

(This MEETING HANDBOOK has been translated into English from the original Chinese version prepared and used in the Republic of China, and this English version was only for reference.)



Stock code : 8299

PHISON ELECTRONICS CORP.

2009

REGULAR SHAREHOLDERS MEETING

MEETING HANDBOOK

Time: May 08, 2009

Location: 2F Meeting Room, No. 399, Yu-Yi Rd., Jhunan, Miaoli, Taiwan

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PHISON ELECTRONICS CORP.
2009
REGULAR SHAREHOLDERS' MEETING
MEETING PROCEDURE

I. MEETING PROCEDURE

1. Call Meeting to Order
2. Chairperson's Address
3. Items to Report
4. Accept items
5. Discussion items
6. Extemporaneous Motions
7. Meeting Adjourned

PHISON ELECTRONICS CORP.
2009
REGULAR SHAREHOLDERS' MEETING
MEETING AGENDA

II. MEETING AGENDA

Time: 9:00 AM on May 08, 2009 (Friday)

Place: 2F Meeting Room, No. 399, Yu-Yi Rd., Jhunan, Miaoli, Taiwan

Chairperson: Director, Mr. KS Pua

1. Chairperson's Address

2. Items to Report:

- i. The business operation report of the Company for Year 2008.
- ii. The supervisors' report for reviewing the financial statements of the Company for Year 2008.

3. Accept items:

- i. The business operation report and the financial statements of the Company for Year 2008
- ii. For the matter regarding the retained earnings distribution of the Company for Year 2008

4. Discussion Items:

- i. The retained earnings capitalized plan for issuing new shares.
- ii. The revisions to the partial articles of the Articles of the Corporation, and proposed to raise the authorized capital to NT\$2,000,000,000.
- iii. To approve the revisions to "The Management Of Engaging in Derivatives Trading", "The Procedures Of Acquisition And Disposal Of Assets", "The Management Of Loans To Others" , and "The Management Of Endorsements and Guarantees".
- iv. To release the Directors' non-compete restrictions.
- v. The Company proposed to carry out private placement of new common shares with specific subscribers.

5. Extemporaneous Motions

6. Meeting Adjourned

III. ITEMS TO REPORT :

Motion 1. (Proposed by BOD meeting)

Topic: The business operation report of the Company for Year 2008, report for inspection.

Explanation: The business operation report of the Company for Year 2008.
Please refer to Attachment 1(page 13~14).

Motion 2. (Proposed by BOD meeting)

Topic: To present the supervisors' review report for Year 2008, report for inspection.

Explanation: (1) The financial statements of 2008 (including Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity and Cash Flow Statement) were audited by CPA, incorporated with the annual business operation report and the earning distribution of 2008 were reviewed by the supervisors. Please refer to attachment 2(page 15) of the Supervisors' review report which submit according to the Article 219 of Company Law.

(2) Please the Supervisors read this Supervisors' Review Report.

IV. ACCEPT ITEMS :

Motion 1. (Proposed by BOD meeting)

Topic: The business operation report and the financial statements of the Company for Year 2008, please be accepted.

Explanation: 1.The business operation report and the financial statements of the Company of Year 2008 have been prepared, and the financial statements has been certified by the certified public accountants of Deloitte & Touche, Mr. Dai Xin Wei(戴信維) and Mr. Lin Wen Ching(林文欽), and has been reviewed by our supervisors. Please be accepted.

2.Please refer to Attachment 1(page 13~14) of the 2008 business operation report and Attachment 3(page 16~32) of the 2008 financial statements.

Resolution:

Motion 2. (Proposed by BOD meeting)

Topic: For the matter regarding the retained earnings distribution of the Company for Year 2008, please be discussed.

Explanation:(1)The net profit after taxes of the Company for Year 2008 are NT\$553,984,710. The Company prepared the proposal regarding the distribution of profits for Year 2008 according to the rules of the Articles of the Corporation. The table of earnings distribution of the Company for Year 2008 is proposed as below :

Phison Electronics Corp.

The table of earnings distribution for Year 2008

(Unit : NT\$ Dollar)

ITEMS	Amount
Balance of retained earnings at the beginning of the period	938,908,650
Plus : Net profits after taxes of the Year 2008	553,984,710
Subtract : 10% Legal reserve	55,398,471
Usable distribution	1,437,494,889
Items of distribution:	
Shareholder Dividend-Stock (Distributed)	120,000,000
Shareholder Dividend-Cash (Distributed)	380,000,000
Final Undistributed Retained Earnings	937,494,889
Remark 1 : Total amount of distribution: NT\$649,494,950.	
Remark 2 : The compensation of directors and supervisors: NT\$6,494,950 Bonuses of stocks to be allotted to employees: NT\$113,000,000. Bonuses of cash to be allotted to employees: NT\$30,000,000.	
Remark 3 : (1)The compensation of directors and supervisors of NT\$6,494,950 is 1% of total distribution amount. (2)Total Bonuses to be allotted to employees of NT\$143,000,000 is 22.02% of total distribution amount. (3)Total Dividends to be allotted to shareholders of NT\$500,000,000 is 76.98% of total distribution amount.	

(2)The shareholder cash dividends of NT\$380,000,000 are allotted to the shareholders recorded on the shareholders' register roster on the Base Day for cash dividend distribution and are distributed in proportion to the amount of their shares hold. The proportion is NT\$2.97534427 for every share. The above distributed amount per share for Shareholder Dividend was calculated based on the total actual outstanding common shares of the Company as of 2009/2/19 (That is 127,716,313 shares). Board of Directors are authorized to set a Base Day for cash dividend distribution and handle related procedures after the motion passed by regular shareholders' meeting. In addition, in case that the actual total outstanding shares of the Company on Base Day for cash dividend distribution(Ex-Dividend) changes, the Board of Directors are authorized to adjust the amount of dividend per share in accordance with the actual total

outstanding shares of the Company on Base Day of cash dividend distribution(Ex-Dividend). Regarding the actual list of distributing cash bonuses to employees will be decided by authorized management, and will be carry out after approving by the chairman and president of the Company.

- (3) Consider to the rules of Phison Articles of the Corporation and the effects to inspired our employees, the difference of record in books amount and BOD meeting proposed amount will included in expenses of 2009.

Resolution:

V. DISCUSSION ITEMS :

Motion 1. (Proposed by BOD meeting)

Topic : To approve the retained earnings capitalized plan for issuing new shares, please be discussed.

Explanation :

- (1)In order to match the requirements of business operation and replenish the Company's operating cash reserve, the Company proposed to issue 12,000,000 new shares in proceeds from the shareholder stock dividends of NT\$120,000,000 which was distributed from usable distributing retained earnings of FY2008. And the Company also proposed to issue the new shares in proceeds from the employee stock bonus of NT\$113,000,000 which was distributed from usable distributing retained earnings of FY2008, but the quantity of the new shares from employees stock bonuses will be calculated by the base price of the closing stock price of the date before one day of the 2009 regular shareholders meeting and consider the effect of ex-right and ex-dividend. For the fractional shares which are distributed less than one full share, the Company may change to issue the cash to the employees. The face value per share is NT\$10, and all new shares are common shares.
- (2)Shareholder stock dividend are allotted to the shareholders recorded on the shareholders' register roster on the Base Day for

stock dividend distribution and are distributed in proportion to the amount of their shares hold. The proportion is 93.958240 shares for every thousand shares. For the fractional shares which are distributed less than one full share, shareholders may arrange for pooling together their fractional share entitlements to form one share and register such pooling within five days from the first date of shares transfer suspension period with Phison's stock affairs agency. For those unsolved fractional shares, the Chairman of the Board will consult with a certain person to buy the share at its face value by cash. The above distributed amount per share for Shareholder Dividend was calculated based on the total actual outstanding common shares of the Company as of 2009/2/19 (That is 127,716,313 shares). In addition, in case that the actual total outstanding shares of the Company on the Base Day for stock dividend distribution(Ex-Right) changes, the Board of Directors are authorized to adjust the shares dividend per share in accordance with the actual total outstanding shares of the Company on Base Day of stock dividend distribution(Ex-Right).

- (3) Regarding the actual list of employee stock bonuses to capitalize to issue new shares will be decided by authorized management, and will be carry out after approving by chairman and president.
- (4) The new shares issued by this increase of capital are equivalent to common shares which have been issued in the right and the obligation.
- (5) This motion will be submitted to the competent authority of securities for approval according to the law after it has been approved by regular shareholders' meeting. The Board of Directors will additionally set a Base Day for Ex- Right(stock dividend). For other matters concerned, the Board of Directors will be fully authorized as well.

Resolution:

Motion 2. (Proposed by BOD meeting)

Topic : To approve the revisions to the partial articles of the Articles of the Corporation, and proposed to raise the authorized capital to NT\$2,000,000,000, please be discussed.

Explanation : (1)In order to meet the requirements of business operation, the authorized capital of the Company was proposed to raise to NT\$2,000,000,000 in which NT\$120,000,000 provided for the exercise of transfer right regarding the issuance of employee stock options were included.

(2)Regarding the revised articles of the Articles of the Corporation, please refer to the Attachment 4(page33~34) of amendment comparison table for the Articles of the Corporation.

Resolution:

Motion 3. (Proposed by BOD meeting)

Topic : To approve the revisions to “The Management Of Engaging in Derivatives Trading”, “The Procedures Of Acquisition And Disposal Of Assets”, “The Management Of Loans To Others” , and “The Management Of Endorsements and Guarantees”.

Explanation: 1.According to the “Company Law”, "Criteria for Handling Acquisition and Disposal of Assets by Public Companies", the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” and the needs of the Company’s operation, the Company proposed to revise partial articles of “Policies and Procedures for Financial Derivatives Transactions”, “The Procedures of Acquisition and Disposal of Assets”, “The Management of Loans to Others” and “The Management of Endorsements and Guarantees”.

2.Please refer to the Attachment 5(page 35~43) of the amendment comparison table .

Resolution:

Motion 4. (Proposed by BOD meeting)

Topic : To release the Directors' non-compete restrictions, please be discussed.

Explanation : (1) According to the Item1 of Article 209 of Company Laws, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.

(2) Due to the Directors of the Company may invest or operate other companies which operate in the same or similar scope of the Company's business and act as the directors of these companies, in order to match the actual business need, the Company proposed to release the Directors' non-compete restrictions, as long as such release does not cause the infringement and damage of Company's benefit due to the director's personal conflict of interests. The increased list to be released was as below:

The Director	The scope of releasing the non-compete restrictions	Position
KS Pua	Aptos Technology Inc.	The representative of Phison (Vice-Chairman)
	Trison Technology Corporation	The representative of Phison (Director)
CH Kuang	MICROTOPS DESIGN CORP.	The representative of Phison (Director)
TOSHIBA CORPORATION	1. TOSHIBA CORPORATION 2. The subsidiary companies under Toshiba Corporation Group and the positions act as the director or managed officers of other companies, that these companies engage in the same business with Phison's.: Toshiba Memory Systems Co., Ltd. 3. Other companies that TOSHIBA CORPORATION own investment ownership (shareholding ratio) less than 50% or TOSHIBA CORPORATION has the Directorship of the companies engages in the same or similar business with Phison: The companies and the conditions conformed with above description are too many, so the companies are not to be lined up one by one here.	Director

Resolution:

Motion 5. (Proposed by BOD meeting)

Topic: The Company proposed to carry out private placement of new common shares with specific subscribers, please be discussed.

