aptos Technology	Equity method investee
Flexmedia Electronics Corp.	Equity method investee

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.

	Three Months Ended March 31, 2008	
	Amount	%
1) Net sales		
Toshiba Corporation, Japan	$ 167,948	4
Other	41,712	1
	$ 209,660	5

	Three Months Ended March 31, 2008 Amount	%
2) Purchase		
Toshiba Electronics Taiwan Corp.	$ 2,193,631	49
Other	87	-
	$ 2,193,718	49
3) Processing expenses (included in manufacturing expenses)		
Aptos Technology	$ 131,130	25

	March 31, 2008 Amount	%
4) Notes and accounts receivable		
Toshiba Corporation, Japan	$ 68,586	4
Other	8,334	-
	$ 76,920	4
5) Other receivables (included in other financial assets)		
Flexmedia Electronics Corp.	$ 21,000	9

In January 2008, the Corporation sold its high-tech multimedia technology and the related patent to Flexmedia Electronics Corp. ("Flexmedia") for $50,000 thousand. The gain on this sale was $49,070 thousand, but of this amount, $14,721 thousand was deferred and recognized at the percentage of the Corporation's equity in Flexmedia. As of March 31, 2008, the realized deferred credits had accumulated to $1,116 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value for $2,134 thousand.

	March 31, 2008 Amount	%
6) Notes and accounts payable		
Toshiba Electronics Taiwan Corp.	$ 1,569,160	51
Aptos Technology	31,622	1
	$ 1,600,782	52

15. PLEDGED ASSETS

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

	March 31, 2008
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 10,062

16. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation and subsidiaries significant commitments and contingencies as of March 31, 2008 were as follows:

a. The Corporation rents its office under operating lease agreements expiring in February 2010.

   As of March 31, 2008, future remaining lease payments were as follows:

Period/Year	Amount
2008 (From April to December)	$ 2,243
2009	2,302
2010	228
	$ 4,773

b. Unused letters of credit amounted to US$3,003 thousand and $748,940 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.

e. In October 2007, SanDisk Corporation (“Sandisk”) filed three complaints of patent infringement in the United States District Court of the Western District of Wisconsin and in the United States International Trade Commission (ITC) against the Corporation.

   1) In the ITC lawsuit filed on October 24, 2007, SanDisk is suing the Corporation for infringement of four SanDisk patents. The ITC will make an investigation.

   2) In the first United States District Court of the Western District of Wisconsin case filed on October 24, 2007, SanDisk is suing the Corporation for infringement of two patents.

3) In the second United States District Court of the Western District of Wisconsin case filed on October 25, 2007, SanDisk is suing the Corporation for infringement of the same four patents at issue in the ITC complaint.

The Corporation has authorized the U.S. law firm Fish & Richardson P.C. and Whyte Hirschboeck Dudek S.C. to handle these lawsuits. As of February 15, 2008, the date of the accompanying auditors' report, both of the Wisconsin cases are presently stayed, pending the outcome of the ITC investigation. Up to currently, the Corporation believes this case would not have a material effect on the Corporation's financial statements.

f. On January 25, 2008, Uniquestar Electronics Inc. filed a complaint, demanding that the Corporation pay $3,525 thousand, because the Corporation's processing factory went out of business. The district court will investigate this case soon. The Corporation believes this case would not have a material effect on the Corporation's financial statements.

17. ADDITIONAL DISCLOSURES

a. Business relationship between the Corporation and subsidiaries, and significant intercompany transactions: None.