

(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.)

【Translation】



Stock Code: 8299

PHISON ELECTRONICS CORP.

2011

REGULAR SHAREHOLDERS MEETING

MEETING HANDBOOK

Time: June 15, 2011

Location: 1F Meeting Room, No. 77, Yu-Yi Rd., Jhunan, Miaoli, Taiwan

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Phison Electronics Corporation

Procedure for the 2011 Annual Meeting of Shareholders

Call the Meeting to Order

Chairperson Takes Chair

Chairperson Remarks

Company Reports

Matters to be accepted

Motions to be discussed and Election

Extemporaneous motions

Adjournment

Phison Electronics Corporation

Year 2011

Agenda of Annual Meeting of Shareholders

Time: 9:00 AM on Wednesday, June 15, 2011

Place: 1F Meeting Room, No. 77, Yu-Yi Rd., Jhunan, Miaoli, Taiwan

Call the Meeting to Order.

Chairperson Remarks

Subjects to be reported

1. The business operation report of the Company for Year 2010.
2. The supervisor's report for reviewing the financial statements of the Company for Year 2010.
3. To report the private placement of common shares approved the condition of by 2010 shareholders' meeting

Matters to be accepted

1. The business operation report and the financial statements of the Company for Year 2010.
2. For the matter regarding the retained earnings distribution of the Company for Year 2010.

Motions to be discussed and Election

1. The revisions to the partial articles of the Articles of the Corporation.
2. To approve the revisions to "The Management Of Loans To Others" , and "The Management Of Endorsements and Guarantees".
3. To elect the new Directors and Supervisors
4. To release the Directors' non-compete restrictions

Extemporaneous motions

Adjournment

Subjects to be reported

Report No. 1

The business operation report of the Company for Year 2010.

Explanation:

The 2010 Business Report is attached as pp. 10, Attachment I.

Report No. 2

The supervisor's report for reviewing the financial statements of the Company for Year 2010.

Explanation:

The financial statements of 2010 (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 2010 were reviewed by the supervisors. Please refer to attachment 2(page 13) of the Supervisors' review report which submit according to the Article 219 of Company Law.

Report No. 3

To report the private placement of common shares approved the condition of by 2010 shareholders' meeting

Explanation:

The motion of private placement quantities 5,000,000 shares and carried out in two times in installments within one year since the date of the resolution of the shareholders meeting was approved by shareholder's meeting on June 15, 2010. Until March 24, 2011, Phison didn't issue the private placement of common shares and we could not have reached a consensus with specific subscribers so that we have to stop this private placement of new common shares.

Matters to be accepted

1. Proposed by the Board

Proposal:

The business operation report and the financial statements of the Company for Year 2010, please be accepted.

Explanation:

- (1) Phison Electronics Company's Financial Statements, including the Balance sheet, Income statement, Statement of Changes in shareholders' Equity, and Statement of Cash Flows, were audited by independent auditors, Mr. Dai Xin Wei(戴信維) and Mrs. Wang En Wen(王儀雯) of Deloitte & Touche. Also Business Report and Financial Statements have been approved by the Board and examined by the supervisors of Phison Electronics Company.
- (2) The 2010 Business Report, independent auditors' audit report, and the above-mentioned Financial Statements are attached in the Meeting Agenda, pp. 10 and pp.14~28.

Resolution:

2. Proposed by the Board

Proposal:

For the matter regarding the retained earnings distribution of the Company for Year 2010, please be accepted.

Explanation:

- (1) The net profit after taxes of the Company for Year 2010 are NT\$1,515,723,295. The Company prepared the proposal regarding the distribution of profits for Year 2010 according to the rules of the Articles of the Corporation. The table of earnings distribution of the Company for Year 2010 is proposed as below :

Phison Electronics Corporation
PROFIT DISTRIBUTION TABLE
Year 2010

(Unit: NTD \$)

Items	Total
Beginning retained earnings	1,740,346,728
Add: net profit after tax	1,515,723,295
Less: 10% legal reserve	151,572,330
Less: Allot special reserve under the law	13,248,532
Distributable net profit	3,091,249,161
Distributable items:	
Dividend to shareholders -Cash (Distributed NT\$4.35 per share)	776,143,282
Unappropriated retained earnings	2,315,105,879
Notes:	
Remark 1 :	
Total amount of distribution: NT\$1,008,225,537.	
Remark 2 :	
The compensation of directors and supervisors: NT\$10,082,255.	
Bonuses of cash to be allotted to employees: NT\$222,000,000.	
Remark 3 :	
(1)The compensation of directors and supervisors of NT\$10,082,255 is 1% of total distribution amount.	
(2)Total Bonuses to be allotted to employees of NT\$222,000,000 is 22.02% of total distribution amount.	
(3)Total Dividends to be allotted to shareholders of NT\$776,143,282 is 76.98% of total distribution amount.	

Director:

Manager:

Financial Manager:

- (2) Upon the approval of the Annual Meeting of Shareholders, it is proposed that the Board of Directors be authorized to resolve the ex-dividend date, ex-rights date, and other relevant issues.
- (3) In the event that, before the distribution record date, the proposed profit distribution is affected by an amendment to relevant laws or regulations, a request by the competent authorities, or a buyback of shares or issuance of new shares for transferring treasury shares to

employees or for equity conversion in connection with domestic or overseas convertible corporate bonds or other convertible securities or employee stock options, it is proposed that the Board of Directors be authorized to adjust the cash and stock to be distributed to each share based on the number of actual shares outstanding on the record date for distribution.

Resolution:

Motions to be discussed and Election

1. **Proposed by the Board**

Proposal:

To revisions the partial articles of the Articles of the Corporation.

Explanation:

In order to meet the requirements of business operation will revisions the partial articles of the Articles of the Corporation. Regarding the revised articles of the Articles of the Corporation, please refer to as below of amendment comparison table for the Articles of the Corporation and attachment 4 for renew version.

Resolution:

2. **Proposed by the Board**

Proposal:

To approve the revisions to “The Management Of Loans To Others” , and “The Management Of Endorsements and Guarantees”, please be discussed.

Explanation:

- (1) According to the Financial Supervisory Commission, Executive Yuan in Letter bearing reference number 2010.3.19 Jin Guan Zheng Shen Zi 0990011375 and the revised articles of “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” and considered the company’s business working, the company proposed to revise partial articles of “The Management Of Loans To Others”, “The Management Of Endorsements And Guarantees ” and changed the name of “The Management of Endorsements and Guarantees” to “The procedure of Endorsements and Guarantees”.
- (2) Please reference the attachments 5.

Resolution:

3.**Proposed by the Board****Proposal:****To elect the new Directors and Supervisors****Explanation:**

- (1) The three-year term of 7 directors and 3 supervisors of the Board will be end on June 15 2011. Accordingly, the company proposes to duly elect new Board members at this year's Annual Meeting of Shareholders.
- (2) The shareholders' meeting shall elect 7 directors and 3 supervisors. Their three-year term will start from June 15 2011 and conclude on June 14 2014.
- (3) According to Article 4 of the Corporate Charter, a total of 2 independent directors shall be elected from the nomination list prepared by the company. The qualification of the 2 nominated independent directors has been reviewed by the Board meeting on May 4 2011. Personal information of the 2 nominees is as follows:

Name	Education	Experience and Present position	Shareholding
Sue-Fung Wang	University of Houston Financial Dr.	National Chiao Tung University Institute of Finance, Associate Professor(August 2002 to now) Chinese Association of Valuation, Director Join Well Technology Co.,Ltd., Independent Director Republic of China CSIA	0
Yoshiaki Uchida	The University of Tokyo Bachelor of Electronic Engineering	Fledge Technologies, Inc., Senior Consultant (August 2003 to now) SmartDisk International Inc., President & CEO (1998~May 2003) MediaServe Corporation, Senior Executive VP (1996~1998) Toshiba Corporation (1965~1995)	0

Voting

4.