Explanation: 1. In order to replenish the Company's operating cash reserve to strengthen the financial structure and lower the business operating risks, and bring in the strategic partners to meet the requirements of company operation plan, after considering the timeliness and simplification of raising the capital and bringing in the strategic partners, we proposed to carry out private placement of new common shares with specific subscribers according to the Article 43-6 of Securities and Exchange Act and related regulations. The Company proposed to offer not more than 32,000,000 new shares of privately placed shares, and the issued capital of the Company will not be increased more than NT\$320,000,000. The face value per share is NT\$10, and all new shares are common shares.

2. According to the Article 43-6 of Securities and Exchange Act, the explanation are as below:

(1) The basis and rationale for the setting of the price:

For setting the offering price of privately placed shares, the offering price shall be not lower than 70% of "the average price of the closing stock price of 1 day, or 3 days, or 5 days before the date of deciding the offering price, deduct the Ex-Right effect of distributing stock dividend and add the reversed Ex-Right effect of decreasing issued capital", the Company will also consider the market condition of the common share price, the limitation of listing the shares on the OTC market and the limitation of selling the shares, etc. The offering price was temporarily set between NT\$53~60 per share(This temporary offering price was decided according to above method and not lower than 70% of NT\$

75.1 of an average price of the closing stock price of 1 day before the temporary date of deciding the offering price on February 3, 2009(not including the temporary date of deciding the price). The actual date of deciding the offering price and the actual offering price are authorized the board directors to decide according to the condition of the actual specific subscribers and market situation.

Because the privately placed shares can't be freely transferred within three years and considering the business benefit from cooperating with the strategic partners, so the method of setting the offering price is rational.

(2) The means of selecting the specified persons.

The Company will decide the actual specific subscribers according to the regulations of the Article 43-6-1 of Securities and Exchange Act. There are no confirmed specific subscribers now.

(3) The reasons necessitating the private placement.

In order to deal with the changing of the market, the Company planed to replenish the operating cash reserve to strengthen the financial structure, and bring in the strategic partners to ensure long-term business developing of the Company. Furthermore, the method of private placement have the characteristics of quick and simple procedure of offering new shares and the limitation of transferring shares, which can more ensure the long-term relationship with the strategic partners. So, we decided to carry out the method of private placement instead of the public offering.

Expected beneficial result: The Company will raise the capital and bringing in the strategic partners to have more sufficient cash and good strategic alliance plan to handle the business growth, strengthen the product technology, and expand the market share, to make the Company operate

stably in the changing market.

3. This private placement of new common shares may be carried out in one time or in installments within one year since the date of the resolution of the shareholders meeting.
4. In principle, the right and the obligation of the privately placed new shares are equivalent to the common shares which have been issued by the Company. However, according to the Article 43-8 of Securities and Exchange Act, the privately placed shares may not be sold within three full years since the delivery date of the shares. After three years since the delivery date of the shares, the Company will arrange with the chief authorities for a public offering and listing on the stock market for the privately placed shares, according to the regulations of Securities and Exchange Act and other related regulations.
5. After the related items of private placement of new common shares being agreed by the shareholders meeting, the Board of Directors will be fully authorized to handle it and the other matters concerned or any items changed.

Resolution:

VI. EXTEMPORANEOUS MOTIONS

VII. ATTACHMENT

【Attachment 1】

Phison Electronics Corporation *The Business Operation Report of Year 2008*

1. Operating Overview

(1) Sales Revenue:

As a result of the Company continually developed and issued the new products and continually expanded the market share, the Company's net sales revenue is NT\$18,856,314 thousand dollars of FY2008, comparing to NT\$20,258,191 thousand dollars of FY2007, the decreasing rate is 6.92% of NT\$1,401,877 thousand dollars decreasing.

(2) Net Profit:

Our Company's net profit after taxes is NT\$553,984 thousand dollars of FY2008, comparing to NT\$1,394,553 thousand dollars of FY2007, the decreasing rate is 60.28% of NT\$840,569 thousand dollars decreasing.

(3) As of December 31, 2008, the Company has total 391 employees, including 186 employees of RD departments.

2. **Actual vs. Budget** : Phison didn't disclose the 2008 Budget to the public, so we didn't have to disclose the actual executed results.

3. Financial Analysis for FY2008 & FY2007

Unit: NT\$ Thousand

Items	2008	2007	Changed Amount	Changed rate(%)
Sales Revenue	18,856,314	20,258,191	(1,401,877)	(6.92%)
Sales margin	1,284,126	2,301,363	(1,017,237)	(44.20%)
Income from Operating	431,980	1,584,666	(1,152,686)	(72.74%)
Non-operating income and expenses	172,971	(54,149)	227,120	419.44%
Net Profit After Taxes	553,984	1,394,553	(840,569)	(60.28%)

Items		2008	2007
Capital Structure Analysis	Debt ratio	28.52%	35.58%
	Long-term fund to fixed assets ratio	634.28%	933.69%
Liquidity Analysis	Current ratio	287.95%	247.44%
	Quick ratio	200.20%	181.18%
	Times interest earned	801.20	8,847.93
Profitability Analysis	ROA	7.34%	20.59%
	ROE	10.80%	35.56%
	Operating income to paid in capital ratio	34.08%	156.62%
	Pre-tax income to paid in capital ratio	47.72%	151.27%
	Net Profit Margin rate	2.94%	6.88%
	EPS (NT dollar per share)	4.45	14.15

4. Research & Development Overview

(1) The Research & Development Expenses for FY2008 & FY2007

We are the professional developer and provider for flash applications controller IC and system integration application. We spent a lot of manpower and money for R&D of new products, to meet the rapid product changing trend and keep our market advantage competition by shortening the research and development period to speed out new products become available in the market. The R&D expenses of FY2008 is NT\$415,098 thousand dollars and FY2007 is NT\$390,276, each occupy the full year total sales revenue 2.203% and 1.93%. Until to the end of 2008, we already got about 150 patents approved.

(2)R&D Achievements

In year 2008, we successfully developed and launched many new products which were well accepted by the market, including below:

- a.New 0.162u USB2.0 Pen Drive Single-chip Controllers & system applications
- b.New 0.162u SD/ microSD Memory Card Controllers and Memory Cards
- c.0.162u CF/IDE/PATA Single-chip Controllers, and SSD system applications
- d.PCI Express controller and Express Card system applications
- e.Card Reader Controllers & system application
- f.Other embedded flash application solution

(3)The main products lines in Year 2009

- a. Support 32nm and x3 NAND Flash USB2.0 Pen Drive and flash card Controllers & system applications
- b Embedded eMMC/eSD system application solution for mobile phone market
- c. PATA/SATA SSD controller and 1.8/2.5 inch SSD system application for PC, low price PC and industry PC market.
- d. PCI Express controller and Express Card system applications
- e. Support smart card USB / Card Controller
- f. Card Readers solution
- g. Other new embedded flash application solution

PHISON ELECTRONICS CORPORATION

Chairman: KS Pua

President: AY CK

Accounting Manager: Jeanie Wei

【 Attachment 2 】

Supervisors' Review Report

To:

The 2009 regular shareholders meeting of Phison Electronics Corp.

The financial statements of 2008 (including Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity and Cash Flow Statement) were audited by the certified public accountants of Deloitte & Touche, Mr. Dai Xin Wei(戴信維) and Mr. Lin Wen Ching(林文欽), incorporated with the annual business operation report, financial report and the earning distribution of 2008 were reviewed by the supervisors and there is no inconsistentment. The supervisors submit the review report according to the rules of the article 219 of Company Law.

Phison Electronics Corp.

Supervisor: Eric AY

Li-Min Cheng

Y.P., Shen

Date: March 6, 2009

【Attachment 3】 The financial statements of the Company for Year 2008

(This INDEPENDENT AUDITORS' REPORT had been translated into English from the original Chinese version prepared and used in the Republic of China and only for reference.)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have audited the accompanying nonconsolidated balance sheets of Phison Electronics Corp. (the "Corporation") as of December 31, 2008 and 2007, and the related nonconsolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These nonconsolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these nonconsolidated financial statements based on our audits.

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

In our opinion, the nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, 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 nonconsolidated 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 and remunerations were previously recorded as appropriations from earnings.

We have also audited the consolidated financial statements of Phison Electronics Corp. and its subsidiary as of and for the years ended December 31, 2008 and 2007 and have issued a modified unqualified opinion and an unqualified opinion thereon, respectively, in our report dated February 11, 2009 (not presented herewith).

February 11, 2009

Notice to Readers

The accompanying nonconsolidated 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 audit such nonconsolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying nonconsolidated 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 auditors' report and nonconsolidated financial statements shall prevail.

PHISON ELECTRONICS CORP.

NONCONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008		2007		LIABILITIES AND SHAREHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 2,367,946	32	\$ 2,757,643	35	Notes and accounts payable				
Notes and accounts receivable					Third parties	\$ 986,659	13	\$ 1,056,618	13
Third parties, net (Notes 2 and 6)	1,409,999	19	1,805,808	23	Related parties (Note 18)	695,063	10	1,369,446	18
Related parties (Note 18)	139,945	2	47,401	1	Income tax payable (Notes 2 and 13)	-	-	111,670	2
Other financial assets	31,906	1	1,241	-	Accrued expenses (Note 15)	359,842	5	208,020	3
Inventories, net (Notes 2 and 7)	1,129,995	15	1,783,098	23	Other (Note 18)	<u>48,043</u>	<u>1</u>	<u>29,059</u>	<u>-</u>
Prepayments	703,614	10	45,484	1	Total current liabilities	<u>2,089,607</u>	<u>29</u>	<u>2,774,813</u>	<u>36</u>
Deferred income tax assets - current (Notes 2 and 13)	150,198	2	169,999	2	OTHER LIABILITIES				
Restricted assets (Note 19)	5,100	-	10,253	-	Guarantee deposits received	353	-	-	-
Other	<u>78,397</u>	<u>1</u>	<u>222,721</u>	<u>3</u>	Deferred credits (Notes 2 and 18)	<u>10,257</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>6,017,100</u>	<u>82</u>	<u>6,843,648</u>	<u>88</u>	Total other liabilities	<u>10,610</u>	<u>-</u>	<u>-</u>	<u>-</u>
LONG-TERM INVESTMENTS					Total liabilities	<u>2,100,217</u>	<u>29</u>	<u>2,774,813</u>	<u>36</u>
Investments accounted for by the equity method (Notes 2 and 9)	417,123	6	267,202	3	SHAREHOLDERS' EQUITY (Notes 2, 3 and 15)				
Financial assets carried at cost - noncurrent (Notes 2 and 8)	<u>35,356</u>	<u>-</u>	<u>39,300</u>	<u>1</u>	Capital stock - NT\$10.00 par value				
Total long-term investments	<u>452,479</u>	<u>6</u>	<u>306,502</u>	<u>4</u>	Authorized - 180,000 thousand shares in 2008 and 130,000 thousand shares in 2007				
PROPERTIES (Notes 2, 10 and 19)					Issued and outstanding - 126,766 thousand shares in 2008 and 101,180 thousand shares in 2007	<u>1,267,662</u>	<u>17</u>	<u>1,011,802</u>	<u>13</u>
Cost					Capital surplus				
Land	388,000	5	180,000	3	Additional paid-in capital	2,235,062	31	1,767,962	23
Building	391,868	5	-	-	From long-term investment	21,088	-	4,517	-
Testing equipment	97,502	2	85,355	1	Employees stock options	<u>321</u>	<u>-</u>	<u>-</u>	<u>-</u>
Office equipment	14,948	-	8,737	-	Total capital surplus	<u>2,256,471</u>	<u>31</u>	<u>1,772,479</u>	<u>23</u>
Leasehold improvements	-	-	2,588	-	Retained earnings				
Other equipment	<u>1,870</u>	<u>-</u>	<u>2,024</u>	<u>-</u>	Legal reserve	374,481	5	235,243	3
Total cost	894,188	12	278,704	4	Unappropriated retained earnings	<u>1,492,893</u>	<u>20</u>	<u>1,977,073</u>	<u>25</u>
Less: Accumulated depreciation	<u>67,969</u>	<u>1</u>	<u>35,772</u>	<u>1</u>	Total retained earnings	<u>1,867,374</u>	<u>25</u>	<u>2,212,316</u>	<u>28</u>
	826,219	11	242,932	3	Other equity				
Construction in progress	-	-	287,243	4	Treasury stock - 750 thousand shares	<u>(127,645)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>
Prepayment for equipment	<u>3,682</u>	<u>-</u>	<u>4,972</u>	<u>-</u>	Total shareholders' equity	<u>5,263,862</u>	<u>71</u>	<u>4,996,597</u>	<u>64</u>
Net properties	<u>829,901</u>	<u>11</u>	<u>535,147</u>	<u>7</u>					
INTANGIBLE ASSETS (Notes 2, 11, 18 and 20)	<u>54,591</u>	<u>1</u>	<u>75,577</u>	<u>1</u>					
OTHER ASSETS									
Guarantee deposits paid(Note 19)	4,228	-	6,712	-					
Deferred income tax assets - noncurrent (Notes 2 and 13)	1,448	-	121	-					
Miscellaneous (Notes 2 and 12)	<u>4,332</u>	<u>-</u>	<u>3,703</u>	<u>-</u>					
Total other assets	<u>10,008</u>	<u>-</u>	<u>10,536</u>	<u>-</u>					
TOTAL	<u>\$ 7,364,079</u>	<u>100</u>	<u>\$ 7,771,410</u>	<u>100</u>	TOTAL	<u>\$ 7,364,079</u>	<u>100</u>	<u>\$ 7,771,410</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

