Phison Electronics Corp. and Subsidiary

**Consolidated Financial Statements for the
Nine Months Ended September 30, 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 subsidiary as of September 30, 2008, and the related consolidated statements of income and cash flows for the nine 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 review.

Except as stated in the following paragraph, we conducted our review 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 September 30, 2008 amounted to NT$401,013 thousand, and the investment income for the nine months ended September 30, 2008 was NT$2,435 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 subsidiary 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 subsidiary were allowed to prepare consolidated financial statements that cover only a single reporting period, starting with the consolidated financial statements for the nine months ended September 30, 2008.

October 15, 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 SUBSIDIARY

CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	Amount	%
CURRENT ASSETS		
Cash (Note 3)	$ 1,275,360	17
Notes and accounts receivable		
Third parties, net (Note 5)	1,824,950	25
Related parties (Note 14)	193,004	3
Other financial assets (Note 14)	128,402	2
Inventories, net (Note 6)	1,509,692	21
Prepayments	873,504	12
Deferred income tax assets - current	76,496	1
Restricted assets (Note 15)	10,139	-
Other	47,421	1
Total current assets	5,938,968	82
LONG-TERM INVESTMENTS		
Investments accounted for by the equity method (Note 8)	401,013	5
Financial assets carried at cost - noncurrent (Note 7)	56,348	1
Total long-term investments	457,361	6
PROPERTIES (Notes 9 and 14)		
Cost		
Land	278,000	4
Buildings	391,153	6
Testing equipment	95,912	1
Office equipment	15,314	-
Other equipment	1,887	-
Total cost	782,266	11
Less: Accumulated depreciation	58,818	1
	723,448	10
Prepayment for land and equipment	65,000	1
Net properties	788,448	11
INTANGIBLE ASSETS (Notes 10 and 16)	60,510	1
OTHER ASSETS		
Guarantee deposits paid (Note 15)	3,964	-
Deferred income tax assets - noncurrent	1,757	-
Miscellaneous	4,160	-
Total other assets	9,881	-
TOTAL	$ 7,255,168	100

LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Notes and accounts payable		
Third parties	$ 1,070,971	15
Related parties (Note 14)	644,808	9
Accrued expenses (Note 11)	370,936	5
Other (Note 14)	67,846	1
Total current liabilities	2,154,561	30
OTHER LIABILITIES		
Guarantee deposits received	353	-
Deferred credits (Note 14)	11,373	-
Total other liabilities	11,726	-
Total liabilities	2,166,287	30
SHAREHOLDERS' EQUITY (Note 11)		
Capital stock - NT$10.00 par value		
Authorized - 180,000 thousand shares		
Issued and outstanding - 126,766 thousand shares	1,267,662	18
Capital surplus		
Additional paid-in capital	2,235,062	31
Long-term investment	21,088	-
Total capital surplus	2,256,150	31
Retained earnings		
Legal reserve	374,481	5
Unappropriated retained earnings	1,318,233	18
Total retained earnings	1,692,714	23
Other equity		
Treasury stock - 750 thousand shares	(127,645)	(2)
Total shareholders' equity	5,088,881	70
TOTAL	$ 7,255,168	100

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

(With Deloitte & Touche review report dated October 15, 2008)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Amount	%
OPERATING REVENUE (Note 14)		
Gross sales	$14,594,894	100
Less: Sales returns and allowances	75,248	-
Net sales	14,519,646	100
Service revenue	9,093	-
Total operating revenue	14,528,739	100
OPERATING COSTS (Note 14)	13,473,798	93
GROSS PROFIT	1,054,941	7
OPERATING EXPENSES		
Marketing	162,355	1
General and administrative	188,986	1
Research and development	319,233	2
Total operating expenses	670,574	4
OPERATING INCOME	384,367	3
NONOPERATING INCOME AND GAINS		
Foreign exchange gain, net	63,695	-
Interest income	21,397	-
Gain on disposal of investments, net (Note 4)	3,953	-
Equity in net gain of investees (Note 8)	2,435	-
Other	65,508	1
Total nonoperating income and gains	156,988	1
NONOPERATING EXPENSES AND LOSSES		
Loss on inventory valuation and obsolescence (Note 6)	24,036	-
Other	1,231	-
Total nonoperating expenses and losses	25,267	-
CONSOLIDATED INCOME BEFORE INCOME TAX	516,088	4
INCOME TAX EXPENSE	136,764	1
CONSOLIDATED NET INCOME	$ 379,324	3
ATTRIBUTED TO SHAREHOLDERS OF THE PARENT	$ 379,324	3

