Phison Electronics Corp.

Financial Statements for the
Nine Months Ended September 30, 2005
(With Comparative Data for the Nine Months Ended September 30, 2004) and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Phison Electronics Corp.

We have reviewed the accompanying balance sheet of Phison Electronics Corp. (the "Corporation") as of September 30, 2005, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our review. The accompanying balance sheet of the Corporation as of September 30, 2004, and the related statements of income and cash flows for the nine months then ended are unreviewed and are presented herewith for comparative purposes only.

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

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements as of and for the nine months ended September 30, 2005 referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

October 14, 2005

Notice to Readers

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

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

註解 [jlei1]: 此段於所有以 ROC GAAP 編製之英文報告均需加入

註解 [jlei2]: 當英文報告係翻譯自中文報告時，加入此段，並取代在每一頁頁首註明 "English Translation of a Report (or Financial Statements) Originally Issued in Chinese"

註解 [jlei3]: 證期局規定之附註再揭露事項通常應翻譯並列入英文報告，當客戶未翻譯時，宜在此處及相關附註加以說明

PHISON ELECTRONICS CORP.

BALANCE SHEET
SEPTEMBER 30, 2005
(WITH COMPARATIVE DATA AS OF SEPTEMBER 30, 2004)
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2005		2004 (Unreviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 437,232	20	$ 239,660	18
Short-term investments (Notes 2 and 4)	-	-	206,762	16
Notes and accounts receivable				
Third parties (Notes 2 and 5)	745,483	35	428,407	33
Related parties (Note 15)	118,236	6	19,591	2
Other financial assets - current	30,496	1	56,401	4
Inventories, net (Notes 2 and 6)	485,174	23	197,643	15
Prepayments	39,664	2	7,421	1
Deferred income tax assets (Notes 2 and 11)	15,500	1	2,077	-
Restricted assets (Note 16)	11,992	1	12,096	1
Other	89,786	4	47,761	4
Total current assets	1,973,563	93	1,217,819	94
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 7)				
Equity method	20,000	1	-	-
Cost method	14,300	1	9,500	1
Total long-term equity investments	34,300	2	9,500	1
PROPERTIES (Notes 2 and 8)				
Cost				
Testing equipment	21,665	1	12,671	1
Transportation equipment	200	-	200	-
Office equipment	4,180	-	3,193	-
Leasehold improvements	7,408	1	750	-
Other equipment	3,099	-	6,430	1
Total cost	36,552	2	23,244	2
Less: Accumulated depreciation	14,598	1	10,246	1
Net properties	21,954	1	12,998	1
INTANGIBLE ASSETS (Notes 2, 9 and 15)	45,245	2	5,512	-
OTHER ASSETS				
Guarantee deposits paid	41,970	2	41,136	3
Deferred charges, net (Note 2)	12,404	-	10,380	1
Deferred income tax assets (Notes 2 and 11)	-	-	5,991	-
Total other assets	54,374	2	57,507	4
TOTAL	$ 2,129,436	100	$ 1,303,336	100

	2005		2004 (Unreviewed)	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$ 500,274	24	$ 335,203	26
Related parties (Note 15)	405,003	19	145,916	11
Income tax payable (Notes 2 and 11)	5,000	-	6,681	1
Other payables (Note 17)	45,000	2	45,000	3
Accrued expenses	99,159	5	36,369	3
Other	25,012	1	5,386	-
Total current liabilities	1,079,448	51	574,555	44
OTHER LIABILITIES				
Guarantee deposits received	168	-	168	-
Accrued pension cost (Notes 2 and 10)	1,437	-	632	-
Total other liabilities	1,605	-	800	-
Total liabilities	1,081,053	51	575,355	44
STOCKHOLDERS' EQUITY (Note 12)				
Capital stock - $10 par value				
Authorized - 60,000 thousand shares and 30,000 thousand shares as of September 30, 2005 and 2004, respectively				
Issued - 47,180 thousand and 35,751 thousand shares as of September 30, 2005 and 2004, respectively	471,801	22	357,511	28
Capital received in advance	4,287	-	2,490	-
Capital surplus - additional paid in capital	51,962	3	51,962	4
Retained earnings				
Legal reserve	69,113	3	34,280	3
Unappropriated earnings	451,220	21	281,738	21
Total retained	520,333	24	316,018	24
Total stockholders' equity	1,048,383	49	727,981	56
TOTAL	$ 2,129,436	100	$ 1,303,336	100

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

(With Deloitte & Touche review report dated October 14, 2005)

註解 [jlei4]: 若會計師出具無保留意見(標準式)以外之查核報告時需加註此 wording

PHISON ELECTRONICS CORP.