PHISON ELECTRONICS CORP.
NONCONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	\$18,969,987	101	\$20,322,964	101
Less: Sales returns and allowances	<u>124,368</u>	<u>1</u>	<u>138,745</u>	<u>1</u>
Net sales	18,845,619	100	20,184,219	100
Service revenue	<u>10,695</u>	<u>-</u>	<u>73,972</u>	<u>-</u>
Total operating revenue	18,856,314	100	20,258,191	100
OPERATING COSTS (Notes 14 and 18)	<u>17,572,188</u>	<u>93</u>	<u>17,956,828</u>	<u>89</u>
GROSS PROFIT	<u>1,284,126</u>	<u>7</u>	<u>2,301,363</u>	<u>11</u>
OPERATING EXPENSES (Notes 14 and 18)				
Marketing	201,810	1	191,255	1
General and administrative	235,238	2	135,166	-
Research and development	<u>415,098</u>	<u>2</u>	<u>390,276</u>	<u>2</u>
Total operating expenses	<u>852,146</u>	<u>5</u>	<u>716,697</u>	<u>3</u>
OPERATING INCOME	<u>431,980</u>	<u>2</u>	<u>1,584,666</u>	<u>8</u>
NONOPERATING INCOME AND GAINS				
Foreign exchange gains, net (Note 2)	114,011	1	8,673	-
Interest income	24,611	-	24,282	-
Gains on disposal of investments, net (Notes 2, 5 and 8)	3,420	-	3,140	-
Equity in net gain of investees (Notes 2 and 9)	-	-	45,519	1
Other (Note 18)	<u>69,801</u>	<u>-</u>	<u>16,715</u>	<u>-</u>
Total nonoperating income and gains	<u>211,843</u>	<u>1</u>	<u>98,329</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	24,036	-	145,583	1
Impairment loss on financial assets carried at cost (Notes 2 and 8)	11,800	-	-	-
Equity in net loss of investees (Notes 2 and 9)	1,788	-	-	-
Other (Note 2)	<u>1,248</u>	<u>-</u>	<u>6,895</u>	<u>-</u>
Total nonoperating expenses and losses	<u>38,872</u>	<u>-</u>	<u>152,478</u>	<u>1</u>
INCOME BEFORE INCOME TAX	604,951	3	1,530,517	8
INCOME TAX EXPENSE (Notes 2 and 13)	<u>50,967</u>	<u>-</u>	<u>135,964</u>	<u>1</u>
NET INCOME	<u>\$ 553,984</u>	<u>3</u>	<u>\$ 1,394,553</u>	<u>7</u>

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 4.86</u>	<u>\$ 4.45</u>	<u>\$ 12.77</u>	<u>\$ 11.64</u>
Diluted	<u>\$ 4.76</u>	<u>\$ 4.36</u>	<u>\$ 12.75</u>	<u>\$ 11.61</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

(Concluded)

PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007**

(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stocks Issued and Outstanding		Capital Surplus				Retained Earnings			Treasury Stock	Total Shareholders' Equity (Note 15)
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Total	Legal Reserve	Unappropriated	Total		
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	1,830	18,300	-	-	-	-	-	(18,300)	(18,300)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
Stock dividends - NT\$2.84329 per share	21,773	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	96,180	961,802	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	-	-	-	3,955	-	3,955	-	(2,169)	(2,169)	-	1,786
Issuance of capital stock as of June 14, 2007 - NT\$214.00 per share	4,000	40,000	816,000	-	-	816,000	-	-	-	-	856,000
Issuance of capital stock as of October 31, 2007 - NT\$239.00 per share	1,000	10,000	229,000	-	-	229,000	-	-	-	-	239,000
Net income in 2007	-	-	-	-	-	-	-	1,394,553	1,394,553	-	1,394,553
BALANCE, DECEMBER 31, 2007	101,180	1,011,802	1,767,962	4,517	-	1,772,479	235,243	1,977,073	2,212,316	-	4,996,597
Appropriation of the 2007 earnings											
Legal reserve	-	-	-	-	-	-	139,238	(139,238)	-	-	-
Bonus to employees - stock	2,200	22,000	-	-	-	-	-	(22,000)	(22,000)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Stock dividends - NT\$1.93637 per share	20,086	200,860	-	-	-	-	-	(200,860)	(200,860)	-	-
Cash dividends - NT\$5.80912 per share	-	-	-	-	-	-	-	(602,582)	(602,582)	-	(602,582)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(13,484)	(13,484)	-	(13,484)
Balance after appropriation	123,466	1,234,662	1,767,962	4,517	-	1,772,479	374,481	938,909	1,313,390	-	4,320,531
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	-	-	-	16,571	-	16,571	-	-	-	-	16,571
Issuance of capital stock as of June 16, 2008 - NT\$128.00 per share	1,200	12,000	141,600	-	-	141,600	-	-	-	-	153,600
Issuance of capital stock as of June 23, 2008 - NT\$165.00 per share	2,100	21,000	325,500	-	-	325,500	-	-	-	-	346,500
Acquisition of treasury stock - 750 thousand shares	-	-	-	-	-	-	-	-	-	(127,645)	(127,645)
Compensation cost recognized for employee stock options	-	-	-	-	321	321	-	-	-	-	321
Net income in 2008	-	-	-	-	-	-	-	553,984	553,984	-	553,984
BALANCE, DECEMBER 31, 2008	<u>126,766</u>	<u>\$1,267,662</u>	<u>\$2,235,062</u>	<u>\$ 21,088</u>	<u>\$321</u>	<u>\$2,256,471</u>	<u>\$374,481</u>	<u>\$1,492,893</u>	<u>\$1,867,374</u>	<u>\$ (127,645)</u>	<u>\$5,263,862</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

PHISON ELECTRONICS CORP.
NONCONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 553,984	\$1,394,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	55,013	45,953
Depreciation	40,531	22,091
Gain on disposal of intangible assets	(38,813)	(197)
Losses on inventory valuation and obsolescence	24,036	145,583
Deferred income tax	18,474	(37,118)
Provision (reversal of) allowance for doubtful accounts	(18,433)	5,391
Impairment loss on financial assets carried at cost	11,800	-
Equity in net loss (gain) of investees	1,788	(45,519)
Loss on disposal of financial assets carried at cost	755	-
Compensation cost recognized for employee stock options	321	-
Loss on disposal and retirement of properties, net	207	4,073
Donation of shares of an equity-method investee	-	372
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	-	150,129
Notes and accounts receivable	321,698	305,663
Other financial assets	(30,665)	(1,076)
Inventories	629,067	(429,829)
Other current assets	(513,681)	(45,099)
Notes and accounts payable	(744,342)	(223,174)
Income tax payable	(111,670)	25,215
Accrued expenses	151,822	25,321
Other current liabilities	21,734	4,344
Prepaid pension cost	(629)	(1,262)
Net cash provided by operating activities	<u>372,997</u>	<u>1,345,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(340,376)	(482,143)
Increase in investments accounted for by the equity method	(135,138)	(114,500)
Proceeds of the disposal of intangible assets	50,000	200
Increase in intangible assets	(35,082)	(28,123)
Increase in financial assets carried at cost	(10,356)	(19,300)
Decrease in restricted assets	5,153	18,764
Decrease (increase) in guarantee deposits paid	2,484	(1,724)
Proceeds of the disposal of properties	2,134	-
Proceeds of the disposal of financial assets carried at cost	<u>1,745</u>	<u>-</u>
Net cash used in investing activities	<u>(459,436)</u>	<u>(626,826)</u>

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	\$ (602,582)	\$ (290,309)
Proceeds of the issuance of capital stock	500,100	1,095,000
Cash paid for acquisition of treasury stock	(127,645)	-
Bonus to employees and remuneration to directors and supervisors	(73,484)	(51,558)
Increase in guarantee deposit received	<u>353</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(303,258)</u>	<u>753,133</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(389,697)	1,471,721
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,757,643</u>	<u>1,285,922</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$2,367,946</u>	<u>\$2,757,643</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 756</u>	<u>\$ 174</u>
Income tax paid	<u>\$ 144,163</u>	<u>\$ 141,720</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	\$ 337,626	\$ 483,694
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	<u>2,750</u>	<u>(1,551)</u>
Acquisition of properties	<u>\$ 340,376</u>	<u>\$ 482,143</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)(Concluded)

REPRESENTATION LETTER

The affiliates of Phison Electronics Corp. (the “Corporation”), which should have been included in the combined financial statements of the Corporation and its affiliates as of and for the year ended December 31, 2008 based on the “Regulations Governing The Preparation of Combined Financial Statements of Public Companies and Their Affiliates” in the Republic of China (ROC), are the same as those included in the consolidated financial statements of the Corporation and its subsidiary as of and for the year ended December 31, 2008, prepared under the Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements,” in the ROC. The information required to be disclosed in the combined financial statements has already been disclosed in the above consolidated financial statements. Consequently, there is no need to prepare separate combined financial statements of the Corporation and its affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

KHEIN SENG PUA
Chairman

February 11, 2009

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have audited the accompanying consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 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 and remunerations were previously recorded as appropriations from earnings.

February 11, 2009

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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' 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 auditors' report and consolidated financial statements shall prevail.