Proposed by the Board

Proposal:

To release the Directors' non-compete restrictions

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.

Resolution:

Extemporaneous Motions

Attachments

【Attachment 1】

Phison Electronics Corporation *The Business Operation Report of Year 2010*

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\$31,796,255 thousand dollars of FY2010, comparing to NT\$24,460,468 thousand dollars of FY2009, the increasing rate is 29.99% of NT\$7,335,787 thousand dollars increasing.

(2) Net Profit:

Our Company's net profit after taxes is NT\$1,515,723 thousand dollars of FY2010, comparing to NT\$2,063,061 thousand dollars of FY2009, the decreasing rate is 26.53% of NT\$547,338 thousand dollars increasing.

(3) As of December 31, 2010, the Company has total 499 employees, including 261 employees of RD departments.

2. Actual vs. Forecast : Phison didn't disclose the 2010 Forecast information to the public, so we didn't have to disclose the actual executed results.

3. Financial Analysis for FY2010 & FY2009

Unit: NT\$ Thousand

Items	2010	2009	Changed Amount	Changed rate(%)
Sales Revenue	31,796,255	24,460,468	7,335,787	29.99%
Sales margin	3,330,373	3,750,913	(420,540)	-11.21%
Income from Operating	2,044,818	2,212,714	(-167,896)	-7.59%
Non-operating income and loss	(181,505)	36,949	(218,454)	-591.23%
Net Profit After Taxes	1,515,723	2,063,061	(547,338)	-26.53%

Items		2010	2009
Capital Structure Analysis	Debt ratio (%)	35.00	39.73
	Long-term fund to fixed assets ratio (%)	1,212.33	1,126.02
Liquidity Analysis	Current ratio (%)	258.59	229.11
	Quick ratio(%)	192.86	149.04
	Times interest earned(Times)	245.14	543.74
Profitability Analysis	ROA(%)	11.28	19.98
	ROE(%)	17.93	31.05
	Operating income to paid in capital ratio(%)	115.48	150.80
	Pre-tax income to paid in capital ratio(%)	105.23	153.32
	Net Profit Margin rate(%)	4.77	8.43
	EPS (NT dollar per share)	8.57	14.33

4. Research & Development Overview

(1) The Research & Development Expenses for FY2010 & FY2009

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 FY2010 is NT\$793,227 thousand dollars and FY2009 is NT\$980,389, each occupy the full year total sales revenue 2.49% and 4.01%. Until to the end of 2010, we already got about 214 patents approved.

(2)R&D Achievements

In year 2010, we successfully developed and launched many new products which were well accepted by the market, including below:

- a. Support 2xnm/1xnm and x3 NAND Flash USB2.0 Pen Drive Controllers, Memory Card Controllers & system applications
- b. Embedded eMMC/eSD system application solution for mobile phone and electronic book 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. USB3.0 Single-Chip Controllers and system applications
- e. PCI Express controller and Express Card system applications
- f. Support advance data security NAND Flash controllers
- g. Support RTOS high operation ability flash card single chip controllers
- h. Other embedded flash application solution

(3)The main products lines in Year 2011

- a. Support 2xnm/1xnm and x3 NAND Flash USB2.0 Pen Drive Controllers, Memory Card Controllers & system applications
- b. New Embedded eMMC/eSD system application solution for mobile phone and electronic book 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. SATA SSD single-chip controller and mSATA/Slim Type SSD Module for flat PC and low price PC market
- e. USB3.0 Single-Chip Controllers , USB3.0 high-speed Pen Drive, USB3.0 SSD system applications
- f. SDXC controllers and high-speed SDXC card for high-end camera market
- g. PCI Express single chip controller and Express Card system applications
- h. Support advance data security NAND Flash controllers
- i. Support RTOS high operation ability flash card single chip controllers
- j. Other embedded flash application solution

PHISON ELECTRONICS CORPORATION

Chairman: KS Pua

President: AY CK

Accounting Manager: Nicole Liu

【Attachment 2】

Supervisors' Review Report

To:

The 2011 regular shareholders meeting of Phison Electronics Corp.

The financial statements of 2010 (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 Mrs. Wang En Wen(王儀雯) incorporated with the annual business operation report, financial report and the earning distribution of 2010 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 24, 2011

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS OF YEAR 2010

【Attachment 3】

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, 2010 and 2009, 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 the 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, 2010 and 2009, 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.

We have also audited the consolidated financial statements of Phison Electronics Corp. and its subsidiary as of and for the years ended December 31, 2010 and 2009 and have issued an unqualified opinion, respectively, in our report dated February 16, 2011 (not presented herewith).