STATEMENT OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2005
(WITH COMPARATIVE DATA FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004)
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2005		2004 (Unreviewed)	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 15)				
Gross sales	$ 4,108,801	100	$ 2,617,093	101
Sales returns and discounts	(16,551)	-	(19,077)	(1)
Net sales	4,092,250	100	2,598,016	100
Service revenue	3,770	-	5,749	-
Total operating revenue	4,096,020	100	2,603,765	100
OPERATING COSTS (Notes 13 and 15)	3,536,640	87	2,248,388	86
GROSS PROFIT	559,380	13	355,377	14
OPERATING EXPENSES (Notes 13 and 15)				
Marketing	60,300	1	26,365	1
General and administrative	26,866	1	22,395	1
Research and development	129,121	3	48,959	2
Total operating expenses	216,287	5	97,719	4
OPERATING INCOME	343,093	8	257,658	10
NONOPERATING INCOME AND GAINS				
Foreign exchange gain, net (Note 2)	20,764	1	9,609	1
Interest income	3,109	-	790	-
Gains on sale of short-term investments (Note 2)	2,602	-	2,089	-
Other	7,827	-	896	-
Total nonoperating income and gains	34,302	1	13,384	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense	545	-	56	-
Losses on inventory valuation (Notes 2 and 6)	-	-	980	-
Other	26	-	259	-
Total nonoperating expenses and losses	571	-	1,295	-
INCOME BEFORE INCOME TAX	376,824	9	269,747	11
INCOME TAX EXPENSE (Notes 2 and 11)	(11,900)	-	(19,372)	(1)
NET INCOME	$ 364,924	9	$ 250,375	10

(Continued)

	2005		2004 (Unreviewed)	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 14)				
Basic	$ 8.00	$ 7.74	$ 5.80	$ 5.39
Diluted	$ 7.81	$ 7.56	$ 5.68	$ 5.27

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

(With Deloitte & Touche review report dated October 14, 2005) (Concluded)

註解 [jlei5]: 若會計師出具無保留意見(標準式)以外之查核報告時需加註此 wording

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2005
(WITH COMPARATIVE DATA FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004)
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2005	2004 (Unreviewed)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 364,924	$ 250,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	15,429	5,621
(Reversal of) allowance for doubtful receivables	(7,772)	3,630
Depreciation	6,200	4,480
Deferred income tax assets	(1,724)	8,888
Accrued pension cost	719	420
Losses on inventory valuation	-	980
Net changes in operating assets and liabilities		
Notes and accounts receivable	(198,453)	110,671
Other financial assets - current	(28,995)	(56,245)
Inventories	(254,868)	43,760
Prepayments	(34,609)	(2,716)
Other current assets	(31,148)	(20,896)
Notes and accounts payable	274,325	(35,317)
Income tax payable	(142)	(4,557)
Accrued expenses	8,700	(16,449)
Other current liabilities	18,892	(17,446)
Net cash provided by operating activities	131,478	275,199
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	97,499	(65,426)
Decrease (increase) in guarantee deposits paid	39,401	(348)
Acquisition of long-term investments - subsidiaries	(20,000)	-
Increase in intangible assets	(16,498)	(4,796)
Increase in deferred charges	(9,747)	(4,918)
Acquisition of properties	(6,861)	(4,194)
Decrease in restricted assets	5,105	5,974
Acquisition of long-term investments	(4,800)	(9,500)
Net cash provided by (used in) investing activities	84,099	(83,208)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(126,812)	(17,695)
Bonus to employees and remuneration to directors and supervisors	(22,232)	(4,046)
Capital received in advance	4,287	2,490

(Continued)

	2005	2004 (Unreviewed)
Proceeds from exercise of stock options	$ 900	$ -
Decrease in short-term loans	-	(30,609)
Increase in guarantee deposits received	-	168
Net cash used in financing activities	(143,857)	(49,692)
NET INCREASE IN CASH AND CASH EQUIVALENTS	71,720	142,299
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	365,512	97,361
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 437,232	$ 239,660
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 545	$ 56
Income tax paid	$ 13,765	$ 15,041
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 8,298	$ 5,555
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	(1,437)	(1,361)
	$ 6,861	$ 4,194
Increase in intangible assets	$ 48,118	$ -
Increase in accrued expenses	(31,620)	-
	$ 16,498	$ -

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

(With Deloitte & Touche review report dated October 14, 2005) (Concluded)

註解 [jlei6]: 若會計師出具無保留意見(標準式)以外之查核報告時需加註此 wording

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2005
(WITH COMPARATIVE DATA FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004)
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

As of September 30, 2005 and 2004, the Corporation had 175 and 116 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the allowance for sales returns and discounts; allowance for doubtful accounts, allowance for inventory valuation, pension, depreciation of properties, amortization of intangible assets and deferred charges, etc. Actual results could differ from these estimates.