PHISON ELECTRONICS CORP. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008		2007		LIABILITIES AND SHAREHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$2,378,368	32	\$2,767,961	36	Notes and accounts payable				
Notes and accounts receivable					Third parties	\$ 986,659	13	\$1,056,618	13
Third parties, net (Notes 2 and 6)	1,409,999	19	1,805,808	23	Related parties (Note 18)	695,063	10	1,369,446	18
Related parties (Note 18)	139,945	2	47,401	1	Income tax payable (Notes 2 and 13)	10	-	111,670	2
Other financial assets	31,906	1	1,241	-	Accrued expenses (Note 15)	359,842	5	208,020	3
Inventories, net (Notes 2 and 7)	1,129,995	15	1,783,098	23	Other (Note 18)	48,043	1	29,059	-
Prepayments	703,641	10	45,498	-					
Deferred income tax assets - current (Notes 2 and 13)	150,198	2	169,999	2	Total current liabilities	<u>2,089,617</u>	<u>29</u>	<u>2,774,813</u>	<u>36</u>
Restricted assets (Note 19)	5,100	-	10,253	-					
Other	78,397	1	222,721	3	OTHER LIABILITIES				
Total current assets	<u>6,027,549</u>	<u>82</u>	<u>6,853,980</u>	<u>88</u>	Guarantee deposits received	353	-	-	-
					Deferred credits (Notes 2 and 18)	10,257	-	-	-
LONG-TERM INVESTMENTS					Total other liabilities	<u>10,610</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments accounted for by the equity method (Notes 2 and 9)	396,684	5	246,870	3	Total liabilities	<u>2,100,227</u>	<u>29</u>	<u>2,774,813</u>	<u>36</u>
Financial assets carried at cost - noncurrent (Notes 2 and 8)	45,356	1	49,300	1					
Total long-term investments	<u>442,040</u>	<u>6</u>	<u>296,170</u>	<u>4</u>	SHAREHOLDERS' EQUITY (Notes 2, 3 and 15)				
					Capital stock - NT\$10.00 par value				
PROPERTIES (Notes 2, 10 and 19)					Authorized - 180,000 thousands shares in 2008 and 130,000 thousand shares in 2007				
Cost					Issued and outstanding - 126,766 thousand shares in 2008 and 101,180 thousand shares in 2007	<u>1,267,662</u>	<u>17</u>	<u>1,011,802</u>	<u>13</u>
Land	388,000	5	180,000	3	Capital surplus				
Buildings	391,868	5	-	-	Additional paid-in capital	2,235,062	31	1,767,962	23
Testing equipment	97,502	2	85,355	1	From long-term investment	21,088	-	4,517	-
Office equipment	14,948	-	8,737	-	Employee stock options	321	-	-	-
Leasehold improvements	-	-	2,588	-	Total capital surplus	<u>2,256,471</u>	<u>31</u>	<u>1,772,479</u>	<u>23</u>
Other equipment	1,870	-	2,024	-	Retained earnings				
Total cost	894,188	12	278,704	4	Legal reserve	374,481	5	235,243	3
Less: Accumulated depreciation	67,969	1	35,772	1	Unappropriated retained earnings	1,492,893	20	1,977,073	25
	826,219	11	242,932	3	Total retained earnings	<u>1,867,374</u>	<u>25</u>	<u>2,212,316</u>	<u>28</u>
Construction in progress	-	-	287,243	4	Other equity				
Prepayment for equipment	3,682	-	4,972	-	Treasury stock - 750 thousand shares	(127,645)	(2)	-	-
Net properties	<u>829,901</u>	<u>11</u>	<u>535,147</u>	<u>7</u>	Total shareholders' equity	<u>5,263,862</u>	<u>71</u>	<u>4,996,597</u>	<u>64</u>
INTANGIBLE ASSETS (Notes 2, 11, 18 and 20)	<u>54,591</u>	<u>1</u>	<u>75,577</u>	<u>1</u>					
OTHER ASSETS									
Guarantee deposits paid (Note 19)	4,228	-	6,712	-					
Deferred income tax assets - noncurrent (Notes 2 and 13)	1,448	-	121	-					
Miscellaneous (Notes 2 and 12)	4,332	-	3,703	-					
Total other assets	<u>10,008</u>	<u>-</u>	<u>10,536</u>	<u>-</u>					
TOTAL	<u>\$7,364,089</u>	<u>100</u>	<u>\$7,771,410</u>	<u>100</u>	TOTAL	<u>\$7,364,089</u>	<u>100</u>	<u>\$7,771,410</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	\$18,969,987	101	\$20,322,964	101
Less: Sales returns and allowances	<u>124,368</u>	<u>1</u>	<u>138,745</u>	<u>1</u>
Net sales	18,845,619	100	20,184,219	100
Service revenue	<u>10,695</u>	<u>-</u>	<u>73,972</u>	<u>-</u>
Total operating revenue	18,856,314	100	20,258,191	100
OPERATING COSTS (Notes 14 and 18)	<u>17,572,188</u>	<u>93</u>	<u>17,956,828</u>	<u>89</u>
GROSS PROFIT	<u>1,284,126</u>	<u>7</u>	<u>2,301,363</u>	<u>11</u>
OPERATING EXPENSES (Notes 14 and 18)				
Marketing	201,810	1	191,255	1
General and administrative	235,296	2	135,194	-
Research and development	<u>415,098</u>	<u>2</u>	<u>390,276</u>	<u>2</u>
Total operating expenses	<u>852,204</u>	<u>5</u>	<u>716,725</u>	<u>3</u>
OPERATING INCOME	<u>431,922</u>	<u>2</u>	<u>1,584,638</u>	<u>8</u>
NONOPERATING INCOME AND GAINS				
Foreign exchange gains, net (Note 2)	114,011	1	8,673	-
Interest income	24,810	-	24,519	-
Gains on disposal of investments, net (Notes 2, 5 and 8)	3,420	-	3,140	-
Equity in net gain of investees (Notes 2 and 9)	-	-	45,376	1
Other (Note 18)	<u>69,803</u>	<u>-</u>	<u>16,716</u>	<u>-</u>
Total nonoperating income and gains	<u>212,044</u>	<u>1</u>	<u>98,424</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	24,036	-	145,583	1
Impairment loss on financial assets carried at cost (Notes 2 and 8)	11,800	-	-	-
Equity in net loss of investees (Notes 2 and 9)	1,895	-	-	-
Other (Note 2)	<u>1,274</u>	<u>-</u>	<u>6,940</u>	<u>-</u>
Total nonoperating expenses and losses	<u>39,005</u>	<u>-</u>	<u>152,523</u>	<u>1</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007**

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
CONSOLIDATED INCOME BEFORE INCOME TAX	\$ 604,961	3	\$ 1,530,539	8
INCOME TAX EXPENSE (Notes 2 and 13)	<u>50,977</u>	<u>-</u>	<u>135,986</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 553,984</u>	<u>3</u>	<u>\$ 1,394,553</u>	<u>7</u>
ATTRIBUTED TO SHAREHOLDERS OF THE PARENT	<u>\$ 553,984</u>	<u>3</u>	<u>\$ 1,394,553</u>	<u>7</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	<u>\$ 4.86</u>	<u>\$ 4.45</u>	<u>\$ 12.77</u>	<u>\$ 11.64</u>
Diluted	<u>\$ 4.76</u>	<u>\$ 4.36</u>	<u>\$ 12.75</u>	<u>\$ 11.61</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007**

(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stocks Issued and Outstanding		Capital Surplus				Retained Earnings			Treasury Stock	Total Shareholders' Equity (Note 15)
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Total	Legal Reserve	Unappropriated	Total		
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	1,830	18,300	-	-	-	-	-	(18,300)	(18,300)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
Stock dividends - NT\$2.84329 per share	21,773	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	96,180	961,802	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	-	-	-	3,955	-	3,955	-	(2,169)	(2,169)	-	1,786
Issuance of capital stock as of June 14, 2007 - NT\$214.00 per share	4,000	40,000	816,000	-	-	816,000	-	-	-	-	856,000
Issuance of capital stock as of October 31, 2007 - NT\$239.00 per share	1,000	10,000	229,000	-	-	229,000	-	-	-	-	239,000
Consolidated net income in 2007	-	-	-	-	-	-	-	1,394,553	1,394,553	-	1,394,553
BALANCE, DECEMBER 31, 2007	101,180	1,011,802	1,767,962	4,517	-	1,772,479	235,243	1,977,073	2,212,316	-	4,996,597
Appropriation of the 2007 earnings											
Legal reserve	-	-	-	-	-	-	139,238	(139,238)	-	-	-
Bonus to employees - stock	2,200	22,000	-	-	-	-	-	(22,000)	(22,000)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Stock dividends - NT\$1.93637 per share	20,086	200,860	-	-	-	-	-	(200,860)	(200,860)	-	-
Cash dividends - NT\$5.80912 per share	-	-	-	-	-	-	-	(602,582)	(602,582)	-	(602,582)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(13,484)	(13,484)	-	(13,484)
Balance after appropriation	123,466	1,234,662	1,767,962	4,517	-	1,772,479	374,481	938,909	1,313,390	-	4,320,531
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	-	-	-	16,571	-	16,571	-	-	-	-	16,571
Issuance of capital stock as of June 16, 2008 - NT\$128.00 per share	1,200	12,000	141,600	-	-	141,600	-	-	-	-	153,600
Issuance of capital stock as of June 23, 2008 - NT\$165.00 per share	2,100	21,000	325,500	-	-	325,500	-	-	-	-	346,500
Acquisition of treasury stock - 750 thousand shares	-	-	-	-	-	-	-	-	-	(127,645)	(127,645)
Compensation cost recognized for employee stock options	-	-	-	-	321	321	-	-	-	-	321
Consolidated net income in 2008	-	-	-	-	-	-	-	553,984	553,984	-	553,984
BALANCE, DECEMBER 31, 2008	<u>126,766</u>	<u>\$ 1,267,662</u>	<u>\$ 2,235,062</u>	<u>\$ 21,088</u>	<u>\$ 321</u>	<u>\$ 2,256,471</u>	<u>\$ 374,481</u>	<u>\$ 1,492,893</u>	<u>\$ 1,867,374</u>	<u>\$(127,645)</u>	<u>\$ 5,263,862</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 553,984	\$1,394,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	55,013	45,953
Depreciation	40,531	22,091
Gain on disposal of intangible assets	(38,813)	(197)
Losses on inventory valuation and obsolescence	24,036	145,583
Deferred income tax	18,474	(37,118)
Provision (reversal of) allowance for doubtful accounts	(18,433)	5,391
Impairment loss on financial assets carried at cost	11,800	-
Equity in net loss (gain) of investees	1,895	(45,376)
Loss on disposal of financial assets carried at cost	755	-
Compensation cost recognized for employee stock options	321	-
Loss on disposal and retirement of properties, net	207	4,073
Donation of shares of an equity-method investee	-	372
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	-	150,129
Notes and accounts receivable	321,698	305,663
Other financial assets	(30,665)	(1,076)
Inventories	629,067	(429,829)
Other current assets	(513,694)	(45,100)
Notes and accounts payable	(744,342)	(223,174)
Income tax payable	(111,660)	25,215
Accrued expenses	151,822	25,321
Other current liabilities	21,734	4,344
Prepaid pension cost	(629)	(1,262)
Net cash provided by operating activities	<u>373,101</u>	<u>1,345,556</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(340,376)	(482,143)
Increase in investments accounted for by the equity method	(135,138)	(114,500)
Proceeds of the disposal of intangible assets	50,000	200
Increase in intangible assets	(35,082)	(28,123)
Increase in financial assets carried at cost	(10,356)	(29,300)
Decrease in restricted assets	5,153	18,764
Decrease (increase) in guarantee deposits paid	2,484	(1,724)
Proceeds of the disposal of properties	2,134	-
Proceeds of the disposal of financial assets carried at cost	<u>1,745</u>	<u>-</u>
Net cash used in investing activities	<u>(459,436)</u>	<u>(636,826)</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	\$ (602,582)	\$ (290,309)
Proceeds of the issuance of capital stock	500,100	1,095,000
Capital paid for acquisition of treasury stock	(127,645)	-
Cash remuneration to directors and supervisors and bonus to employees	(73,484)	(51,558)
Increase in guarantee deposit received	<u>353</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(303,258)</u>	<u>753,133</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(389,593)	1,461,863
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>2,767,961</u>	<u>1,306,098</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$2,378,368</u>	<u>\$2,767,961</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 756</u>	<u>\$ 174</u>
Income tax paid	<u>\$ 144,173</u>	<u>\$ 141,744</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	\$ 337,626	\$ 483,694
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	<u>2,750</u>	<u>(1,551)</u>
Acquisition of properties	<u>\$ 340,376</u>	<u>\$ 482,143</u>

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

(With Deloitte & Touche audit report dated February 11, 2009)

(Concluded)

【Attachment 4】

(This Regulations Governing Procedure for Board of Directors Meetings had been translated into English from the original Chinese version prepared and used in the Republic of China and only for reference.)