February 16, 2011

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, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND SHAREHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$ 5,601,533	41	\$ 3,715,931	28	Short-term loans (Notes 14 and 22)	\$ 1,106,940	8	\$ 799,750	6
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	403,012	3	461,604	4	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,432,898	10	1,638,908	12
Third parties, net (Notes 2 and 6)	2,640,258	19	2,998,892	23	Related parties (Note 21)	1,175,408	9	1,611,637	12
Related parties (Note 21)	342,113	2	272,055	2	Income tax payable (Notes 2 and 16)	131,961	1	161,138	1
Other financial assets (Note 21)	6,554	-	31,295	-	Accrued expenses (Note 18)	821,388	6	980,634	8
Inventories (Notes 2, 3 and 7)	2,207,788	16	2,847,206	21	Other	<u>105,864</u>	<u>1</u>	<u>88,168</u>	<u>1</u>
Prepayments (Note 13)	930,397	7	1,380,460	10	Total current liabilities	<u>4,774,459</u>	<u>35</u>	<u>5,280,235</u>	<u>40</u>
Deferred income tax assets - current (Notes 2 and 16)	82,450	1	163,177	1	OTHER LIABILITIES				
Restricted assets (Note 22)	5,202	-	5,193	-	Guarantee deposits received	406	-	66	-
Other	<u>127,076</u>	<u>1</u>	<u>221,612</u>	<u>2</u>	Deferred credits (Notes 2 and 21)	<u>9,975</u>	<u>-</u>	<u>10,160</u>	<u>-</u>
Total current assets	<u>12,346,383</u>	<u>90</u>	<u>12,097,425</u>	<u>91</u>	Total other liabilities	<u>10,381</u>	<u>-</u>	<u>10,226</u>	<u>-</u>
LONG-TERM INVESTMENTS					Total liabilities	<u>4,784,840</u>	<u>35</u>	<u>5,290,461</u>	<u>40</u>
Investments accounted for by the equity method (Notes 2 and 10)	474,487	4	421,248	3	SHAREHOLDERS' EQUITY (Notes 2 and 18)				
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	31,540	-	-	-	Capital stock - NT\$10.00 par value				
Financial assets carried at cost - noncurrent (Notes 2 and 9)	<u>18,668</u>	<u>-</u>	<u>19,953</u>	<u>-</u>	Authorized - 230,000 thousand shares in 2010 and 180,000 thousand shares in 2009				
Total long-term investments	<u>524,695</u>	<u>4</u>	<u>441,201</u>	<u>3</u>	Issued and outstanding - 177,078 thousand shares in 2010 and 146,727 thousand shares in 2009	<u>1,770,788</u>	<u>13</u>	<u>1,467,273</u>	<u>11</u>
PROPERTIES (Notes 2, 11, 21 and 22)					Advance receipts for common stock	<u>12,246</u>	<u>-</u>	<u>66,166</u>	<u>-</u>
Cost					Capital surplus				
Land	375,235	3	364,478	3	Additional paid-in capital	3,112,044	23	3,016,551	23
Land improvements	5,095	-	-	-	From long-term investment	23,466	-	23,367	-
Buildings	320,225	2	286,886	2	Employees stock options	<u>86,670</u>	<u>1</u>	<u>42,183</u>	<u>-</u>
Testing equipment	118,921	1	108,135	1	Total capital surplus	<u>3,222,180</u>	<u>24</u>	<u>3,082,101</u>	<u>23</u>
Office equipment	15,005	-	15,652	-	Retained earnings				
Other equipment	<u>1,668</u>	<u>-</u>	<u>1,845</u>	<u>-</u>	Legal reserve	636,185	4	429,879	3
Total cost	836,149	6	776,996	6	Special reserve	1,643	-	-	-
Less: Accumulated depreciation	<u>107,407</u>	<u>1</u>	<u>92,251</u>	<u>1</u>	Unappropriated retained earnings	<u>3,256,071</u>	<u>24</u>	<u>2,980,919</u>	<u>23</u>
	728,742	5	684,745	5	Total retained earnings	<u>3,893,899</u>	<u>28</u>	<u>3,410,798</u>	<u>26</u>
Construction in progress	-	-	24,230	-	Other equity				
Prepayments for equipment	<u>4,080</u>	<u>-</u>	<u>3,682</u>	<u>-</u>	Unrealized loss on financial assets	(8,460)	-	-	-
Net properties	<u>732,822</u>	<u>5</u>	<u>712,657</u>	<u>5</u>	Cumulative translation adjustments	<u>(6,432)</u>	<u>-</u>	<u>(1,643)</u>	<u>-</u>
INTANGIBLE ASSETS (Notes 2, 12, 21 and 23)					Total other equity	<u>(14,892)</u>	<u>-</u>	<u>(1,643)</u>	<u>-</u>
	<u>57,496</u>	<u>1</u>	<u>56,507</u>	<u>1</u>	Total shareholders' equity	<u>8,884,221</u>	<u>65</u>	<u>8,024,695</u>	<u>60</u>
OTHER ASSETS					TOTAL	\$ 13,669,061	100	\$ 13,315,156	100
Guarantee deposits paid	1,982	-	1,827	-					
Deferred income tax assets - noncurrent (Notes 2 and 16)	3,070	-	1,798	-					
Miscellaneous (Notes 2 and 15)	<u>2,613</u>	<u>-</u>	<u>3,741</u>	<u>-</u>					
Total other assets	<u>7,665</u>	<u>-</u>	<u>7,366</u>	<u>-</u>					
TOTAL	\$ 13,669,061	100	\$ 13,315,156	100					

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

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 21)				
Gross sales	\$ 31,886,204	100	\$ 24,611,789	101
Less: Sales returns and allowances	<u>153,001</u>	<u>-</u>	<u>173,799</u>	<u>1</u>
Net sales	31,733,203	100	24,437,990	100
Service revenue	<u>63,052</u>	<u>-</u>	<u>22,478</u>	<u>-</u>
Total operating revenue	31,796,255	100	24,460,468	100
OPERATING COSTS (Notes 3, 7, 17 and 21)	<u>28,465,882</u>	<u>89</u>	<u>20,709,555</u>	<u>85</u>
GROSS PROFIT	<u>3,330,373</u>	<u>11</u>	<u>3,750,913</u>	<u>15</u>
OPERATING EXPENSES (Note 17)				
Marketing	291,979	1	295,976	1
General and administrative	200,349	1	261,834	1
Research and development	<u>793,227</u>	<u>2</u>	<u>980,389</u>	<u>4</u>
Total operating expenses	<u>1,285,555</u>	<u>4</u>	<u>1,538,199</u>	<u>6</u>
OPERATING INCOME	<u>2,044,818</u>	<u>7</u>	<u>2,212,714</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Interest income	4,461	-	3,493	-
Gain on disposal of properties (Notes 2 and 21)	366	-	39,242	-
Other (Notes 2, 5, 9 and 21)	<u>20,789</u>	<u>-</u>	<u>34,582</u>	<u>-</u>
Total nonoperating income and gains	<u>25,616</u>	<u>-</u>	<u>77,317</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	180,473	1	26,100	-
Equity in net loss of investees (Notes 2 and 10)	12,071	-	5,937	-
Interest expense	7,632	-	4,145	-
Impairment loss on financial assets carried at cost (Notes 2 and 9)	6,767	-	4,100	-
Other (Note 2)	<u>178</u>	<u>-</u>	<u>86</u>	<u>-</u>
Total nonoperating expenses and losses	<u>207,121</u>	<u>1</u>	<u>40,368</u>	<u>-</u>
INCOME BEFORE INCOME TAX	1,863,313	6	2,249,663	9
INCOME TAX EXPENSE (Notes 2 and 16)	<u>347,590</u>	<u>1</u>	<u>186,602</u>	<u>1</u>
NET INCOME	<u>\$ 1,515,723</u>	<u>5</u>	<u>\$ 2,063,061</u>	<u>8</u>

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 10.53</u>	<u>\$ 8.57</u>	<u>\$ 13.02</u>	<u>\$ 11.94</u>
Diluted	<u>\$ 10.21</u>	<u>\$ 8.31</u>	<u>\$ 12.60</u>	<u>\$ 11.55</u>