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 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	$ 4.17	$ 3.06
Diluted	$ 4.13	$ 3.04

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

(With Deloitte & Touche review report dated October 15, 2008) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES	
Consolidated net income	$ 379,324
Adjustments to reconcile net income to net cash provided by operating activities:	
Deferred income tax	91,867
Amortization	41,273
Gain on disposal of intangible assets	(37,697)
Depreciation	30,104
Loss on inventory valuation and obsolescence	24,036
Reversal of allowance for doubtful accounts	(18,277)
Equity in net gain of investees	(2,435)
Loss on the sale and retirement of properties, net	190
Net changes in operating assets and liabilities	
Notes and accounts receivable	(161,536)
Other financial assets	(127,161)
Inventories	249,370
Other current assets	(652,581)
Notes and accounts payable	(695,217)
Income tax payable	(111,670)
Accrued expenses	130,216
Other current liabilities	42,487
Prepaid pension cost	(457)
Net cash used in operating activities	(818,164)
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of properties	(289,429)
Increase in investments accounted for by the equity method	(135,137)
Proceeds of the disposal of intangible assets	50,000
Increase in intangible assets	(27,261)
Increase in financial assets carried at cost - noncurrent	(7,048)
Decrease in guarantee deposits	2,748
Proceeds of the disposal of properties	2,134
Decrease in restricted assets	114
Net cash used in investing activities	(403,879)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash dividends	(602,582)
Proceeds of the issuance of capital stock	500,100
Cash paid for acquisition of treasury stock	(127,645)
Bonus to employees and remuneration to directors and supervisors	(40,784)
Increase in guarantee deposit received	353
Net cash used in financing activities	(270,558)

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

NET DECREASE IN CASH	$ (1,492,601)
CASH, BEGINNING OF PERIOD	2,767,961
CASH, END OF PERIOD	$ 1,275,360
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	$ 755
Income tax paid	$ 171,734
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS	
Increase in properties	$ 285,729
Decrease in payables to contractors and equipment suppliers (included in other current liabilities)	3,700
Purchase properties	$ 289,429
NON-CASH INVESTING AND FINANCING ACTIVITIES	
Bonus to employees	$ 32,512
Remuneration to directors and supervisors	$ 188

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

(With Deloitte & Touche review report dated October 15, 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 six months ended June 30, 2008 consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiary 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 nine months ended September 30, 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 subsidiary and other investees controlled by the Corporation and its subsidiary.

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 first-quarter and third-quarter consolidated financial statements that cover only a single reporting period, starting with the consolidated financial statements for 2008.

b. The consolidated subsidiary was as following:

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of September 30, 2008	Description
The Corporation	Lian Xu Dong Investment Corp.	Investment	100%	-

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

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

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 $93,648 thousand in net income and of NT$0.76 in basic earnings per share after income tax for the nine months ended September 30, 2008.

3. CASH

	September 30, 2008
Cash on hand	$ 370
Savings accounts	174,666
Certificates of deposits	597,121
Foreign savings accounts	503,193
Checking accounts	10
	$ 1,275,360

4. FINANCIAL INSTRUMENTS 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 September 30, 2008 and 2007.

On financial instruments held for trading in the nine months ended on September 30, 2008, net gains on financial assets was $2,760 thousand. Net gain on financial liabilities in the nine months ended on September 30, 2008 was $1,193 thousand.

5. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	September 30, 2008
Notes receivable	$ 1,196
Accounts receivable	1,832,771
	1,833,967
Less: Allowance for doubtful accounts	9,017
	$ 1,824,950

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepayment	Discounting Rate (%)	Factor's Limit
Nine months ended September 30, 2008					
Standard Chartered Bank	$ 8,537	$ 8,537	$ -	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

	September 30, 2008
Finished goods	$ 10,992
Semifinished goods	271,269
Work in process	243,953
Raw materials	1,214,972
	1,741,186
Less: Allowance for inventory valuation and obsolescence losses	231,494
	$ 1,509,692

7. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30, 2008
Common stock - unlisted stocks	$ 45,200
Foreign beneficiary certificate	11,148
	$ 56,348

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

	September 30, 2008	
	Carrying Amount	% of Owner-ship
Unlisted stocks		
Aptos Technology	$ 326,823	21
Flexmedia Electronics Corporation	51,599	30
Micro Tops electronics Corporation	22,591	49
	$ 401,013	

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 2008, the Corporation and TOSHIBA Corporation, Japan, a corporate member of the Corporation’s board of directors, jointly established Micro Tops Electronics Corporation, which researches, develops and designs flash memory controllers and peripheral system applications.