The amendment comparison table for the Articles of the Corporation

Original	Amendment	Reason
<p>Article 2 The scope of business of the Company shall be as below: 1). CC01080 Electronics Parts Production 2). I301010 Information Software Service 3). F218010 Information Software Retailing 4). F119010 Electronics Material Wholesaling 5). F219010 Electronics Material Retailing 6). CE01030 Optical Instruments Manufacturing 7). CC01120 Data Storage Media Equipment Manufacturing and coping 8). I501010 Product Designation 9). F401010 International Trade Business 10). In addition to the permitted businesses, the Company can operate the business and the investments which are not forbade or limited by the laws.</p>	<p>Article 2 The scope of business of the Company shall be as below: 1). CC01080 Electronics Parts Production 2). I301010 Information Software Service 3). F218010 Information Software Retailing 4). F119010 Electronics Material Wholesaling 5). F219010 Electronics Material Retailing 6). CE01030 Optical Instruments Manufacturing 7). CC01120 Data Storage Media Equipment Manufacturing and coping 8). I501010 Product Designation 9). F401010 International Trade Business 10). <u>ZZ99999</u> In addition to the permitted businesses, the Company can operate the business and the investments which are not forbade or limited by the laws.</p>	<p>To Amend according to the new business code issued by the MOEA</p>
<p>Article 5 The total capital stock of the Company shall be in the amount of 1,300,000,000 New Taiwan Dollars, divided into 130,000,000 shares, at ten New Taiwan Dollars each, and authorize the Board of Directors to issue in installments. The Company may reserve 80,000,000 New Taiwan Dollars of the total capital stock of the Company, divided into 8,000,000 shares, at ten New Taiwan Dollars each, to issue employee stock options in installments under resolution of the Board of Directors.</p>	<p>Article 5 The total capital stock of the Company shall be in the amount of 2,000,000,000 New Taiwan Dollars, divided into 200,000,000 shares, at ten New Taiwan Dollars each, and authorize the Board of Directors to issue in installments. The Company may reserve 120,000,000 New Taiwan Dollars of the total capital stock of the Company, divided into 12,000,000 shares, at ten New Taiwan Dollars each, to issue employee stock options in installments under resolution of the Board of Directors.</p>	<p>To Amend according to the Company's operation need.</p>

Original	Amendment	Reason
<p>Article 21 These Articles of Incorporation are agreed to and signed on October 24, 2000. The first Amendment was approved by the shareholders' meeting on November 24, 2000, the second Amendment on September 5, 2001, the third Amendment on February 15, 2002, the fourth Amendment on April 9, 2002, the fifth Amendment on June 25, 2002, the sixth Amendment on March 26, 2003, the seventh Amendment on November 12, 2003, the eighth Amendment on June 15, 2004, the ninth Amendment on March 17, 2005, the tenth Amendment on June 16, 2005. the eleventh Amendment on June 14, 2006. the twelveth Amendment on November 1, 2006. the thirteenth Amendment on June 13, 2007. the fourteenth Amendment on June 13, 2008.</p>	<p>Article 21 These Articles of Incorporation are agreed to and signed on October 24, 2000. The first Amendment was approved by the shareholders' meeting on November 24, 2000, the second Amendment on September 5, 2001, the third Amendment on February 15, 2002, the fourth Amendment on April 9, 2002, the fifth Amendment on June 25, 2002, the sixth Amendment on March 26, 2003, the seventh Amendment on November 12, 2003, the eighth Amendment on June 15, 2004, the ninth Amendment on March 17, 2005, the tenth Amendment on June 16, 2005. the eleventh Amendment on June 14, 2006. the twelveth Amendment on November 1, 2006. the thirteenth Amendment on June 13, 2007. the fourteenth Amendment on June 13, 2008, the fifteenth Amendment on May 8, 2009.</p>	<p>Add the date of the fifteenth Amendment</p>

【Attachment 5】

【Amendment Comparison Table for The Articles of “The Procedures of Acquisition and Disposal of Assets” After Revision】

Original	Amendment	Reason						
<p>Article 2 item5 The dollar amount of total contracts outstanding shall not exceed the net position of export amount -import amount.</p> <p>No loss control procedures are considered necessary herein for hedging purpose.</p>	<p>Article 2 item5 The dollar amount of total contracts outstanding shall not exceed the net position/ exposure.</p> <p><u>The maximum loss is limited to 15% of the amount of individual contract and 10% of the amount of total derivatives trading contracts.</u></p>	<p>Consider the Company’s real situation</p>						
<p>Article 3 Delegated amount of accumulated monthly transactions US\$7M+, approve by Board US\$1M~7M, approve by Chairman < US\$1M, approve by President</p>	<p>Article 3 item 1 Delegated amount of accumulated monthly transactions</p> <table border="0" data-bbox="967 861 1836 989"> <tr> <td><u>Amount</u></td> <td><u>Decide Department</u></td> </tr> <tr> <td>> US\$10M</td> <td>the Board of Directors</td> </tr> <tr> <td>US\$0<~<= US\$10M</td> <td>Chairman</td> </tr> </table>	<u>Amount</u>	<u>Decide Department</u>	> US\$10M	the Board of Directors	US\$0<~<= US\$10M	Chairman	<p>Consider the Company’s real situation</p>
<u>Amount</u>	<u>Decide Department</u>							
> US\$10M	the Board of Directors							
US\$0<~<= US\$10M	Chairman							

Original					Amendment					Reason
Article 5 Operation Procedures 1.Capacity and Level of Authorization (1) For acquisition and disposal of capital by the Company, the undertaking department should collect information relating to capital which is to be acquired and disposed such as the cause, object, trading counter-part, price of transfer, payment terms, basis for price reference, etc. Such information should be submitted in accordance with items of trading capital to the responsible department for decision .Capacity and Level of Authorization regarding derivatives should be handled in accordance with “ Trading Procedures of derivatives”					Article 5 Operation Procedures 1.Capacity and Level of Authorization (1) For acquisition and disposal of capital by the Company, the undertaking department should collect information relating to capital which is to be acquired and disposed such as the cause, object, trading counter-part, price of transfer, payment terms, basis for price reference, etc. Such information should be submitted in accordance with items of trading capital to the responsible department for decision .Capacity and Level of Authorization regarding derivatives should be handled in accordance with “ Trading Procedures of derivatives”					
Item	Amount	Responsible Department			Item	Amount	Responsible Department			
		Board of Directors	Chairman of the Board of Directors	President			Board of Directors	Chairman of the Board of Directors	President	
Investment in Long-term Negotiable Securities	Under 30,000,000 (Including 30,000,000)			Decide	Investment in Long-term Negotiable Securities	Under 30,000,000 (Including 30,000,000)			Decide	
	30,000,001~60,000,000 (Including 60,000,000)		Decide	Review		30,000,001~ <u>100,000,000</u> (Including <u>100,000,000</u>)		Decide	Review	
	Above 60,000,001	Decide	Review			Above <u>100,000,001</u>	Decide	Review	<u>Review</u>	
Investment in Short-term Negotiable Securities	Under 60,000,000(Including 60,000,000)			Decide	Investment in Short-term Negotiable Securities	Under 60,000,000 (Including 60,000,000)			Decide	
	60,000,001~100,000,000(Including 100,000,000)		Decide	Review		60,000,001~100,000,000 (Including 100,000,000)		Decide	Review	
	Above 100,000,001	Decide	Review			Above 100,000,001	Decide	Review	<u>Review</u>	
Real Estate	Under 60,000,000 (Including 60,000,000)		Decide	Review	Real Estate	Under <u>90,000,000</u> (Including <u>90,000,000</u>)		Decide	Review	
	Above 60,000,000 (Excluding 60,000,000)	Decide	Review			Above <u>90,000,000</u> (Excluding <u>90,000,000</u>)	Decide	Review	<u>Review</u>	
Other Fixed Assets	Under 5,000,000 (Including 5,000,000)			Decide	Other Fixed Assets	Under <u>10,000,000</u> (Including <u>10,000,000</u>)			Decide	
	5,000,00 (Excluding 5,000,000)~30,000,000 (Including 30,000,000)		Decide	Review						

Original					Amendment					Reason
	Above 30,000,000 (Excluding 30,000,000)	Decide	Review			<u>10,000,000</u> (Excluding <u>10,000,000</u>)~ <u>40,000,000</u> (Including <u>40,000,000</u>)		Decide	Review	
Certificate of Membership	Under 2,000,000 (Including 2,000,000)		Decide	Review		Above <u>40,000,000</u> (Excluding <u>40,000,000</u>)	Decide	Review	<u>Review</u>	
	Above 2,000,000(Excluding 2,000,000)	Decide	Review							
Intangible Assets	Under 5,000,000(Including 5,000,000)			Decide	Certificate of Membership	Under <u>10,000,000</u> (Including <u>10,000,000</u>)		Decide	Review	
	5,000,000 (Excluding 5,000,000)-30,000,000 (Including 30,000,000)		Decide	Review		Above <u>10,000,000</u> (Excluding <u>10,000,000</u>)	Decide	Review	<u>Review</u>	
	Above 30,000,000 (Excluding 30,000,000)	Decide	Review		Intangible Assets	Under <u>10,000,000</u> (Including <u>10,000,000</u>)				Decide
Creditor's Right of Financial Institution	Under 10,000,000(Including 10,000,000)			Decide		<u>10,000,000</u> (Excluding <u>10,000,000</u>)- <u>40,000,000</u> (Including <u>40,000,000</u>)		Decide	Review	
	10,000,000(Excluding 10,000,000)-50,000,000(Including 50,000,000)		Decide	Review		Above <u>40,000,000</u> (Excluding <u>40,000,000</u>)	Decide	Review	<u>Review</u>	
	Above 50,000,000(Excluding 50,000,000)	Decide	Review		Creditor's Right of Financial Institution	Under <u>50,000,000</u> (Including <u>50,000,000</u>)		<u>Decide</u>	<u>Review</u>	
						Above <u>50,000,000</u> (Excluding <u>50,000,000</u>)	Decide	Review	<u>Review</u>	
Assets Received From Merger, Division, Acquisition or Transfer of Stocks in Accordance with Law	Without Resolution of Shareholders' Meeting in Accordance with Law	Decide	Review		Assets Received From Merger, Division, Acquisition or Transfer of Stocks in Accordance with Law	Without Resolution of Shareholders' Meeting in Accordance with Law	Decide	Review	<u>Review</u>	
	With Resolution of Shareholders' Meeting in Accordance with Law	Review				With Resolution of Shareholders' Meeting in Accordance with Law	Review	<u>Review</u>	<u>Review</u>	
Other Important Assets	Under 5,000,000 (Including 5,000,000)		Decide	Review	Other Important Assets	Under <u>10,000,000</u> (Including <u>10,000,000</u>)		Decide	Review	
	Above 5,000,000 (Excluding 5,000,000)	Decide	Review			Above <u>10,000,000</u> (Excluding <u>10,000,000</u>)	Decide	Review	<u>Review</u>	
2. The units responsible for implementation The units responsible for implementing the acquisition and disposal of assets includes					2. The units responsible for implementation The units responsible for implementing the acquisition and disposal of assets includes					