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

PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)**

	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus			Retained Earnings				Other Equity			Total Shareholders' Equity	
	Shares (Thousands)	Amount		Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Total	Legal Reserve	Special Reserve	Unappropriated	Total	Unrealized Loss on Financial Assets	Cumulative Translation Adjustments		Treasury Stock
BALANCE, JANUARY 1, 2009	126,766	\$ 1,267,662	\$ -	\$ 2,235,062	\$ 21,088	\$ 321	\$ 2,256,471	\$ 374,481	\$ -	\$ 1,492,893	\$ 1,867,374	\$ -	\$ -	\$ (127,645)	\$ 5,263,862
Appropriation of the 2008 earnings															
Legal reserve	-	-	-	-	-	-	-	55,398	-	(55,398)	-	-	-	-	-
Stock dividends - NTS0.89508 per share	12,000	120,000	-	-	-	-	-	-	-	(120,000)	(120,000)	-	-	-	-
Cash dividends - NTS2.83442 per share	-	-	-	-	-	-	-	-	-	(380,000)	(380,000)	-	-	-	(380,000)
Balance after appropriation	138,766	1,387,662	-	2,235,062	21,088	321	2,256,471	429,879	-	937,495	1,367,374	-	-	(127,645)	4,883,862
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	-	-	-	-	2,279	-	2,279	-	-	-	-	-	-	-	2,279
Bonus to employees - stock	661	6,611	-	106,389	-	-	106,389	-	-	-	-	-	-	-	113,000
Issuance of capital stock as of February 18, 2009 - NTS53.00 per share	1,700	17,000	-	73,100	-	-	73,100	-	-	-	-	-	-	-	90,100
Issuance of capital stock as of May 15, 2009 - NTS117.50 per share	5,600	56,000	-	602,000	-	-	602,000	-	-	-	-	-	-	-	658,000
Compensation cost recognized for employee stock options	-	-	-	-	-	41,862	41,862	-	-	-	-	-	-	-	41,862
Transfer of treasury stock to employees	-	-	-	-	-	-	-	-	-	(19,637)	(19,637)	-	-	127,645	108,008
Advance receipts for common stock - employee stock options	-	-	66,166	-	-	-	-	-	-	-	-	-	-	-	66,166
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(1,643)	-	(1,643)
Net income in 2009	-	-	-	-	-	-	-	-	-	2,063,061	2,063,061	-	-	-	2,063,061
BALANCE, DECEMBER 31, 2009	146,727	1,467,273	66,166	3,016,551	23,367	42,183	3,082,101	429,879	-	2,980,919	3,410,798	-	(1,643)	-	8,024,695
Appropriation of the 2009 earnings															
Legal reserve	-	-	-	-	-	-	-	206,306	-	(206,306)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	1,643	(1,643)	-	-	-	-	-
Stock dividends - NTS1.99946 per share	29,503	295,035	-	-	-	-	-	-	-	(295,035)	(295,035)	-	-	-	-
Cash dividends - NTS4.99864 per share	-	-	-	-	-	-	-	-	-	(737,587)	(737,587)	-	-	-	(737,587)
Balance after appropriation	176,230	1,762,308	66,166	3,016,551	23,367	42,183	3,082,101	636,185	1,643	1,740,348	2,378,176	-	(1,643)	-	7,287,108
Effect of change in equity in an investee due to the Corporation's subscription for shares issued by an investee at a rate not equal to its current equity	-	-	-	-	99	-	99	-	-	-	-	-	-	-	99
Transfer of employee stock options to capital stock on January 31, 2010 - NTS123.10 per share	538	5,375	(66,166)	60,791	-	-	60,791	-	-	-	-	-	-	-	-
Transfer of executed employee stock options to capital stock on April 30, 2010 - NTS123.10 per share	252	2,525	-	28,558	-	-	28,558	-	-	-	-	-	-	-	31,083
Transfer of executed employee stock options to capital stock on June 30, 2010 - NTS123.1 per share	20	200	-	2,262	-	-	2,262	-	-	-	-	-	-	-	2,462
Transfer of executed employee stock options to capital stock on October 31, 2010 - 20,000 shares, NTS123.1 per share; 18,000 shares, NTS100 per share	38	380	-	3,882	-	-	3,882	-	-	-	-	-	-	-	4,262
Advance receipts for common stock - employee stock options	-	-	12,246	-	-	-	-	-	-	-	-	-	-	-	12,246
Compensation cost recognized for employee stock options	-	-	-	-	-	44,487	44,487	-	-	-	-	-	-	-	44,487
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	(8,460)	-	-	(8,460)
Translation of adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(4,789)	-	(4,789)
Net income in 2010	-	-	-	-	-	-	-	-	-	1,515,723	1,515,723	-	-	-	1,515,723
BALANCE, DECEMBER 31, 2010	<u>177,078</u>	<u>\$ 1,770,788</u>	<u>\$ 12,246</u>	<u>\$ 3,112,044</u>	<u>\$ 23,466</u>	<u>\$ 86,670</u>	<u>\$ 3,222,180</u>	<u>\$ 636,185</u>	<u>\$ 1,643</u>	<u>\$ 3,256,071</u>	<u>\$ 3,893,899</u>	<u>\$ (8,460)</u>	<u>\$ (6,432)</u>	<u>\$ -</u>	<u>\$ 8,884,221</u>

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

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,515,723	\$ 2,063,061
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Deferred income tax	79,455	(13,329)
Amortization	54,029	55,552
Compensation cost of employee stock options	44,487	49,220
Depreciation	43,945	40,253
Equity in net loss of investees	12,071	5,937
(Reversal of) allowance for doubtful accounts	(7,912)	4,117
Impairment loss on financial assets carried at cost	6,767	4,100
Allowance for sales returns and discounts	6,184	24,383
Gain on disposal and retirement of properties, net (including realized deferred credits)	(339)	(39,217)
Intangible assets transferred to expense	281	-
Gain on disposal of intangible assets (including realized deferred credits)	-	(10,257)
Gain on disposal of financial assets carried at cost	-	(2,365)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	58,592	(461,604)
Notes and accounts receivable	290,304	(1,749,503)
Other financial assets	24,741	611
Inventories	639,418	(1,717,211)
Other current assets	544,599	(820,061)
Notes and accounts payable	(642,239)	1,568,823
Income tax payable	(29,177)	161,138
Accrued expenses	(159,246)	733,792
Other current liabilities	14,644	38,172
Prepaid pension cost	1,128	591
Net cash provided by (used in) operating activities	<u>2,497,455</u>	<u>(63,797)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments accounted for by the equity method	(70,000)	(43,353)
Acquisition of properties	(62,383)	(42,769)
Increase in intangible assets	(55,299)	(57,468)
Increase in available-for-sale financial assets - noncurrent	(40,000)	-
Increase in financial assets carried at cost	(8,035)	(3,297)
Proceeds from investees' capital reduction	2,553	33,927
Proceeds of the disposal of properties	1,479	171,090
(Increase) decrease in guarantee deposits paid	(155)	2,401
Increase in restricted assets	(9)	(93)
Proceeds of the disposal of financial assets carried at cost	-	16,965
Net cash (used in) provided by investing activities	<u>(231,849)</u>	<u>77,403</u>

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	\$ (737,587)	\$ (380,000)
Increase in short-term loans	307,190	799,750
Transfer of executed employee stock option to capital stock	37,807	-
Advance receipts for common stock - employee stock options	12,246	66,166
Increase (decrease) in guarantee deposit received	340	(287)
Proceeds of the issuance of capital stock	-	748,100
Transfer of treasury stock to employee	<u>-</u>	<u>100,650</u>
Net cash (used in) provided by financing activities	<u>(380,004)</u>	<u>1,334,379</u>
NET INCREASE IN CASH	1,885,602	1,347,985
CASH, BEGINNING OF YEAR	<u>3,715,931</u>	<u>2,367,946</u>
CASH, END OF YEAR	<u>\$ 5,601,533</u>	<u>\$ 3,715,931</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 7,276</u>	<u>\$ 4,068</u>
Income tax paid	<u>\$ 297,312</u>	<u>\$ 38,793</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	\$ 65,435	\$ 44,722
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	<u>(3,052)</u>	<u>(1,953)</u>
Acquisition of properties	<u>\$ 62,383</u>	<u>\$ 42,769</u>

The accompanying notes are an integral part of the nonconsolidated financial statements. (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, 2010 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, 2010, 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 16, 2011

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 its subsidiary as of December 31, 2010 and 2009, 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 the 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 its subsidiary as of December 31, 2010 and 2009, 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.