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

The Corporation's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Unrestricted cash and cash equivalents and other assets to be sold or consumed within one year from the balance sheet date are classified as current. Liabilities to be repaid within one year from the balance sheet date are classified as current. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Short-term Investments

Short-term investments are mainly open-end funds, which are carried at the lower of aggregate costs or market value. An allowance for losses is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. .

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

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the basis of a review of the aging and collectibility of receivables.

Inventories

Inventories are stated at the lower of weighted-average cost or market value. Market value is based on replacement cost or net realizable value.

Long-term Investments

A long-term investment in which the Corporation exercises significant influence on the investee is accounted for by the equity method. Under this method, the investment is initially stated at cost and subsequently adjusted for the Corporation's share in the net income or net loss and other changes in stockholders' equity of the investee companies.

Other long-term investments are accounted for by the cost method. Cash dividends received within one year of investment acquisition are accounted for as a reductions of the carrying value of the long-term investments, and cash dividends received in subsequent years are recognized as dividend.

For both equity-method and cost-method investments, stock dividends received are recorded as an increase in the number of shares held and do not affect investment income or the carrying value of the investments. If the decline in the carrying value of investments in unlisted stocks is considered irrecoverable, the related reduction is charged to current income.

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

Properties

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

Depreciation is calculated using the straight-line method over the following estimated service lives: testing equipment - 3 years; transportation equipment - 5 years; office equipment - 3 years; leasehold improvements - 1 to 2 years; and other equipment - 2 to 5 years.

If an asset is still in use beyond its initially estimated service life, its residual value is written off over its newly estimated service life.

When properties are retired or disposed of, the related cost and accumulated depreciation are removed from the accounts, and the resulting gains or losses are credited or charged to nonoperating gains or losses.

Intangible Assets

Intangible assets, consisting of costs to acquire royalty, patents and trademarks, are amortized using the straight-line method over three to six years.

Deferred Charges

Deferred charges, mainly the costs of acquiring computer software, are amortized using the straight-line method over three to five years.

Asset Impairment

The Corporation adopted ROC Statements of Financial Accounting Standards (SFAS) No. 35, "Accounting for Impairment of Assets," on January 1, 2005. This accounting change had no significant impact on the financial statements for the nine months ended September 30, 2005.

SFAS No. 35 requires the Corporation to review on the balance sheet date certain assets, including fixed assets, intangible assets, and deferred charges as well as long-term equity-method investments for any impairment. If impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as impairment loss. If the recoverable amount increases in the future period the amount previously recognized as impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized. In addition, reversal of an impairment loss on goodwill is prohibited.

Pension Costs

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

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

If the pension plan is amended, the prior service costs are amortized on a straight-line basis over the average period from the amendment date to the date the benefits become vested. As soon as the benefits become vested, the Corporation should recognize prior service costs as expenses.

Sales and Allowance for Sales Returns and Discounts

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

Sales are determined at fair value under price negotiation between the Corporation and buyers, taking into account related sales discounts. If the terms of sale receivables are within one year, the amounts of receivables are not significantly different from fair value, and the transaction is frequent, then the sale revenues are not discounted to fair value.

Income Tax

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

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

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

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

Derivative Financial Instruments

Forward exchange contracts are used for hedging and are recorded at the spot rate on the starting date of the contracts. The difference between the rate on the contract starting date and the forward rate is amortized over the term of the contracts and credited or charged to income. Any resulting gain or loss on the balance date or settlement date is credited or charged to income. In addition, receivables and payables on forward exchange contracts that are open on the balance sheet date are netted out, and the difference is listed as an asset or a liability.

Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the year of settlement. The year-end balances of foreign-currency assets and liabilities are restated at prevailing exchange rates, and the resulting differences are credited or charged to current income.