Original	Amendment	Reason
<p>the following:</p> <p>(1) Investment in long-term negotiable securities, certificate of membership, intangible assets, assets received from merger, division, acquisition or transfer of stocks in accordance with law and other important assets:</p> <p>The President indicates the person in charge or establishes a special team for appraisal and implementation.</p> <p>(3) Real Estate: General Admin. Dept.</p>	<p>the following:</p> <p>(1) Investment in long-term negotiable securities, certificate of membership, intangible assets, assets received from merger, division, acquisition or transfer of stocks in accordance with law and other important assets:</p> <p>The President indicates the <u>Investment Dept.</u> or establishes a special team for appraisal and implementation.</p> <p>(3) Real Estate: <u>General Affair Dept.</u></p>	
Original	Amendment	Reason
<p>Article 6 Total amounts and limits on individual securities</p> <p>2. The total amount of short term security investments (excluding the value of allowance loss) by the Company should not exceed 50% of the Company's net worth. The amount of investment (excluding the value of allowance loss) by the Company in each respective security should not exceed 10% of the Company's net worth. The total amount and the amount in each respective security by each Subsidiary of the Company should not exceed 50% and 10% of the Subsidiary's net worth.</p> <p>3. The total amount of long term security investments (excluding the value of allowance loss) by the Company should not exceed 40% of the Company's paid-in capital. The amount of investment (excluding the value of allowance loss) by the Company in each respective security should not exceed 30% of the Company's paid-in capital. The total amount and the amount in each respective security by each Subsidiary of the Company should not exceed 40% and 30% of the Subsidiary's paid-in capital.</p>	<p>Article 6 Total amounts and limits on individual securities</p> <p>2. The total amount of short term security investments (excluding the value of allowance loss) by the Company should not exceed 50% of the Company's net worth. The amount of investment (excluding the value of allowance loss) by the Company in each respective security should not exceed 10% of the Company's net worth. The total amount and the amount in each respective security by each Subsidiary of the Company should not exceed 50% and 10% of the Subsidiary's net worth.</p> <p>3. The total amount of long term security investments (excluding the value of allowance loss) by the Company should not exceed 40% of the Company's paid-in capital. The amount of investment (excluding the value of allowance loss) by the Company in each respective security should not exceed 30% of the Company's paid-in capital. The total amount and the amount in each respective security by each Subsidiary of the Company should not exceed 40% and 30% of the Subsidiary's paid-in capital.</p> <p>4. If the Subsidiary is a professional investment company, its investment would not be restricted by the foregoing item 2 and item 3. However, the Subsidiary should still follow its Article of Incorporation and The Procedures of Acquisition and Disposal of Assets.</p>	<p>According to the "Company Act" and the needs of the Company's operation.</p>

【Amendment Comparison Table for The Articles of “The Management Of Loans To Others” After Revision】

原條文	修正後條文	修正原因
<p>第二條 得貸與資金之對象</p> <p>二、有短期融通資金之必要的公司或行號。</p>	<p>第二條 得貸與資金之對象</p> <p>二、有短期融通資金之必要的公司或行號。<u>融資金額不得超過本公司淨值之百分之二十。</u> <u>第一項第二款所稱融資金額，係指本公司短期融通資金之累計餘額。</u> <u>本公司直接及間接持有表決權股份百分之百之國外公司間，從事資金貸與，不受第一項第二款之限制。</u></p>	<p>依「公開發行公司資金貸與及背書保證處理準則」及公司營運需要修訂。</p>
<p>第四條 資金貸與總額及個別對象之限額</p> <p>一、本公司總貸與金額以不超過本公司淨值的百分之四十為限，惟因公司間或與行號間有短期融通資金之必要而將資金貸與他人之總額，以不超過本公司淨值的百分之二十為限。</p> <p>三、有短期融通資金必要之公司或行號，個別貸與金額以不超過本公司淨值百分之十為限所稱融資金額，係指本公司短期融通資金之累計餘額。</p>	<p>第四條 資金貸與總額及個別對象之限額</p> <p>一、本公司總貸與金額以不超過本公司淨值的百分之四十為限，惟因公司間或與行號間有短期融通資金之必要而將資金貸與他人之總額，以不超過本公司淨值的百分之二十為限。<u>與本公司有業務往來之公司總貸與金額以不超過雙方間業務往來金額為限。</u></p> <p>三、有短期融通資金必要之公司或行號，個別貸與金額以不超過本公司淨值百分之十為限。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」及公司營運需要修訂。</p>
<p>第五條 資金貸與期限及計息方式</p> <p>一、每筆資金貸與期限以一年以下為原則，如遇特殊情形，得經董事會同意後，依實際狀況需要延長貸與期限。</p>	<p>第五條 資金貸與期限及計息方式</p> <p>一、每筆資金貸與期限以一年以下為<u>限</u>。</p>	<p>依公司營運需要修訂。</p>
<p>第六條 資金貸與辦理程序</p> <p>一、申請及審核流程</p> <p>借款人向本公司申請借款，財務部門應初步接洽，先行瞭解其資金用途及最近營業及財務狀況，依第七條規定進行詳細審查，作成徵信及審查報告後，呈總經理及董事長審核，並提請董事會決議通過後辦理，不得授權其他人決定。</p>	<p>第六條 資金貸與辦理程序</p> <p>一、申請及審核流程</p> <p>借款人向本公司申請借款，財務部門應初步接洽，先行瞭解其資金用途及最近營業及財務狀況，並應審慎評估是否符合證期局訂定之「公開發行公司資金貸與及背書保證處理準則」及本程序之規定，依第七條規定進行詳細審查，作成徵信及審查報告後，呈總經理及董事長審核，並提請董事會決議通過後辦理，不得授權其他人決定。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」修訂。</p>
<p>第九條 對子公司資金貸與他人之控管程序</p> <p>一、本公司之子公司擬將資金貸與他人者，應督促該子公司依證期局訂定之</p>	<p>第九條 對子公司資金貸與他人之控管程序</p> <p>一、本公司之子公司擬將資金貸與他人者，應命該子公司依證期局訂定之「公</p>	<p>依「公開發行</p>

原條文	修正後條文	修正原因
<p>「公開發行公司資金貸與及背書保證處理準則」規定訂定資金貸與他人作業程序。</p>	<p>開發行公司資金貸與及背書保證處理準則」規定訂定資金貸與他人作業程序，並應依所定作業程序辦理。</p>	<p>公司資金貸與及背書保證處理準則」修訂。</p>
<p>第十條 資訊公開</p> <p>二、本公司資金貸與餘額達下列標準之一者，應於事實發生之日起二日內公告申報：</p> <p>(一) 資金貸與他人之餘額達公司最近期財務報表淨值百分之二十以上者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之二者。</p> <p>(二) 對單一企業資金貸與餘額達公司最近期財務報表淨值百分之十以上者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之二者。</p> <p>(三) 因業務關係對企業資金貸與，其貸與餘額超過最近一年度與其業務往來交易總額者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之二者。</p> <p>本公司之子公司非屬國內公開發行公司者，該子公司有前項各款應公告申報之事項，應由本公司為之。</p> <p>前項子公司資金貸與餘額占淨值比例之計算，以該子公司資金貸與餘額占本公司淨值比例計算之。</p>	<p>第十條 資訊公開</p> <p>二、本公司資金貸與達下列標準之一者，應於事實發生之日起二日內公告申報：</p> <p>(一) 本公司及子公司資金貸與他人之餘額達本公司最近期財務報表淨值百分之二十以上。</p> <p>(二) 本公司及子公司對單一企業資金貸與餘額達本公司最近期財務報表淨值百分之十以上。</p> <p>(三) 本公司或子公司新增資金貸與金額達新臺幣一千萬元以上且達本公司最近期財務報表淨值百分之二以上。</p> <p>本公司之子公司非屬國內公開發行公司者，該子公司有前項第三款應公告申報之事項，應由本公司為之。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」修訂。</p>
<p>第十三條 其他</p> <p>一、本程序所稱之子公司及母公司，應依財團法人中華民國會計研究發展基金會發布之財務會計準則公報第五號之規定認定之。</p> <p>三、本公司因情事變更，致貸與餘額超限時，應訂定改善計畫，並將相關改善計畫送各監察人。</p> <p>四、本程序之規定，若有未盡事宜或適用上發生疑義時，悉依有關法令規定</p>	<p>第十三條 其他</p> <p>一、本程序所稱之子公司及母公司，應依財團法人中華民國會計研究發展基金會發布之財務會計準則公報第五號及第七號之規定認定之。</p> <p>三、本公司因情事變更，致貸與對象不符證期局訂定之「公開發行公司資金貸與及背書保證處理準則」規定或餘額超限時，應訂定改善計畫，將相關改善計畫送各監察人，並依計畫時程完成改善。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」修訂，並刪除本程序內容重覆</p>

原條文	修正後條文	修正原因
辦理，法令未有規定者，依本公司有關規定辦理或由董事會討論裁決之。		處。

【Amendment Comparison Table for The Articles of “The Management Of Endorsements and Guarantees” After Revision】

原條文	修正後條文	修正原因
<p>第一條 制定目的</p> <p>為加強辦理背書保證之財務管理及降低經營風險，爰特依證券交易法第三十六條之一及行政院金融監督管理委員會證券期貨局（以下簡稱證期局）91年12月18日台財證六字第0910161919號函及行政院金融監督管理委員會（以下簡稱金管會）94年12月29日金管證六字第0940006026號，訂定本程序。</p>	<p>第一條 制定目的</p> <p>為加強辦理背書保證之財務管理及降低經營風險，爰特依證券交易法第三十六條之一及行政院金融監督管理委員會證券期貨局（以下簡稱證期局）<u>「公開發行公司資金貸與及背書保證處理準則」</u>，訂定本程序。</p>	酌修文字。
<p>第三條 得背書保證對象</p> <p>一、本公司得對下列公司為背書保證：</p> <p>（三）公司直接及間接對公司持有表決權之股份超過百分之五十之公司。</p> <p>二、本公司基於承攬工程需要之同業間依合約規定互保，或因共同投資關係由各出資股東依其持股比率對被投資公司背書保證者，不受前項規定之限制，得為背書保證。</p>	<p>第三條 得背書保證對象</p> <p>一、本公司得對下列公司為背書保證：</p> <p>（三）直接及間接對公司持有表決權之股份超過百分之五十之公司。</p> <p><u>二、本公司直接及間接持有表決權股份百分之百之公司間，得為背書保證。</u></p> <p><u>三、</u>本公司基於承攬工程需要之同業間<u>或共同起造人間</u>依合約規定互保，或因共同投資關係由<u>全體</u>出資股東依其持股比率對被投資公司背書保證者，不受前<u>二</u>項規定之限制，得為背書保證。</p> <p><u>四、前項所稱出資，係指本公司直接出資或透過持有表決權股份百分之百之公司出資。</u></p>	依「公開發行公司資金貸與及背書保證處理準則」修訂。
<p>第九條 決策及授權層級</p> <p>一、本公司為他人背書或提供保證前，應審慎評估是否符合證期局訂定之「公開發行公司資金貸與及背書保證處理準則」或本程序之規定，併同第七條之評估結果授權董事長在第五條規定額度內決行，事後再報經最近期之董事會追認。</p>	<p>第九條 決策及授權層級</p> <p>一、本公司為他人背書或提供保證前，應審慎評估是否符合證期局訂定之「公開發行公司資金貸與及背書保證處理準則」及本程序之規定，併同第七條之評估結果授權董事長在第五條規定額度內決行，事後再報經最近期之董事會追認。</p>	依「公開發行公司資金貸與及背書保證處理準則」酌修文字。