February 16, 2011

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, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND SHAREHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash (Note 4)	\$ 5,611,939	41	\$ 3,726,340	28	Short-term loans (Notes 14 and 22)	\$ 1,106,940	8	\$ 799,750	6
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	403,012	3	461,604	4	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,432,898	10	1,638,908	12
Third parties, net (Notes 2 and 6)	2,640,258	19	2,998,892	23	Related parties (Note 21)	1,175,408	9	1,611,637	12
Related parties (Note 21)	342,113	2	272,055	2	Income tax payable (Notes 2 and 16)	131,961	1	161,144	1
Other financial assets (Note 21)	6,554	-	31,295	-	Accrued expenses (Note 18)	821,388	6	980,634	8
Inventories (Notes 2, 3 and 7)	2,207,788	16	2,847,206	21	Others	<u>105,864</u>	<u>1</u>	<u>88,168</u>	<u>1</u>
Prepayments (Note 13)	930,397	7	1,380,472	10	Total current liabilities	<u>4,774,459</u>	<u>35</u>	<u>5,280,241</u>	<u>40</u>
Deferred income tax assets - current (Notes 2 and 16)	82,450	1	163,177	1	OTHER LIABILITIES				
Restricted assets (Note 22)	5,202	-	5,193	-	Guarantee deposits received	406	-	66	-
Others	<u>127,097</u>	<u>1</u>	<u>221,620</u>	<u>2</u>	Deferred credits (Notes 2 and 21)	<u>9,975</u>	<u>-</u>	<u>10,160</u>	<u>-</u>
Total current assets	<u>12,356,810</u>	<u>90</u>	<u>12,107,854</u>	<u>91</u>	Total other liabilities	<u>10,381</u>	<u>-</u>	<u>10,226</u>	<u>-</u>
LONG-TERM INVESTMENTS					Total liabilities	<u>4,784,840</u>	<u>35</u>	<u>5,290,467</u>	<u>40</u>
Investments accounted for by the equity method (Notes 2 and 10)	454,060	4	400,825	3	SHAREHOLDERS' EQUITY (Notes 2 and 18)				
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	31,540	-	-	-	Capital stock - NT\$10.00 par value				
Financial assets carried at cost - noncurrent (Notes 2 and 9)	<u>28,668</u>	<u>-</u>	<u>29,953</u>	<u>-</u>	Authorized - 230,000 thousand shares in 2010 and 180,000 thousand shares in 2009				
Total long-term investments	<u>514,268</u>	<u>4</u>	<u>430,778</u>	<u>3</u>	Issued and outstanding - 177,078 thousand shares in 2010 and 146,727 thousand shares in 2009	<u>1,770,788</u>	<u>13</u>	<u>1,467,273</u>	<u>11</u>
PROPERTIES (Notes 2, 11, 21 and 22)					Advance receipts for common stock	<u>12,246</u>	<u>-</u>	<u>66,166</u>	<u>-</u>
Cost					Capital surplus				
Land	375,235	3	364,478	3	Additional paid-in capital	3,112,044	23	3,016,551	23
Land improvement	5,095	-	-	-	From long-term investment	23,466	-	23,367	-
Buildings	320,225	2	286,886	2	Employee stock options	<u>86,670</u>	<u>1</u>	<u>42,183</u>	<u>-</u>
Testing equipment	118,921	1	108,135	1	Total capital surplus	<u>3,222,180</u>	<u>24</u>	<u>3,082,101</u>	<u>23</u>
Office equipment	15,005	-	15,652	-	Retained earnings				
Other equipment	<u>1,668</u>	<u>-</u>	<u>1,845</u>	<u>-</u>	Legal reserve	636,185	4	429,879	3
Total cost	836,149	6	776,996	6	Special reserve	1,643	-	-	-
Less: Accumulated depreciation	<u>107,407</u>	<u>1</u>	<u>92,251</u>	<u>1</u>	Unappropriated retained earnings	<u>3,256,071</u>	<u>24</u>	<u>2,980,919</u>	<u>23</u>
	728,742	5	684,745	5	Total retained earnings	<u>3,893,899</u>	<u>28</u>	<u>3,410,798</u>	<u>26</u>
Construction in progress	-	-	24,230	-	Other equity				
Prepayments for equipment	<u>4,080</u>	<u>-</u>	<u>3,682</u>	<u>-</u>	Unrealized loss on financial assets	(8,460)	-	-	-
Net properties	<u>732,822</u>	<u>5</u>	<u>712,657</u>	<u>5</u>	Cumulative translation adjustments	<u>(6,432)</u>	<u>-</u>	<u>(1,643)</u>	<u>-</u>
INTANGIBLE ASSETS (Notes 2, 12, 21 and 23)					Total other equity	<u>(14,892)</u>	<u>-</u>	<u>(1,643)</u>	<u>-</u>
	<u>57,496</u>	<u>1</u>	<u>56,507</u>	<u>1</u>	Total shareholders' equity	<u>8,884,221</u>	<u>65</u>	<u>8,024,695</u>	<u>60</u>
OTHER ASSETS					TOTAL	<u>\$ 13,669,061</u>	<u>100</u>	<u>\$ 13,315,162</u>	<u>100</u>
Guarantee deposits paid	1,982	-	1,827	-					
Deferred income tax assets - noncurrent (Notes 2 and 16)	3,070	-	1,798	-					
Miscellaneous (Notes 2 and 15)	<u>2,613</u>	<u>-</u>	<u>3,741</u>	<u>-</u>					
Total other assets	<u>7,665</u>	<u>-</u>	<u>7,366</u>	<u>-</u>					
TOTAL	<u>\$ 13,669,061</u>	<u>100</u>	<u>\$ 13,315,162</u>	<u>100</u>					

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

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 21)				
Gross sales	\$ 31,886,204	100	\$ 24,611,789	101
Less: Sales returns and allowances	<u>153,001</u>	<u>-</u>	<u>173,799</u>	<u>1</u>
Net sales	31,733,203	100	24,437,990	100
Service revenue	<u>63,052</u>	<u>-</u>	<u>22,478</u>	<u>-</u>
Total operating revenue	31,796,255	100	24,460,468	100
OPERATING COSTS (Notes 3, 7, 17 and 21)	<u>28,465,882</u>	<u>89</u>	<u>20,709,555</u>	<u>85</u>
GROSS PROFIT	<u>3,330,373</u>	<u>11</u>	<u>3,750,913</u>	<u>15</u>
OPERATING EXPENSES (Note 17)				
Marketing	291,979	1	295,976	1
General and administrative	200,402	1	261,887	1
Research and development	<u>793,227</u>	<u>2</u>	<u>980,389</u>	<u>4</u>
Total operating expenses	<u>1,285,608</u>	<u>4</u>	<u>1,538,252</u>	<u>6</u>
OPERATING INCOME	<u>2,044,765</u>	<u>7</u>	<u>2,212,661</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Interest income	4,518	-	3,549	-
Gain on disposal of properties (Notes 2 and 21)	366	-	39,242	-
Other (Notes 2, 5, 9 and 21)	<u>20,789</u>	<u>-</u>	<u>34,582</u>	<u>-</u>
Total nonoperating income and gains	<u>25,673</u>	<u>-</u>	<u>77,373</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	180,473	1	26,100	-
Equity in net loss of investees (Notes 2 and 10)	12,075	-	5,921	-
Interest expense	7,632	-	4,145	-
Impairment loss on financial assets carried at cost (Notes 2 and 9)	6,767	-	4,100	-
Other (Note 2)	<u>178</u>	<u>-</u>	<u>94</u>	<u>-</u>
Total nonoperating expenses and losses	<u>207,125</u>	<u>1</u>	<u>40,360</u>	<u>-</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	1,863,313	6	2,249,674	9
INCOME TAX EXPENSE (Notes 2 and 16)	<u>347,590</u>	<u>1</u>	<u>186,613</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 1,515,723</u>	<u>5</u>	<u>\$ 2,063,061</u>	<u>8</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009**