3. CASH AND CASH EQUIVALENTS

	September 30	
	2005	2004 (Unreviewed)
Cash on hand	$ 52	$ 66
Checking and savings accounts	263,441	145,571
Certificates of deposits	55,724	56,400
Cash equivalents - commercial paper acquired under repurchase agreements	118,015	37,623
	$ 437,232	$ 239,660

4. SHORT-TERM INVESTMENTS

	September 30, 2004 (Unreviewed)
Open-end bond funds	$ 206,762
Market value	$ 246,843

The market values of the investment were based on the net asset values on September 30, 2004.

5. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	September 30	
	2005	2004 (Unreviewed)
Notes receivable	$ 40,889	$ 16,205
Accounts receivable	724,506	435,042
	765,395	451,247
Less: Allowance for doubtful accounts	(18,260)	(21,188)
Allowance for sales returns and discounts	(1,652)	(1,652)
	$ 745,483	$ 428,407

6. INVENTORIES, NET

	September 30	
	2005	2004 (Unreviewed)
Finished goods	$ 11,391	$ 6,898
Semifinished goods	48,371	22,962
Work in process	62,385	54,440
Raw materials	375,629	125,532
	497,776	209,832
Less: Allowance for inventory valuation	(12,602)	(12,189)
	$ 485,174	$ 197,643

7. LONG-TERM EQUITY INVESTMENTS

	September 30			
	2005		2004 (Unreviewed)	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Equity method				
Lian Xu Dong Investment Corporation	$ 20,000	100	$ -	-
Cost method - unlisted stocks				
Trison Technology Corporation	9,500	19	9,500	19
Ours Technology Inc.	4,800	1	-	-
	14,300		9,500	
	$ 34,300		$ 9,500	

In July 2005, the Corporation invested in Lian Xu Dong Investment Corporation, which engages in investment. Because this investee had not yet begun operations as of September 30, 2005, the Corporation had no recognized investment income under the equity method.

In July 2005, the Corporation invested in Ours Technology Inc., which manufactures, wholesales and retails electronic components.

In February 2004, the Corporation invested in Trison Technology Corporation, which manufactures SMT (surface mount technology) equipment.

8. PROPERTIES

	September 30	
	2005	2004 (Unreviewed)
Accumulated depreciation		
Testing equipment	$ 8,218	$ 4,319
Office equipment	1,954	1,165
Leasehold improvements	2,166	656
Transportation equipment	145	111
Other equipment	2,115	3,995
	$ 14,598	$ 10,246

9. INTANGIBLE ASSETS

	September 30	
	2005	2004 (Unreviewed)
Royalty	$ 41,150	$ 1,236
Technology license fees	2,436	3,058
Patents	1,565	1,174
Trademarks	94	44
	$ 45,245	$ 5,512

10. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. An employee may choose to continue to be subject to the pension plan under the Labor Standards Law (the "Law") or be subject to the new pension plan under the Act, with their service years accumulated as of July 1, 2005 to be retained.

The Law provides for a defined benefit pension plan. This pension plan provides benefits based on the employee's length of service and average salary or wage before retirement. The Corporation contributes an amount equal to 3% of monthly salaries and wages to a pension fund. The fund is administered by the employees' pension fund committee and deposited in committee's name in the Central Trust of China. As of September 30, 2005 and 2004, the pension fund balances were $5,125 thousand and $3,074 thousand, respectively.

The changes in the pension fund are summarized as follows:

	Nine Months Ended September 30	
	2005	**2004 (Unreviewed)**
Balance, beginning of period	$ 3,511	$ 1,906
Contribution	1,583	1,149
Interest earned	31	19
Balance, end of period	$ 5,125	$ 3,074

The Act provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to at least 6% of the employees' monthly wages to the employees' individual pension accounts.

The changes in accrued pension cost are summarized as follows:

	Nine Months Ended September 30	
	2005	**2004 (Unreviewed)**
Balance, beginning of period	$ 718	$ 212
Add: Net periodic pension cost under the defined benefit pension Plan	1,523	1,569
Net periodic pension cost under the defined contribution pension plan	1,151	-
Less: Contributions	(1,955)	(1,149)
Balance, end of period	$ 1,437	$ 632

The pension costs in the nine months ended September 30, 2005 and 2004 were $2,674 thousand and $1,569 thousand, respectively.