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 recognized by the equity method, as follows:

	Nine Months Ended September 30, 2008
Unreviewed	
Aptos Technology	$ 10,840
Flexmedia Electronics Corporation	(8,358)
Micro Tops Electronics Corporation	(47)
	$ 2,435

9. PROPERTIES

	September 30, 2008
Accumulated depreciation	
Buildings	$ 13,732
Testing equipment	38,276
Office equipment	5,822
Other equipment	988
	$ 58,818

10. INTANGIBLE ASSETS

	September 30, 2008
Computer software	$ 39,676
Royalty	18,267
Patents	1,997
Technology license fees	570
	$ 60,510

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. This common share issuance was approved by and registered with the government authorities on June 30, 2008. The difference in price between par value and offering price was $141,600 thousand, recognized as additional paid-in capital. (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. This common share issuance was approved by and registered with the government authorities on June 30, 2008. The difference in price between par value and offering price was $325,500 thousand, recognized as additional paid-in capital. As of September 30, 2008 there were 17,000 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 paid-in capital. 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%, as remuneration to directors and supervisors;

2) 22% to 32%, 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 nine months ended September 30, 2008, the bonus to employees and bonus to directors and supervisors, representing 22% and 1% of net income (net of the bonus to employees and bonus to directors and supervisors), 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 adjusted for 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 a changes in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting.

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.

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, 2008, the shareholders approved the Board of Directors' proposal on the appropriation and dividends per share of the 2007 earnings, as follows:

	Appropriation of Earnings For Fiscal Year 2007	Dividends Per Share (NT$) For Fiscal Year 2007
Legal reserve	$ 139,238	$ -
Bonus to employees - stock	22,000	-
Bonus to employees - cash	60,000	-
Stock dividends	200,860	1.93637
Cash dividends	602,582	5.80912
Remuneration to directors and supervisors	13,484	-
	$ 1,038,164	

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

The appropriation of the 2007 earnings had been approved by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan. The Board of Directors resolved that August 13, 2008 should be the ex-dividend date.

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:

	Nine Months Ended September 30, 2008	
	Number of Options (in Thousands)	Exercise Price (NT$)
Balance, beginning of period	1,000	$139.60
Options granted	-	-
Options exercised	-	-
Balance, end of period	1,000	

The information on the outstanding options of the third plan as of September 30, 2008 is as follows:

September 30, 2008	
Range of Exercise Price (NT$)	**Weighted-average Remaining Contractual Life (Years)**
$139.60	1.88

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$)	$139.60
Exercise price (NT$)	$139.60
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 nine months ended September 30, 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:

	Nine Months Ended September 30, 2008
Net income	$ 355,676
After income tax basic earnings per share (NT$)	$ 2.87

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 October 15, 2008, the date of the accompanying independent accountant's review 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**
Nine months ended September 30, 2008				
For transfer to employees	-	750	-	750

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

12. EARNINGS PER SHARE

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

Nine months ended September 30, 2008	Amounts (Numerator) Before Income Tax	Amounts (Numerator) After Income Tax	Number of Shares (Denominator) (in Thousands)	EPS (NT$) Before Income Tax	EPS (NT$) After Income Tax
Basic EPS					
Consolidated income available to common shareholders	$ 516,088	$ 379,324	123,768	$ 4.17	$ 3.06
Effect of dilutive potential common stock					
Stock options			48		
Bonus to employees			1,040		
Diluted EPS					
Consolidated income available to common shareholders (including effect of dilutive potential common stock)	$ 516,088	$ 379,324	124,856	$ 4.13	$ 3.04

The Corporation presumes that the bonus to employees will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

13. FINANCIAL INSTRUMENTS

a. Fair value

Nonderivative financial instruments	September 30, 2008 Carrying Value	September 30, 2008 Fair Value
Assets		
Cash	$ 1,275,360	$ 1,275,360
Notes and accounts receivable	2,017,954	2,017,954
Other financial assets	128,402	128,402
Restricted assets	10,139	10,139
Financial assets carried at cost - noncurrent	56,348	
Guarantee deposits paid	3,964	3,964
Liabilities		
Notes and accounts payable	1,715,779	1,715,779
Accrued expenses	370,936	370,936
Guarantee deposits received	353	353