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

	2010		2009	
	Amount	%	Amount	%
ATTRIBUTED TO SHAREHOLDERS OF THE PARENT	<u>\$ 1,515,723</u>	<u>5</u>	<u>\$ 2,063,061</u>	<u>8</u>
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 10.53</u>	<u>\$ 8.57</u>	<u>\$ 13.02</u>	<u>\$ 11.94</u>
Diluted	<u>\$ 10.21</u>	<u>\$ 8.31</u>	<u>\$ 12.60</u>	<u>\$ 11.55</u>

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

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus			Total	Retained Earnings			Unrealized Loss on Financial Assets	Other Equity		Total Shareholders' Equity	
	Shares (Thousands)	Amount		Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options		Legal Reserve	Special Reserve	Unappropriated		Total	Cumulative Translation Adjustments		Treasury Stock
BALANCE, JANUARY 1, 2009	126,766	\$ 1,267,662	\$ -	\$ 2,235,062	\$ 21,088	\$ 321	\$ 2,256,471	\$ 374,481	\$ -	\$ 1,492,893	\$ 1,867,374	\$ -	\$ -	\$ (127,645)	\$ 5,263,862
Appropriation of the 2008 earnings															
Legal reserve	-	-	-	-	-	-	-	55,398	-	(55,398)	-	-	-	-	-
Stock dividends - NTS0.89508 per share	12,000	120,000	-	-	-	-	-	-	-	(120,000)	(120,000)	-	-	-	-
Cash dividends - NTS2.83442 per share	-	-	-	-	-	-	-	-	-	(380,000)	(380,000)	-	-	-	(380,000)
Balance after appropriation	138,766	1,387,662	-	2,235,062	21,088	321	2,256,471	429,879	-	937,495	1,367,374	-	-	(127,645)	4,883,862
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	-	-	-	-	2,279	-	2,279	-	-	-	-	-	-	-	2,279
Bonus to employees - stock	661	6,611	-	106,389	-	-	106,389	-	-	-	-	-	-	-	113,000
Issuance of capital stock as of February 18, 2009 - NTS53.00 per share	1,700	17,000	-	73,100	-	-	73,100	-	-	-	-	-	-	-	90,100
Issuance of capital stock as of May 15, 2009 - NTS117.50 per share	5,600	56,000	-	602,000	-	-	602,000	-	-	-	-	-	-	-	658,000
Compensation cost recognized for employee stock options	-	-	-	-	-	41,862	41,862	-	-	-	-	-	-	-	41,862
Transfer of treasury stock to employees	-	-	-	-	-	-	-	-	-	(19,637)	(19,637)	-	-	127,645	108,008
Advance receipts for common stock - employee stock options	-	-	66,166	-	-	-	-	-	-	-	-	-	-	-	66,166
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(1,643)	-	(1,643)
Consolidated net income in 2009	-	-	-	-	-	-	-	-	-	2,063,061	2,063,061	-	-	-	2,063,061
BALANCE, DECEMBER 31, 2009	146,727	1,467,273	66,166	3,016,551	23,367	42,183	3,082,101	429,879	-	2,980,919	3,410,798	-	(1,643)	-	8,024,695
Appropriation of the 2009 earnings															
Legal reserve	-	-	-	-	-	-	-	206,306	-	(206,306)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	1,643	(1,643)	-	-	-	-	-
Stock dividends - NTS1.99946 per share	29,503	295,035	-	-	-	-	-	-	-	(295,035)	(295,035)	-	-	-	-
Cash dividends - NTS4.99864 per share	-	-	-	-	-	-	-	-	-	(737,587)	(737,587)	-	-	-	(737,587)
Balance after appropriation	176,230	1,762,308	66,166	3,016,551	23,367	42,183	3,082,101	636,185	1,643	1,740,348	2,378,176	-	(1,643)	-	7,287,108
Effect of change in equity in an investee due to the Corporation's subscription for shares issued by an investee at a rate not equal to its current equity	-	-	-	-	99	-	99	-	-	-	-	-	-	-	99
Transfer of employee stock options to capital stock on January 31, 2010 - NTS123.10 per share	538	5,375	(66,166)	60,791	-	-	60,791	-	-	-	-	-	-	-	-
Transfer of executed employee stock options to capital stock on April 30, 2010 - NTS123.10 per share	252	2,525	-	28,558	-	-	28,558	-	-	-	-	-	-	-	31,083
Transfer of executed employee stock options to capital stock on June 30, 2010 - NTS123.1 per share	20	200	-	2,262	-	-	2,262	-	-	-	-	-	-	-	2,462
Transfer of executed employee stock options to capital stock on October 31, 2010 - 20,000 shares, NTS123.1 per share; 18,000 shares, NTS100 per share	38	380	-	3,882	-	-	3,882	-	-	-	-	-	-	-	4,262
Advance receipts for common stock - employee stock options	-	-	12,246	-	-	-	-	-	-	-	-	-	-	-	12,246
Compensation cost recognized for employee stock options	-	-	-	-	-	44,487	44,487	-	-	-	-	-	-	-	44,487
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	(8,460)	-	-	(8,460)
Translation of adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(4,789)	-	(4,789)
Consolidated net income in 2010	-	-	-	-	-	-	-	-	-	1,515,723	1,515,723	-	-	-	1,515,723
BALANCE, DECEMBER 31, 2010	177,078	\$ 1,770,788	\$ 12,246	\$ 3,112,044	\$ 23,466	\$ 86,670	\$ 3,222,180	\$ 636,185	\$ 1,643	\$ 3,256,071	\$ 3,893,899	\$ (8,460)	\$ (6,432)	\$ -	\$ 8,884,221