11. INCOME TAX

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

	Nine Months Ended September 30	
	2005	2004 (Unreviewed)
Income tax on pretax income at statutory rate (25%)	$ 94,196	$ 67,427
Add (deduct) tax effects of		
Permanent difference	(1,065)	(735)
Temporary difference	(10,110)	(9,230)
Tax-exempt income	(63,302)	(35,220)
Investment tax credits	(9,859)	(11,121)
Current income tax expense payable	$ 9,860	$ 11,121

b. Income tax expense consisted of:

	Nine Months Ended September 30	
	2005	2004 (Unreviewed)
Current income tax expense payable	$ 9,860	$ 11,121
Additional tax at 10% on unappropriated earnings	7,881	8,034
Investment tax credits	(3,941)	(5,206)
Net change in deferred income tax assets	(1,724)	8,888
Adjustments to prior years' taxes	(176)	(3,465)
Income tax expense	$ 11,900	$ 19,372

c. Deferred income tax assets consisted of:

	September 30	
	2005	2004 (Unreviewed)
Current:		
Temporary differences	$ 2,500	$ 2,077
Investment tax credits	13,000	-
	$ 15,500	$ 2,077
Noncurrent:		
Investment tax credits	$ 57,660	$ 11,244
Valuation allowance	(57,660)	(5,253)
	$ -	$ 5,991

The effective tax rate used for computing deferred income tax assets on September 30, 2005 and 2004 was 25%.

d. Information on the Imputed Income Tax System (briefly described in Note 12) is as follows:

	September 30	
	2005	2004 (Unreviewed)
Balance of imputation credit account (ICA)	$ 11,636	$ 9,285

The actual imputation tax credit ratios for the 2004 and 2003 earnings were 3.81% and 6.23%, respectively.

e. As of September 30, 2005, investment tax credits were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 67	$ 67	2007
		64	64	2008
		$ 131	$ 131	
Statute for Upgrading Industries	Research and development expenditures	$ 22,996	$ 9,196	2007
		21,762	21,762	2008
		39,571	39,571	2009
		$ 84,329	$ 70,529	

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

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

Income tax returns through 2001 had been examined by the tax authorities.

12. STOCKHOLDERS' EQUITY

a. Capital surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, capital surplus generated from the issue price in excess of the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time.

b. Appropriation of earnings and dividend policy

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

1) 2%, as remuneration to directors and supervisors;

2) 10% to 20%, as bonus to employees; and

3) The remainder, as dividends.

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

Profits may be distributed as cash or stock dividend; however, the ratio for cash dividend should be at least 10% of total distribution, but the Corporation's operating results should be considered.

Legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. The reserve can only be used to offset an accumulated deficit. When the reserve balance exceeds 50% of the Corporation's paid-in capital, the excess can be distributed as dividends and bonuses.

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

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

The appropriations of the 2004 and 2003 earnings were approved in the stockholders' meetings on June 16, 2005 and June 15, 2004, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2004	**For Fiscal Year 2003**	**For Fiscal Year 2004**	**For Fiscal Year 2003**
Legal reserve	$ 34,833	$ 24,857	$ -	$ -
Employees' profit sharing - in stock	18,000	39,000	-	-
Employees' profit sharing - in cash	18,000	-	-	-
Common dividends				
Stock dividends	90,580	141,560	2.4938	8.0000
Cash dividends	126,812	17,695	3.4913	1.0000
Remuneration to directors and supervisors	5,171	4,046	-	-
	$ 293,396	$ 227,158		

c. Stock options

On May 16, 2003 and October 21, 2003, the Securities and Futures Commission (the name of the Securities and Futures Bureau before July 1, 2004) approved the Corporation's Employee Stock Option Plans (the "Plans"), which provided qualified employees with 640 thousand and 1,200 thousand units of option rights, respectively, with each unit representing one common share. The option rights on both plans are valid for three years from the date of issuance and exercisable at certain percentages after the second year of issuance.

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

The changes in outstanding stock options in the nine months ended September 30, 2005 and 2004 were as follows:

	Nine Months Ended September 30			
	2005		2004 (Unreviewed)	
	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)
Beginning balance	1,359	$10	1,840	$10-24
Options increased	-	-	-	-
Options granted	(90)	10	(207)	10
Options canceled	(54)	10	-	-
Ending balance	1,215		1,633	

As of September 30, 2005, outstanding and exercisable options were as follows:

Exercise Price (NT$)	Number of Outstanding Options (in Thousands)	Weighted-Average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT$)	Weighted-Number of Exercisable Options (in Thousands)	Weighted-average Exercise Price (NT$)
10	15	0.420	10	15	10
10	1,200	1.125	10	-	-
	1,215				

In the nine months ended September 30, 2005, stock options consisting of 90 thousand units had been converted to 90 thousand common shares. Capital stock was increased by $900 thousand.