原條文	修正後條文	修正原因
<p>第十條 對子公司辦理背書保證之控管程序</p> <p>一、本公司之子公司擬為他人辦理或提供背書保證者，應督促該子公司依證期局訂定之「公開發行公司資金貸與及背書保證處理準則」，訂定背書保證作業程序。</p>	<p>第十條 對子公司辦理背書保證之控管程序</p> <p>一、本公司之子公司擬為他人辦理或提供背書保證者，應命該子公司依證期局訂定之「公開發行公司資金貸與及背書保證處理準則」，訂定背書保證作業程序，並應依所定作業程序辦理。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」修訂。</p>
<p>第十一條 資訊公開</p> <p>二、本公司背書保證餘額達下列標準之一者，應於事實發生之日起二日內公告申報：</p> <p>(一)背書保證餘額達公司最近期財務報表淨值百分之五十以上者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之五者。</p> <p>(二)對單一企業背書保證餘額達公司最近期財務報表淨值百分之二十以上者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之五者。</p>	<p>第十一條 資訊公開</p> <p>二、本公司背書保證達下列標準之一者，應於事實發生之日起二日內公告申報：</p> <p>(一)本公司及子公司背書保證餘額達本公司最近期財務報表淨值百分之五十以上。</p> <p>(二)本公司及子公司對單一企業背書保證餘額達本公司最近期財務報表淨值百分之二十以上。</p> <p>(三)本公司及子公司對單一企業背書保證餘額達新臺幣一千萬元以上且對其背書保證、長期投資及資金貸與餘額合計數達本公司最近期財務報表淨值百分之三十以上。</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」修訂。</p>
<p>(三)對單一企業背書保證餘額達新臺幣一千萬元以上且對其背書保證、長期投資及資金貸與餘額合計數達公司最近期財務報表淨值百分之三十以上者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之五者。</p> <p>(四)因業務關係對企業背書保證，其餘額超過最近一年度與其業務往來交易總額者，或依本款規定辦理公告申報後，其餘額每增加逾公司最近期財務報表淨值百分之五者。</p> <p>本公司之子公司非屬國內公開發行公司者，該子公司有前項各款應公告申報之事項，應由本公司為之。</p> <p>前項子公司背書保證餘額占淨值比例之計算，以該子公司背書保證餘額佔本公司淨值比例計算之。</p>	<p>(四)本公司或子公司新增背書保證金額達新臺幣三千萬元以上且達本公司最近期財務報表淨值百分之五以上。</p> <p>本公司之子公司非屬國內公開發行公司者，該子公司有前項第四款應公告申報之事項，應由本公司為之。</p>	
<p>新增條文</p>	<p>第十四條 其他</p> <p>一、本程序所稱之子公司及母公司，應依財團法人中華民國會計研究發展基</p>	<p>依「公開發行公司資金貸與</p>

原條文	修正後條文	修正原因
	<p>金會發布之財務會計準則公報第五號及第七號之規定認定之。</p> <p>二、本程序所稱之公告申報，係指輸入證期局指定之資訊申報網站。</p> <p>三、本公司因情事變更，致背書保證對象不符證期局訂定之「公開發行公司資金貸與及背書保證處理準則」規定或金額超限時，應訂定改善計畫，將相關改善計畫送各監察人，並依計畫時程完成改善。</p>	<p>及背書保證處理準則」修訂。</p>

【APPENDIX 1】

PHISON ELECTRONICS CORP.

RULES AND PROCEDURES OF SHAREHOLDERS' MEETING

1. Shareholders' Meeting of the Company (the "Meeting") shall be conducted in accordance with these Rules and Procedures. Any matter not provided in these Rules and Procedures shall be handled in accordance with the Company Law and the Articles of Incorporation of the Company.
2. Shareholders or their representatives attending the Meeting shall wear on Certificate of Attendance. They shall also sign on the attendance book or submit the attendance card for the purpose of calculating the number of shares represented by shareholders attending the Meeting.
3. The Meeting shall be held at the head office of the Company or at any other appropriate place that is convenient for the shareholders to attend. The time to start the Meeting shall not be earlier than 9:00 a.m. or later than 3:00 p.m.
4. The Company may appoint designated counsel, CPA or other related persons to attend the Meeting. Persons handling affairs of the Meeting shall wear identification cards or badges.
5. The process of the Meeting shall be tape-recorded or videotaped and these tapes shall be preserved for at least one year.
6. Chairman shall call the Meeting to order at the time the number of shares represented by the shareholders present at the Meeting constituted the quorum. If the number of shares represented by the shareholders present at the Meeting has not yet constituted the quorum at the time scheduled for the Meeting, Chairman may postpone the time for the Meeting. The postponements shall be limited to two times at the most and Meeting shall not be postponed for longer than one hour in the aggregate. If after two postponements no quorum can yet be constituted but the shareholders present at the Meeting represent more than one - third of the total outstanding shares, tentative resolutions may be made in accordance with Article 175 of the Company Law. If during the process of the Meeting the number of outstanding shares represented by the shareholders present becomes sufficient to constitute the quorum, Chairman may submit the tentative resolutions to the Meeting for approval in accordance with Article 174 of the Company Law.
7. The Agenda of the Meeting shall be set by the Board of Directors if the Meeting is convened by the Board of Directors. Unless otherwise resolved at the Meeting, the Meeting shall proceed in accordance with the agenda.
The above provision applies mutatis mutandis to cases where the Meeting is convened by any person, other than the Board of Directors, entitled to convene such Meeting.

Unless otherwise resolved at the Meeting, the chairman cannot announce adjournment of the Meeting before all the discussion items (including special motions) listed in the agenda are resolved.

The shareholders cannot designate any other person as chairman and continue the Meeting in the same or other place after the Meeting is adjourned. However, in the event that Chairman adjourns the Meeting in violation of these Rules and Procedures, the shareholders may designate, by a majority of votes represented by shareholders attending the Meeting, one person as chairman to continue the Meeting.

- 7-1 The shareholders who held more than one percent (including one percent) of total outstanding shares of the Company can propose the motion of the regular shareholder meeting in written form.

The Company should announce the period and place of accepting shareholders to propose the motions before the suspension period of stock transfer before the regular shareholder meeting. And the period of accepting shareholders to propose the motions can not less than ten days.

The motions proposed by the shareholders need to be discussed by the board directors meeting, if there are no any concerns happened as below , the motions should be added into the meeting notice of the regular shareholders meeting:

- (1) The motion should not be discussed by the shareholders meeting.
- (2) The shareholder who proposed the motion, his/her shareholding rate of total outstanding shares of the Company did not reach one percent during the suspension period of stock transfer before the regular shareholder meeting..
- (3) The motion was proposed over the accepting period announced by the Company.
- (4) The shareholder proposed more than one motion, or the wordings (including the punctuation marks) in the motion more than 300 words, or the motion was not proposed in written form.

The Company should inform the shareholder the result of the motion proposed by this shareholder before the date of the notice of regular shareholder meeting. For the motions not added into the regular shareholder meeting, the board directors should explain the reason in the meeting agenda handbook of regular shareholder meeting, and don't need to be included in the meeting agenda and minutes.

8. Chairman of the Board of Directors shall be the Chairman presiding at the Meeting in the case that the Meeting is convened by the Board of Directors. In case the Chairman of the Board of Directors is on leave of absence or cannot exercise his powers and authority for any cause, the Vice Chairman shall act on his behalf. In case there is no Vice Chairman or Vice Chairman is also on leave of absence or cannot exercise his power and authority for any cause, Chairman of the Board of Directors may designate one of the managing directors or, where there are no managing directors, one of the directors, to act on his behalf. In the absence of such a designation, the managing directors or directors shall elect one from among themselves. If the Meeting is convened by any other person entitled to convene the Meeting, such person shall be the Chairman to preside at the Meeting.
9. During the Meeting, the Chairman may, at his discretion, set time for intermission.

10. Items which were not listed on the Meeting Agenda shall not be discussed or be resolved. Chairman may announce to end or stop the discussion if Chairman deems it appropriate.
11. When a shareholder present at the Meeting wishes to speak, a Speech Note should be filled out with summary of the speech, the shareholder's number (or the number of Attendance Card), the name of the shareholder and the amount his shareholding. The sequence of speeches by shareholders should be decided by Chairman.
12. Unless otherwise permitted by the Chairman, each shareholder shall not speak more than two times (each time not exceeding 5 minutes). If a corporate shareholder designates two or more representatives to attend the Meeting, only one representative can speak for each discussion item.
13. After the speech of a shareholder, the Chairman may respond himself/herself or appoint an appropriate person to respond.
14. In case the speech of any shareholder exceeds the limitation of time or the scope of the discussion item, Chairman may stop the speech of such shareholder. If the shareholder who do not obey Chairman's order and disturb the order of the Meeting, Chairman may stop his attendance.
15. The Chairman shall announce to go into voting if the issues had been announced to end or stop the discussion.
16. Except otherwise specified in the Company Law or the Articles of Incorporation of the Company, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the Meeting. The resolution shall be deemed adopted and shall have the same effect as if it was voted by casting ballots if no objection is voiced after solicitation by Chairman.
17. The person(s) to check and the person(s) to record the ballots during a vote by casting ballots shall be appointed by the chairman. The person(s) checking the ballots shall be a shareholder(s). The result of voting shall be announced at the Meeting and placed on record.
18. If there is amendment to or substitute for a discussion item, the chairman shall decide the sequence of voting for such discussion item, the amendment or the substitute. If any one of them has been adopted, the others shall be deemed vetoed and no further voting is necessary.
If the motions in written form proposed by the shareholders according to the Article 172-1 of the Company Law and were approved to add into the regular shareholders meeting were the same kind of motion proposed by the board directors, the motions will be combined and be discussed by the rule of above-mentioned item.
The chairman shall decide the sequence of discussing and voting of the motions proposed by shareholders at the extemporaneous motions period.

19. The Chairman may conduct the disciplinary officers or the security guard to assist in keeping order of the Meeting place. Such disciplinary officers or security guards shall wear badges marked "Disciplinary Officers" for identification purpose.
20. In case of air attack alarmed during the proceeding of the Meeting, the Meeting shall be suspended and the attendants shall split immediately. Chairman may resume the Meeting one hour after the alarm dismissed.
21. This "Rules and Procedures" shall be effective from the date it is approved by the Shareholders' Meeting. The same applies in case of revision.
22. This "Rules and Procedures" was established on 26th March 2003.
The first Amendment was on June 14, 2006.

【APPENDIX 2】

(This Rules For Election Of Directors And Supervisors had been translated into English from the original Chinese version prepared and used in the Republic of China and only for reference.)