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

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 1,515,723	\$ 2,063,061
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax	79,455	(13,329)
Amortization	54,029	55,552
Compensation cost of employee stock options	44,487	49,220
Depreciation	43,945	40,253
Equity in net loss of investees	12,075	5,921
(Reversal of) allowance of doubtful accounts	(7,912)	4,117
Impairment loss on financial assets carried at cost	6,767	4,100
Allowance for sales returns and discounts	6,184	24,383
Gain on disposal and retirement of properties, net (including realized deferred credits)	(339)	(39,217)
Intangible assets transferred to expenses	281	-
Gain on disposal of intangible assets (including realized deferred credits)	-	(10,257)
Gain on disposal of financial assets carried at cost	-	(2,365)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	58,592	(461,604)
Notes and accounts receivable	290,304	(1,749,503)
Other financial assets	24,741	611
Inventories	639,418	(1,717,211)
Other current assets	544,598	(820,054)
Notes and accounts payable	(642,239)	1,568,823
Income tax payable	(29,183)	161,134
Accrued expenses	(159,246)	733,792
Other current liabilities	14,644	38,172
Prepaid pension cost	1,128	591
Net cash provided by (used in) operating activities	<u>2,497,452</u>	<u>(63,810)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investment accounted for by the equity method	(70,000)	(43,353)
Acquisition of properties	(62,383)	(42,769)
Increase in intangible assets	(55,299)	(57,468)
Increase in available-for-sale financial assets - noncurrent	(40,000)	-
Increase in financial assets carried at cost	(8,035)	(3,297)
Proceeds from investees' capital reduction	2,553	33,927
Proceeds of the disposal of properties	1,479	171,090
(Increase) decrease in guarantee deposits paid	(155)	2,401
Increase in restricted assets	(9)	(93)
Proceeds of the disposal of financial assets carried at cost	<u>-</u>	<u>16,965</u>
Net cash (used in) provided by investing activities	<u>(231,849)</u>	<u>77,403</u>

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	\$ (737,587)	\$ (380,000)
Increase in short-term loans	307,190	799,750
Transfer of executed employee stock option to capital stock	37,807	-
Advance receipts for common stock - employee stock options	12,246	66,166
Increase (decrease) in guarantee deposit received	340	(287)
Proceeds of the issuance of capital stock	-	748,100
Transfer of treasury stock to employee	<u>-</u>	<u>100,650</u>
Net cash (used in) provided by financing activities	<u>(380,004)</u>	<u>1,334,379</u>
NET INCREASE IN CASH	1,885,599	1,347,972
CASH, BEGINNING OF YEAR	<u>3,726,340</u>	<u>2,378,368</u>
CASH, END OF YEAR	<u>\$ 5,611,939</u>	<u>\$ 3,726,340</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 7,276</u>	<u>\$ 4,068</u>
Income tax paid	<u>\$ 297,318</u>	<u>\$ 38,804</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	\$ 65,435	\$ 44,722
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	<u>(3,052)</u>	<u>(1,953)</u>
Acquisition of properties	<u>\$ 62,383</u>	<u>\$ 42,769</u>

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

【Attachment 4】

【The amendment comparison table for the Articles of the Corporation】

Original	Amendment	Reason
<p>Article 19</p> <p>When allocating the profits for each fiscal year, the Corporation 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 Corporation 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.</p> <p>It is because of the business of the Corporation 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 Corporation 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%.</p>	<p>Article 19</p> <p>When allocating the profits for each fiscal year, the Corporation 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 Corporation 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)<u>12% to 25%</u> 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.</p> <p>It is because of the business of the Corporation 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 Corporation 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%.</p>	<p>To Amend according to the Company's operation need.</p>
<p>Article 21</p> <p>These Articles of Incorporation are agreed to and signed on October 24, 2000.</p> <p>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 twelfth 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. the sixteenth Amendment on June 15, 2010.</p>	<p>Article 21</p> <p>These Articles of Incorporation are agreed to and signed on October 24, 2000.</p> <p>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 twelfth 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. the sixteenth Amendment on June 15, 2010. <u>the eventeenth Amendment on June 15, 2011.</u></p>	<p>Add the date of the seventeenth Amendment</p>

【Attachment 5】

【THE AMENDMENT COMPARISON TABLE FOR “THE MANAGEMENT OF LOANS TO OTHERS AND THE MANAGEMENT OF ENDORSEMENTS AND GUARANTEES”】

原條文	修正後條文	修正原因
<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>本公司之資金貸與他人，應充分考量各獨立董事之意見，並將其同意或反對之明確意見及反對理由列入董事會記錄。</p> <p>……(略)</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><u>本公司與子公司間，或子公司間之資金貸與，應依前項規定提董事會決議，並得授權董事長對同一貸與對象於董事會決議之一定額度及不超過一年之期間內分次撥貸或循環動用。</u></p> <p><u>前項所稱一定額度，除符合第二條第四項規定者外，本公司或子公司對單一企業之資金貸與之授權額度不得超過本公司最近期財務報表淨值百分之十。</u></p> <p>本公司之資金貸與他人，應充分考量各獨立董事之意見，並將其同意或反對之明確意見及反對理由列入董事會記錄。</p> <p>……(略)</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>

【背書保證作業程序修正條文對照表】

原條文	修正後條文	修正原因
<p>第五條 辦理背書保證之額度</p> <p>本公司背書保證之總額及對單一企業背書保證之金額如下：</p> <p>一、累計對外背書保證總額以不超過本公司最近期經會計師查核簽證或核閱之</p>	<p>第五條 辦理背書保證之額度</p> <p>本公司背書保證之總額及對單一企業背書保證之金額如下：</p> <p>一、累計對外背書保證總額以不超過本公司最近期經會計師查核簽證或核閱之財</p>	<p>依「公開發行公司資金貸與及背書保證處理準則」及公</p>

原條文	修正後條文	修正原因
<p>財務報表淨值之百分之四十為限。</p> <p>二、對單一企業之背書保證金額以不超過本公司最近期經會計師查核簽證或核閱之財務報表淨值之百分之二十為限。</p> <p>三、因業務往來而從事背書保證時，其背書保證金額以不超過雙方間業務往來金額為限。所稱業務往來金額係指雙方間進貨或銷貨金額孰高者。</p>	<p>務報表淨值之百分之四十為限。</p> <p>二、對單一企業之背書保證金額以不超過本公司最近期經會計師查核簽證或核閱之財務報表淨值之百分之二十為限。</p> <p>三、因業務往來而從事背書保證時，其背書保證金額以不超過雙方間業務往來金額為限。所稱業務往來金額係指雙方間進貨或銷貨金額孰高者。</p> <p>本公司及子公司整體得為背書保證之總額及對單一企業背書保證之金額如下：</p> <p>一、累計對外背書保證總額以不超過本公司最近期經會計師查核簽證或核閱之財務報表淨值之百分之四十為限。</p> <p>二、對單一企業之背書保證金額以不超過本公司最近期經會計師查核簽證或核閱之財務報表淨值之百分之二十為限。</p> <p>三、因業務往來而從事背書保證時，其背書保證金額以不超過雙方間業務往來金額為限。所稱業務往來金額係指雙方間進貨或銷貨金額孰高者。</p>	<p>司營運需要修訂。</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>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>四、本公司不得對淨值低於實收資本額二分之一之子公司進行背書保證。</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>

【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】

Phison Electronics Corp.