13. LABOR COST, DEPRECIATION AND AMORTIZATION

	Nine Months Ended September 30, 2005		
	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost			
Salary	$ 22,874	$ 60,516	$ 83,390
Labor and health insurance	1,009	4,094	5,103
Pension cost	494	2,180	2,674
Other	2,089	9,444	11,533
	$ 26,466	$ 76,234	$ 102,700
Depreciation	$ 2,111	$ 4,089	$ 6,200
Amortization	$ -	$ 15,429	$ 15,429

	Nine Months Ended September 30, 2004 (Unreviewed)		
	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost			
Salary	$ 10,226	$ 42,988	$ 53,214
Labor and health insurance	749	2,721	3,470
Pension cost	307	1,262	1,569
Other	1,683	4,558	6,241
	$ 12,965	$ 51,529	$ 64,494
Depreciation	$ 1,879	$ 2,601	$ 4,480
Amortization	$ -	$ 5,621	$ 5,621

14. EARNINGS PER SHARE

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

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Nine months ended September 30, 2005					
Basic EPS					
Income available to common stockholders	$ 376,824	$ 364,924	47,131	$ 8.00	$ 7.74
Effect of dilutive potential common stock - stock options	-	-	1,138		
Diluted EPS					
Income available to common stockholders (including effect of dilutive potential common stock)	$ 376,824	$ 364,924	48,269	$ 7.81	$ 7.56

(Continued)

Nine months ended September 30, 2004 (Unreviewed)	Amounts (Numerator) Before Income Tax	After Income Tax	Number of Shares (Denominator) (in Thousands)	EPS (NT$) Before Income Tax	After Income Tax
Basic EPS					
Income available to common stockholders	$ 269,747	$ 250,375	46,481	$ 5.80	$ 5.39
Effect of dilutive potential common stock - stock Options	-	-	998		
Diluted EPS					
Income available to common stockholders (including effect of dilutive potential common stock)	$ 269,747	$ 250,375	47,479	$ 5.68	$ 5.27

The average number of shares outstanding for EPS calculation had been adjusted retroactively for the distribution of stock dividends and stock bonuses. The retroactive adjustment caused the basic EPS before income tax and after income tax in the nine months ended September 30, 2004 to decrease from NT$7.54 to NT$5.80 and from NT$7.00 to NT$5.39, respectively. The diluted EPS before income tax and after income tax in the nine months ended September 30, 2004 decreased from NT$7.35 to NT$5.68 and from NT$6.82 to NT$5.27, respectively.

15. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Corporation
Toshiba Corporation, Japan ("Toshiba")	A member of the Corporation's board of directors
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
Toshiba Digital Media Network Taiwan Corporation	Subsidiary of Toshiba
Taiwan Toshiba International Procurement Corp.	Subsidiary of Toshiba
Toshiba Electronics Europe GmbH	Subsidiary of Toshiba
M-Systems B.V.	A member of the Corporation's board of directors
M-Systems Flash Disk Pioneers ("M-Systems")	Parent company of M-Systems B.V.
M-Systems Asia Ltd.	Subsidiary of M-Systems B.V.
TwinSys Data Storage Limited Partnership (TwinSys)	Subsidiary of M-Systems
Lian Xu Dong Investment Corp.	A subsidiary of the Corporation

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

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

	2005		2004 (Unreviewed)	
	Amount	**%**	**Amount**	**%**
Nine months ended September 30				
1) Net sales				
M-Systems	$ 333,998	8	$ 9,032	-
TwinSys	80,142	2	12,850	1
M-Systems Asia Ltd.	39,108	1	5,942	-
Other	629	-	388	-
	$ 453,877	11	$ 28,212	1
2) Service revenue				
Toshiba	$ -	-	$ 2,809	49
3) Purchase				
Toshiba Electronics Taiwan Corp.	$ 1,677,443	48	$ 1,123,133	55
Other	10,962	-	4,136	-
	$ 1,688,405	48	$ 1,127,269	55
4) Sales expenses (included in royalty, Note 17d)				
M-Systems	$ 17,576	29	$ -	-
September 30				
5) Notes and accounts receivable				
M-Systems	$ 117,244	14	$ 6,587	1
TwinSys	-	-	12,850	3
Other	992	-	154	-
	$ 118,236	14	$ 19,591	4
6) Royalty (included in intangible assets)				
M-Systems	$ 40,184	89	$ -	-
Toshiba	966	2	1,348	25
	$ 41,150	91	$ 1,348	25