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

3) 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. No gain or loss was recognized for changes in fair value estimates based on valuation methods in the nine months ended September 30, 2008.

e. The financial assets exposed to fair value interest rate risk amounted to $609,260 thousand as of September 30, 2008. The financial assets exposed to cash flow interest rate risk amounted to $677,859 thousand as of September 30, 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 subsidiary 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 subsidiary had no cash flow risks because they had sufficient operating capital to meet cash needs and had no forward exchange contracts outstanding as of September 30, 2008. However, as of September 30, 2008, the Corporation and subsidiary had equity instruments without any 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 subsidiary had no liabilities with floating interest rate; thus, they expect to have no significant interest rate risks on their cash flows.

14. RELATED PARTY TRANSACTIONS

The related-party transactions were as follows

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

Related Party	Relationship with the Corporation and Subsidiary
Toshiba Corporation, Japan ("Toshiba")	Board director of the Corporation
Toshiba Europe GmbH	Subsidiary of Toshiba
Toshiba International Procurement Hong Kong Ltd.	Subsidiary of Toshiba
Toshiba America Information	Subsidiary of Toshiba
Toshiba Singapore Pte. Ltd., Computer System Division	Subsidiary of Toshiba
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
Aptos Technology	Equity method investee of the Corporation
Flexmedia Electronics Corp.	Equity method investee of the Corporation
Micro Tops electronics Corporation	Equity method investee of the Corporation

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.

	Nine Months Ended September 30, 2008 Amount	%
1) Net sales		
Toshiba Corporation, Japan	$ 669,930	5
Other	123,868	-
	$ 793,798	5
2) Purchase		
Toshiba Electronics Taiwan Corp.	$ 4,563,500	39
Other	4,421	-
	$ 4,567,921	39
3) Processing expenses (included in manufacturing expenses)		
Aptos Technology	$ 274,530	17

	September 30, 2008 Amount	%
4) Notes and accounts receivable		
Toshiba Corporation, Japan	$ 147,891	7
Other	45,113	3
	$ 193,004	10

	September 30, 2008 Amount	%
5) Other receivables (included in other financial assets)		
Flexmedia Electronics Corp.	$ 21,181	16
Aptos Technology	1,586	2
	$ 22,767	18
6) Notes and accounts payable		
Toshiba Electronics Taiwan Corp.	$ 545,835	32
Aptos Technology	98,717	6
Other	256	-
	$ 644,808	38

7) 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 September 30, 2008, the realized deferred credits had accumulated to $3,348 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value for $2,134 thousand.

8) On July 31, 2008, the board of directors approved the sale of a part of the Corporation's land and buildings to Aptos Technology Corporation ("Aptos"), an equity-method investee, to expand Aptos' production facilities for its growing share of the market. The expected selling price was $170,040 thousand, payment is in three installments, with a first payment of $34,000 thousand completed as of September 30, 2008 (included in other current liabilities).

15. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals for purchasing materials and as refundable deposits for the Customs Duty Bureau and the court:

	September 30, 2008
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 10,139
Guarantee deposits paid - certificate of deposits	2,000
	$ 12,139

16. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation and subsidiary significant commitments and contingencies as of September 30, 2008 were as follows:

a. The Corporation rents its office from third parties under an operating lease agreement expiring in February 2010.

   As of September 30, 2008, future remaining lease payments were as follows:

Period/Year	**Amount**
2008 (from October to December)	$ 751
2009	2,348
2010	228
	$ 3,327

b. Unused letters of credit amounted to $961,016 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. On October 3, 2008, the Hsinchu District Court judged the Corporation’s president and engineers win in lawsuit.

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 sued the Corporation for infringement of four SanDisk patents. In response to Judge’s order to stay, SanDisk terminated three of the patents at issue from investigation in May, August and September of 2008. The result of these developments is that there is only one of the original patent still asserted against the Corporation.

   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 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.

g. On July 17, 2008, the Corporation filed a complaint against Fineart Technology Co., Ltd. ("Fineart") because the Corporation claimed that Fineart did not carry out its obligations under a software development contract. The Corporation believes this case would not have a material effect on the Corporation's financial statements.

17. ADDITIONAL DISCLOSURES

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