PHISON ELECTRONICS CORP. ARTICLES OF THE CORPORATION

Section I - General Provisions

1. The Company shall be incorporated under the Company Law, and its name shall be Phison Electronics Corp.
2. The scope of business of the Company shall be as below:
 - 1). CC01080 Electronics Parts Production
 - 2). I301010 Information Software Service
 - 3). F218010 Information Software Retailing
 - 4). F119010 Electronics Material Wholesaling
 - 5). F219010 Electronics Material Retailing
 - 6). CE01030 Optical Instruments Manufacturing
 - 7). CC01120 Data Storage Media Equipment Manufacturing and coping
 - 8). I501010 Product Designation
 - 9). F401010 International Trade Business
 - 10). In addition to the permitted businesses, the Company can operate the business and the investments which are not forbade or limited by the laws.
- 2-1. The Company may provide endorsement and guarantee and act as a guarantor.
- 2-2. The total amount of the Company's reinvestment shall not be subject to the restriction of not more than forty percent of the Company's paid-up capital as provided in Article 13 of the Company Law.
3. The Company shall have its head office in Hsin Chu, Taiwan, Republic of China, and shall be free to set up branch offices at various locations within and without the territory of the Republic of China upon the resolution of the Board of Directors.
4. (deleted)

Section II - Capital Stock

5. The total capital stock of the Company shall be in the amount of 1,800,000,000 New Taiwan

Dollars, divided into 180,000,000 shares, at ten New Taiwan Dollars each, and authorize the Board of Directors to issue in installments.

The Company may reserve 100,000,000 New Taiwan Dollars of the total capital stock of the Company, divided into 10,000,000 shares, at ten New Taiwan Dollars each, to issue employee stock options in installments under resolution of the Board of Directors.

6. (deleted)

7. The share certificates of the Company shall all be name-bearing share certificates with signatures or stamps not less than three Directors.

The Company may print a consolidated share certificate in issuing new shares after going public. It may also be exempted from printing any share certificate for the shares issued.

8. Registration for transfer of shares shall be suspended sixty (60) days immediately before the date of regular shareholder's meeting, and thirty (30) days immediately before the date of any special shareholder's meeting, or within five (5) days before the day on which dividend, bonus, or any other benefit is scheduled to be paid by the Company.

Time of previous item, starts from the date the meeting was hold or from standard date.

8-1. The stock affairs of the Company shall follow the 'Criteria Governing Handling of Stock Affairs by Public Companies'.

Section III – Shareholder's Meeting

9. Shareholders' meetings of the Company are of two types, namely: (1) regular meetings and (2) special meetings. Regular meetings shall be convened, by the Board of Directors, within six (6) months after the close of each fiscal year. Special meetings shall be convened if necessary in accordance with the relevant laws.

10. If a shareholder is unable to attend a meeting, he/she may appoint a representative to attend it, and to exercise, on his/her behalf, all rights at the meeting by executing a power of attorney printed by the Company therein the scope of power authorized to the proxy.

Excepted provided by Article 177 of the Company Law, the use of proxy shall follow 'Rules Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies'.

11. Each share of stock shall be entitled to one vote, except the conditions regulated by the Term 3 of Article 157 and Article 179 of Company Law.

11-1. The shareholders' meeting shall be convened by the Board of Directors and be presided over by the Chairman of the Board of Directors of the Company. In case the Chairman of the

Board of Directors is on leave of absence, the Chairman may designate one of the directors, to act on his behalf. In the absence of such a designation, the directors shall elect one from among themselves. If the Meeting is convened by any other person entitled to convene the Meeting, such person shall be the chairman to preside at the Meeting. If there are two or more persons having the convening right, the chairman of the meeting shall be elected from among themselves.

12. Except as provided in the Company Law, shareholders' meetings may be held if attended by shareholders in person or by proxy representing more than one half of the total issued and outstanding capital stock of the Company, and resolutions shall be adopted at the meeting with the concurrence of a majority of the votes held by shareholders present at the meeting.

Section IV - Directors and Supervisors

13. The Company shall have seven Directors and three Supervisors who shall be elected by the shareholders' meeting from among the persons with disposing capacity. The tenure of them shall be three (3) years. But he /she may be eligible for re-election.

The total shares of the nominal shares of all directors and supervisors must not be less than the shareholding percentage regulation which was set by the rules and audit procedures for directors and supervisors share ownership ratio at public companies.

13-1.

The Company shall have two independent Directors among the above-mentioned number of Directors. The independent Directors shall be elected by the system of nominating candidates and by the shareholders' meeting from the list of candidates of independent Directors

14. The Board of Directors is constituted by the Directors. The Directors shall elect from among themselves a Chairman of the Board of Directors by a majority in a meeting attended by over two-thirds of the Directors. The Chairman of the Board of Directors shall have the authority to represent the Company.
15. In case the Chairman of the Board of Directors is on leave of absence, the affairs of chairing the board of directors' meeting shall be dealt by Article 208 of the Company Law. The board of directors' meeting shall be convened by the Chairman of the Board of Directors. The chairing of the board of directors' meeting shall in accordance with the 'Regulations Governing Procedure for Board of Directors Meetings.

Each director shall attend the meeting of the board of directors in person. In case a meeting of the board of directors is proceeded via visual communication network, then the directors taking part in such a visual communication meeting shall be deemed to have attended the meeting in person. In case a director appoints another director to attend a meeting of the board of directors in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. Consigned proxy is limited to one director per person only.

16. The compensation of the chairman, directors and supervisors shall be resolved by the authorized Board of directors according to their individual participated degree of business operating and the contribution value and the normal standard of the same business companies.

The Company may take out liability insurance for Directors and Supervisors for the legal liability in their scope of business performance within the term of office.

Section V - Managers

17. The Company may appoint the managements. Appointment, discharge and remuneration of the managements shall be dealt in accordance with the Article 29 of Company Law.

Section VI – Accounts

18. After the close of each fiscal year, thirty (30) days before the date of regular shareholder's meeting, the Company shall submit the following reports which shall be prepared by the Board of Directors, and, after being audited by the Supervisors of the Company, to the regular shareholders' meeting for acceptance: 1. Business Report; 2. Financial Statements; 3. Proposal Concerning Appropriation of Net Profits or Covering of Losses.
19. When allocating the profits for each fiscal year, the Company shall first paid its tax, offset its losses in previous years and set aside a legal capital reserve at 10% of the profits left over, and shall set aside or reverse the special surplus capital reserve according to the law and regulation of related authorities. The rest of the profits accumulated with the not yet distributed profits in previous years shall be wholly or partly to set aside as the distributable profits. The Board of Directors shall submit a proposal regarding the distribution of profits in accordance the actual operation situation of the Company to the Shareholders' Meeting for their approval. The profits shall be distributed by the following sequence: (1)1% for the compensation of the Directors and Supervisors, (2)22% to 32% for employees' bonus, and (3)

the others for shareholders' dividends. If the employees' bonus are distributed by the share stocks, the employees who can be distributed the stock bonus may include the employees of subsidiaries who need conform to specific conditions.

It is because of the business of the Company is during the period of growing, and therefore the policy shall be made regarding dividend distribution shall be adjusted in accordance with the factors such as investment circumstance, cash demanding, competition inside and outside the country, and budget of the capital. The interest of shareholders, equivalent of dividends and long-term financial plan shall also be considered in making the policy. The Board of Directors shall submit the Report of Dividends Distribution to the Shareholders' Meeting annually for their approval. In paying of the shareholders' dividends, the Company shall distribute dividends by cash or stocks, and the cash-dividends shall take the ratio of the total amount of the shareholders' dividends not less than 10%.

Section VII - Supplementary Provisions

20. In regard to all matters not provided for in these Articles of the Corporation, the Company Law shall govern.

21. These Articles of Incorporation are agreed to and signed on October 24, 2000.

The first Amendment was approved by the shareholders' meeting on November 24, 2000, the second Amendment on September 5, 2001, the third Amendment on February 15, 2002, the fourth Amendment on April 9, 2002, the fifth Amendment on June 25, 2002, the sixth Amendment on March 26, 2003, the seventh Amendment on November 12, 2003, the eighth Amendment on June 15, 2004, the ninth Amendment on March 17, 2005, the tenth Amendment on June 16, 2005. the eleventh Amendment on June 14, 2006. the twelveth Amendment on November 1, 2006. the thirteenth Amendment on June 13, 2007.

【APPENDIX 3】

THE EXPLAIN TABLE OF EMPLOYEES BONUS AND THE COMPENSATION OF DIRECTORS AND SUPERVISORS

ITEMS	BOD Meeting proposed amount(A)	Estimation Amount (B)	Difference amount (A-B)	Different Reason and processing affairs
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Employees stock dividends	113,000,000			Consider to Phison Articles of the Corporation and COMPENSATION OF DIRECTORS AND SUPERVISORS REASON, SO THE DIFFERENCE AMOUNT WILL INCLUDED IN EXPENSES OF 2009.
Employees cash dividends	30,000,000	140,003,202	2,996,798	
COMPENSATION OF DIRECTORS AND SUPERVISORS	6,494,950	6,363,782	131,168	Consider to Phison Articles of the Corporation and COMPENSATION OF DIRECTORS AND SUPERVISORS REASON, SO THE DIFFERENCE AMOUNT WILL INCLUDED IN EXPENSES OF 2009.

【APPENDIX 4】**PHISON ELECTRONICS CORP.****SHAREHOLDING OF ALL DIRECTORS AND SUPERVISORS**

1. The mandatory ratio of shareholding for Directors and Supervisors and their shareholdings are as follows :
 - 1). The outstanding shares : 128,466,313 common shares
 - 2). The minimum shareholding of all Directors : 8,000,000 shares
 - 3). The minimum shareholding of all Supervisors : 800,000 shares

2. The shareholding of all Directors and Supervisors as of 10th March, 2009, the start date of lock up of this Regular Shareholders' Meeting, are as follows:

As of 10th March, 2009

Title	Name	Shareholding	Representative
Chairman	K.S. Pua	3,431,421	
Director	TOSHIBA CORP.	20,832,298	T. Nakagawa
Director	Daniel Jow	1,011,600	
Director	C.K. AW	3,572,039	
Director	Kuang	1,137,521	
Independent Director	Shu-Fen Wang	0	
Independent Director	Uchida-san	0	
Total Amount of Shares Held by Directors		29,984,879	
Ratio of total Outstanding Shares		23.34	
Supervisor	Joe Wang	74,005	
Supervisor	Eric OY	882,099	
Independent Supervisor	Yang-Bin Shen	0	
Total Amount of Shares Held by Supervisors		956,104	
Ratio of total Outstanding Shares		0.74	

【 APPENDIX 5 】

The effect for the Company's operating performance, EPS and ROE changed in 2009 by the stock dividend distribution of 2008 which proposed to be discussed at the shareholders meeting

The Company didn't disclose the financial forecast of 2009, so we don't need to disclose the information of operating performance, EPS and ROE in 2009.

【 APPENDIX 6 】 OTHER EXPLANATION ITEMS

For the status of the motions proposed by the shareholders at the regular shareholders meeting:

Explanation:

1. According to the article 172-1 of Company Law, the shareholders who held more than one percent (including one percent) of total outstanding shares of the Company can propose the motion of the regular shareholder meeting in written form. And the shareholder can only propose one motion, and the wordings (including the punctuation marks) in the motion cannot be more than 300 words.
2. The period of accepting the shareholder to propose the motion for this regular shareholders meeting was March 2~March 11, 2009, and the period was also announced on the website of MOPS.
3. The Company did not receive any motions proposed by the shareholders.