(Continued)

7) Accounts payable

	2005		2004 (Unreviewed)	
	Amount	%	Amount	%
Toshiba Electronics Taiwan Corp.	$ 403,555	45	$ 145,916	30
M-Systems	1,448	-	-	-
	$ 405,003	45	$ 145,916	30

8) Accrued expense - royalty

	2005		2004 (Unreviewed)	
	Amount	%	Amount	%
M-Systems	$ 31,620	32	$ -	-

16. PLEDGED ASSETS

The Corporation had pledged the following assets as collaterals for the issuance of letters of credit for purchasing materials.

	September 30	
	2005	2004 (Unreviewed)
Certificates of deposits	$ 9,990	$ 6,085
Savings deposits	2,002	6,011
	$ 11,992	$ 12,096

17. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Corporation as of September 30, 2005 were as follows:

a. The Corporation rents its office under operating lease agreements expiring on December 31, 2007.

As of September 30, 2005, future remaining lease payments were as follows:

Period/Year	Amount
2005 (4th quarter)	$ 1,863
2006	7,451
2007	7,451
	$ 16,765

b. Unused letters of credit as of September 30, 2005 amounted to $45,000 thousand.

c. On August 15, 2002, Feiya Technology Corp. ("Feiya," which was later renamed Silicon Motion, Inc.) filed a case with the Hsinchu District Court against the Corporation and the Corporation's president, Mr. Pua Khein Seng, and vice president, Mr. Aw Yong Chee Kong, who were former employees of Feiya. Feiya claimed damages of $45,000 thousand for alleged theft by the Corporation's two officials of trade secrets. The claim was overruled by Hsinchu District Court because Feiya could not provide evidences for its charge. However, Feiya disagreed with this decision and filed an appeal with the Taiwan High Court on April 26, 2004. According to the Corporation's lawyer, as of September 30, 2005, the superior court was reviewing this case. The Corporation's lawyer believes this litigation would have no material effects on the Corporation's financial statements. However, following the principle of conservatism, the Corporation deposited $40,000 thousand as litigation guarantee and recognized a probable loss of $45,000 thousand on the guarantee deposit (included in other payables) on this litigation.

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

18. SUBSEQUENT EVENT

On September 2, 2005, the board of directors resolved to issue 4,500 thousand common shares at NT$110.00 per share. The issuance of capital stock was approved by Securities and Futures Bureau under the Financial Supervisory Commission of the Executive Yuan, ROC. The Corporation completed the collection of capital stock on October 14, 2005. The capital issuance date is on October 17, 2005.

19. FINANCIAL INSTRUMENT TRANSACTIONS

a. Derivative transactions

The Corporation had no derivative transactions in the nine months ended September 30, 2004. The Corporation entered into derivative transactions in the nine months ended September 30, 2005 to hedge exchange rate fluctuations of net foreign currency-denominated assets or liabilities. The derivative financial instruments are solely for hedging market risks the Corporation is exposed to, i.e., the instruments will not be used for speculative purposes.

As of September 30, 2005, there were no outstanding forward exchange contracts and payables.

1) Credit risk

The Corporation will be exposed to credit risk if counter-parties default on contracts. Credit risk represents the positive net settlement amount of derivative contracts with positive fair values on the balance sheet date. The positive net settlement amount represents the loss to be incurred by the Corporation if the counter-parties breach the contracts. The financial institutions, which are the counter-parties to the foregoing derivative financial instruments, are reputable. Thus, management believes its exposure due to the counter-parties' default is low.

2) Market risk

All derivative financial instruments transactions are intended as hedges for exchange rate fluctuations of net foreign currency-denominated assets or liabilities. Gains or losses on these hedging instruments are likely to offset the gains or losses on the hedged items. Thus, the potential market risk is insignificant.

3) Liquidity risk, cash flow risk and uncertainty of future cash demand.

The Corporation had no forward exchange contracts outstanding as of September 30, 2005, so there are no cash flow risk, liquidity risk and future cash demand.