Rules For Election Of Directors And Supervisors

1. The directors and supervisors of the Company shall be elected in accordance with the rules specified herein.
2. Election of directors and supervisors of the Company shall prepare separate ballots for Directors and Supervisors and note the number of voting rights by the board of directors for distribute to the shareholders of attend the shareholders meeting. The elector shall be record the name by the ballots of shareholder account number or certificate of attendance.
3. In the election of directors and supervisors of the Company, the cumulative voting system applies to the election, each share shall have voting rights equivalent to the number of seats to be elected and such voting rights can be combined to vote for one person or divided to vote for several persons.
4. Election of directors and supervisors of the Company shall be held at the Shareholders' Meeting and appoint to people who shall be have capacity, accordance with the article of the corporation's rule of the director and supervisor number of persons designated.
Candidates who acquire more votes should win the seats of independent directors、directors or supervisors. If two or more persons acquire the same number of votes and the number of such persons exceeds the specified seats available, such persons acquiring the same votes shall draw lots to decide who should win the seats available, and the Chairman shall draw lots on behalf of the candidate who is not present.
The candidate who had been elected as Director and Supervisor at the same time shall choose to sit on one of the two positions by himself.
The vacancy of the position shall be sited by the candidate who won the second majority votes.
5. At the beginning of the election, the Chairman shall appoint several persons to

check and record the ballots, but the scrutineer must be shareholders.

6. The ballot box used for voting shall be prepared by board of directors and checked in public by the person to check the ballots before voting.
7. If the candidate is a shareholder of the Company, voters shall fill in the "candidate" column the candidate's name and shareholder's number, and the number of votes cast for such candidate. If the candidate is not a shareholder of the Company, voters shall fill in the "candidate" column the candidate's name, the candidate's ID number. If the candidate is a legal entity, the full name of the legal entity, the name of the legal entity, or the name(s) of their representative(s) should be filled in the column.
8. Ballots shall be deemed void under the following conditions:
 - (1) Ballots used not prepared by this Company;
 - (2) Blank ballots not completed by the voter;
 - (3) Illegible handwriting unable to understand or any of the candidate's name, shareholder's number (ID number) or the number of votes cast for such candidate being erased or changed;
 - (4) If the candidate is a shareholder of the Company, the name or shareholder's number of the candidate filled in the ballot inconsistent with the shareholders' register. If the candidate is not a shareholder of the Company, the name or ID number of the candidate filled in the ballot is incorrect;
 - (5) Ballots with other written characters or symbols in addition to candidate's name, shareholder's number (ID number) and the number of votes cast for the candidate;
 - (6) Voters not fill in the "candidate" column the candidate's name and shareholder's number (ID number).
9. Independent and non-independent directors shall be elected at the same time, but the ballots and will be tallied separately.
10. The ballots should be calculated during the Meeting right after the vote casting and the results of the directors and supervisors elect roster should be announced by the Chairman at the Meeting.
11. If elect process is not according to the Securities and Exchange Law 26-3-3 and 26-3-4, the election loses its potency.

12. The directors and supervisors who to win an election of the company, we shall be leave each other issued an advice notice by board of directors.
13. Election of Directors and Supervisors shall be conducted in accordance with these Rules. Any matter not provided in these Rules shall be handled in accordance with the Company Law and the Articles of the corporation and other interrelated law.
14. This “Rules” shall be effective from the date it is approved by the Shareholders' Meeting. The same applies in case of revision.

【APPENDIX3】

**PHISON ELECTRONICS CORP.
ARTICLES OF THE CORPORATION**

Section I - General Provisions

1. The Corporation shall be incorporated, as a company limited by shares, under the Company Law of the Republic of China, and its name shall be Phison Electronics Corp.
2. The scope of business of the Corporation shall be as follows :
 - 1). CC01080 Electronic Parts and Components Manufacturing
 - 2). I301010 Software Design Services
 - 3). F218010 Retail Sale of Computer Software
 - 4). F119010 Wholesale of Electronic Materials
 - 5). F219010 Retail Sale of Electronic Materials
 - 6). CE01030 Photographic and Optical Equipment Manufacturing
 - 7). CC01120 Data Storage Media Manufacturing and Duplicating
 - 8). I501010 Product Designing
 - 9). F401010 International Trade
 - 10). ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval
- 2-1. The Corporation may provide endorsement and guarantee and act as a guarantor.
- 2-2. The total amount of the Corporation 's reinvestment shall not be subject to the restriction of not more than forty percent of the Corporation 's paid-up capital as provided in Article 13 of the Company Law.
3. The Corporation 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 Corporation shall be in the amount of 2,300,000,000 New Taiwan Dollars, divided into 230,000,000 shares, at ten New Taiwan Dollars each, and authorize the Board of Directors to be paid-up in installments.

The Corporation may reserve 160,000,000 New Taiwan Dollars of the total capital stock of the Corporation, divided into 16,000,000 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 Corporation shall all be name-bearing share certificates with signatures or stamps not less than three Directors.

The Corporation 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. It may also be exempted from printing any share certificate for the shares issued and login at TDCC.

(Taiwan Depository & Clearing Corp.)

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 Corporation shall follow the 'Criteria Governing Handling of Stock Affairs by Public Companies'.

Section III – Shareholder's Meeting

9. Shareholders' meetings of the Corporation 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 Corporation 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.

12-1. The reasons for calling a board of directors meeting shall be notified to each director and supervisor at least seven days in advance. In emergency circumstances, however, a meeting may be called on shorter notice. The calling a board of directors meeting notice also could be by Email or fax letters.

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 Corporation.
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 Corporation 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 Corporation 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 Corporation shall submit the following reports which shall be prepared by the Board of Directors, and, after being audited by the Supervisors of the Corporation, 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 twelfth 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, the sixteenth Amendment on June 15, 2010.

【APPENDIX 4】

**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
Employees cash dividends	222,000,000	222,000,000	0	Consider to Phison Articles of the
COMPENSATION OF DIRECTORS AND SUPERVISORS	10,082,255	10,081,563	692	Corporation and encourage to employees, the different will be list on 20110 profit or loss.

【APPENDIX 5】

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 : 178,558,243 common shares
 - 2). The minimum required combined shareholding of all directors by law : 10,713,494 shares
 - 3). The minimum required combined shareholding of all supervisors by law : 1,071,349 shares
2. The shareholding of all Directors and Supervisors as of 17th April, 2011, the start date of lock up of this Regular Shareholders' Meeting, are as follows:

As of 17th April, 2011

Title	Name	Shareholding	Representative
Chairman	K.S. Pua	4,557,972	
Director	TOSHIBA CORP.	21,882,112	Hitoshi Kondo
Director	Daniel Jow	981,402	
Director	C.K. AW	4,694,745	
Director	Kuang	1,473,736	
Independent Director	Shu-Fen Wang	0	
Independent Director	Uchida-san	0	
Total Amount of Shares Held by Directors		33,589,967	
Ratio of total Outstanding Shares		18.81	
Supervisor	Joe Wang	171,750	
Supervisor	Eric OY	595,780	
Independent Supervisor	Yang-Bin Shen	0	
Total Amount of Shares Held by Supervisors		767,530	
Ratio of total Outstanding Shares		0.43	

【APPENDIX 6】

The effect for the Company's operating performance, EPS and ROE changed in 2011 by the stock dividend distribution of 2010 which proposed to be discussed at the shareholders meeting

The Company didn't disclose the financial forecast of 2011, so we don't need to disclose the information of operating performance, EPS and ROE in 2011.

【APPENDIX 7】 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 April 8~April 18, 2011, and the period was also announced on the website of MOPS.
3. The Company did not receive any motions proposed by the shareholders.