4) The purpose of derivative financial instruments held or issued and the strategies to meet the purpose

The Corporation entered into forward contracts to hedge the effect of exchange rate fluctuations in the market on net foreign currency-denominated assets and liabilities. The Corporation uses hedging instruments with changes in fair values that are highly correlated to the changes in the fair values of the hedged items and periodically evaluates the effectiveness of the instruments.

5) Presentation in financial statements, please see Note 2.

b. Fair value of financial instruments:

	September 30			
	2005		2004 (Unreviewed)	
Nonderivative Financial Instruments	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Financial assets - with fair values approximating carrying amounts	$ 1,343,439	$ 1,343,439	$ 756,155	$ 756,155
Short-term investments	-	-	206,762	206,843
Long-term investments	34,300	-	9,500	-
Guarantee deposits paid	41,970	41,970	41,136	41,136
Financial liabilities				
Financial liabilities - with fair values approximating carrying amounts	950,277	950,277	526,119	526,119
Guarantee deposits received	168	168	168	168

Methods and assumptions used in estimating fair values of nonderivative financial instruments are as follows:

1) For short-term financial instruments (other than short-term investments), the carrying amounts of cash and cash equivalents, notes and accounts receivable, other financial assets - current, restricted assets, notes and accounts payable and other payables approximate their fair values because of the short maturities of these instruments.

2) Fair value of short-term investments is based on quoted market prices.

3) Fair value of long-term investments is estimated at available market prices. If market prices of long-term investments are not available, the fair value of long-term investments was not disclosed.

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

Certain financial instruments and all nonfinancial instruments are excluded from disclosure of fair values. Thus, the aggregate fair value presented above does not represent the underlying value of the Corporation.

20. ADDITIONAL DISCLOSURES

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

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities held: Table 1 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: Table 2 (attached)

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: None

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

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

h. Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 4 (attached)

i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 5 (attached)

j. Derivative transactions: Note 19

k. Investment in Mainland China: None

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Holding Company	Financial Statement Account	September 30, 2005				Note
				Shares (in Thousands)	Carrying Value	Percentage of Ownership	Net Asset Value	
Phison Electronics Corp. (the "Corporation")	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Long-term equity investments	2,000	$ 20,000	100	$ 20,000	
	Trison Technology Corporation	Cost-method investee	Long-term equity investments	950	9,500	19	6,096	
	Ours Technology Inc.	Cost-method investee	Long-term equity investments	300	4,800	1	3,339	

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

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Units (Thousands)	Amount	Units (Thousands)	Amount	Units (Thousands)	Amount	Carrying Value	Gain on Disposal	Units (Thousands)	Amount
Phison Electronics Corp.	Beneficiary certificate													
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	-	$ -	9,060	$ 110,012	9,060	$ 110,215	$ 110,012	$ 203	-	$ -
	The Forever Fund	Short-term investments	-	-	-	-	12,032	170,072	12,032	170,361	170,072	289	-	-
	The IIT Wan Pao Fund	Short-term investments	-	-	-	-	6,749	100,000	6,749	100,280	100,000	280	-	-
	Ta Chong Bond Fund	Short-term investments	-	-	-	-	15,743	200,077	15,743	200,414	200,077	337	-	-
	Fuhwa Bond Fund	Short-term investments	-	-	2,344	29,190	10,796	135,295	13,140	164,900	164,485	415	-	-
	Fuhwa Advantage Bond Fund	Short-term investments	-	-	1,590	16,149	9,370	95,571	10,960	111,991	111,720	271	-	-

PHISON ELECTRONICS CORP.

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phison Electronics Corp.	Toshiba Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 1,677,443	48	Net 30 days after monthly closing	None	None	$ (403,355)	(45)	-
	M-Systems Flash Disk Pioneers	Parent company of a corporate member of the Corporation's board of directors	Sale	(333,988)	(8)	Net 30 days after monthly closing	None	None	117,244	14	-

PHISON ELECTRONICS CORP.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Phison Electronics Corp. (the "Corporation")	M-Systems Flash Disk Pioneers	Parent company of a corporate member of the Corporation's board of directors	$ 117,244	5.87 times	$ -	-	$ 53,843	$ -

PHISON ELECTRONICS CORP.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
NINE MONTHS ENDED SEPTEMBER 30, 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of September 30, 2005			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				September 30, 2005	December 31, 2004	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Phison Electronics Corp.	Lian Xu Dong Investment Corp.	Hsinchu, Taiwan	Investment	$ 20,000	$ -	2,000	100	$ 20,000	$ -	$ -	Subsidiary