Phison Electronics Corp.

Financial Statements for the
Nine Months Ended September 30, 2006 and 2005 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Phison Electronics Corp.

We have reviewed the accompanying balance sheets of Phison Electronics Corp. (the "Corporation") as of September 30, 2006 and 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 reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the 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, 2006 and 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.

As disclosed in Note 3 to the financial statements, the Corporation adopted on January 1,2006 the newly issued Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the revisions of previously released Statements, which were revised to harmonize the previously released Statements with SFAS No. 34 and No. 36.

October 20, 2006

<u>*Notice to Readers*</u>

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.

PHISON ELECTRONICS CORP.

BALANCE SHEETS
SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 867,274	19	$ 437,232	20
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,574,530	34	745,483	35
Related parties (Note 18)	134,817	3	118,236	5
Other financial assets	150,497	3	58,751	3
Inventories, net (Notes 2 and 7)	1,410,202	30	485,174	23
Deferred income tax assets (Notes 2 and 13)	82,106	2	15,500	1
Restricted assets (Note 19)	15,058	-	11,992	1
Other	159,363	3	101,195	5
Total current assets	4,393,847	94	1,973,563	93
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2, 3 and 9)	96,486	2	20,000	1
Financial assets carried at cost - noncurrent (Notes 2, 3 and 8)	20,000	-	14,300	1
Total long-term investments	116,486	2	34,300	2
PROPERTIES (Notes 2 and 10)				
Cost				
Testing equipment	35,232	1	21,665	1
Office equipment	7,039	-	4,180	-
Leasehold improvements	17,255	-	7,408	1
Other equipment	4,499	-	3,299	-
Total cost	64,025	1	36,552	2
Less: Accumulated depreciation	26,454	-	14,598	1
Net properties	37,571	1	21,954	1
INTANGIBLE ASSETS (Notes 2, 11, 18 and 20)	36,318	1	45,245	2
OTHER ASSETS				
Guarantee deposits paid deposits (Notes 19 and 20)	44,647	1	41,970	2
Deferred charges, net (Note 2)	27,121	1	12,404	-
Miscellaneous (Notes 2, 12 and 13)	2,415	-	-	-
Total other assets	74,183	2	54,374	2
TOTAL	$ 4,658,405	100	$ 2,129,436	100

	2006		2005	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$ 1,749,316	37	$ 500,274	24
Related parties (Note 18)	547,590	12	405,003	19
Income tax payable (Notes 2 and 13)	17,896	1	5,000	-
Accrued expenses (Note 18)	143,873	3	99,938	5
Other payables (Note 20)	-	-	45,000	2
Other	15,163	-	25,012	1
Total current liabilities	2,473,838	53	1,080,227	51
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 12)	-	-	658	-
Guarantee deposits received	-	-	168	-
Total other liabilities	-	-	826	-
Total liabilities	2,473,838	53	1,081,053	51
SHAREHOLDERS' EQUITY (Note 15)				
Capital stock - NT$10.00 par value				
Authorized - 80,000 thousand shares in 2006 and 60,000 thousand shares in 2005				
Issued and outstanding - 70,577 thousand shares in 2006 and 47,180 thousand shares in 2005	705,771	15	471,801	22
Capital received in advance	-	-	4,287	-
Capital surplus				
Additional paid-in capital	501,962	11	51,962	3
From Long term investment	561	-	-	-
Total capital surplus	502,523	11	51,962	3
Retained earnings				
Legal reserve	128,122	3	69,113	3
Unappropriated retained earnings	848,151	18	451,220	21
Total retained earnings	976,273	21	520,333	24
Total shareholders' equity	2,184,567	47	1,048,383	49
TOTAL	$ 4,658,405	100	$ 2,129,436	100

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

(With Deloitte & Touche review report dated October 20, 2006)

PHISON ELECTRONICS CORP.

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	$ 7,538,149	100	$ 4,108,801	100
Less: Sales returns and allowances	88,421	1	16,551	-
Net sales	7,449,728	99	4,092,250	100
Service revenue	53,288	1	3,770	-
Total revenue	7,503,016	100	4,096,020	100
OPERATING COST (Notes 14 and 18)	6,464,115	86	3,536,640	87
GROSS PROFIT	1,038,901	14	559,380	13
OPERATING EXPENSES (Notes 14 and 18)				
Marketing	93,488	1	60,300	1
General and administrative	42,677	1	26,866	1
Research and development	235,945	3	129,121	3
Total operating expenses	372,110	5	216,287	5
OPERATING INCOME	666,791	9	343,093	8
NONOPERATING INCOME AND GAINS				
Foreign exchange gain, net (Note 2)	15,590	-	20,764	1
Interest income	7,145	-	3,109	-
Gain on disposal of investments, net (Note 2)	3,732	-	2,602	-
Other	50,982	1	7,827	-
Total nonoperating income and gains	77,449	1	34,302	1
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	74,402	1	-	-
Equity in net loss of investees (Notes 2 and 9)	3,359	-	-	-
Interest expenses	541	-	545	-
Other	2,487	-	26	-
Total nonoperating expenses and losses	80,789	1	571	-
INCOME BEFORE INCOME TAX	663,451	9	376,824	9
INCOME TAX EXPENSE (Notes 2 and 13)	13,795	-	11,900	-
NET INCOME	$ 649,656	9	$ 364,924	9

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 16)				
Basic	$ 9.40	$ 9.20	$ 6.15	$ 5.96
Diluted	$ 9.32	$ 9.12	$ 6.01	$ 5.82

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

(With Deloitte & Touche review report dated October 20, 2006) (Concluded)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 649,656	$ 364,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Losses on inventory valuation and obsolescence	74,402	-
Deferred income tax	(29,920)	(1,724)
Amortization	18,897	15,429
Depreciation	9,467	6,200
(Reversal of allowance) allowance for doubtful accounts	8,859	(7,772)
Equity in net loss of investees	3,359	-
Gain on disposal of financial assets carried at cost - noncurrent	(2,139)	-
Gain on disposal of properties	(4)	-
Net changes in operating assets and liabilities		
Financial assets held for trading	-	97,499
Notes and accounts receivable	(612,338)	(198,453)
Other financial assets	(144,522)	(28,995)
Inventories	(846,821)	(254,868)
Other current assets	(46,788)	(65,757)
Notes and accounts payable	1,440,646	274,325
Income tax payable	(1,658)	(142)
Accrued expenses	(27,057)	9,479
Other current liabilities	(57,691)	18,892
Accrued pension cost	(1,752)	(60)
Net cash provided by operating activities	434,596	228,977
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments accounted for by the equity method	(79,321)	(20,000)
Acquisition of properties	(23,657)	(6,861)
Increase in deferred charges	(15,721)	(9,747)
Proceeds of disposal of financial assets carried at cost - noncurrent	6,789	-
Decrease (increase) in refundable deposits	(2,677)	39,401
Acquisition of intangible assets	(565)	(16,498)
Decrease (increase) in restricted assets	(99)	5,105
Proceeds of disposal of properties	24	-
Increase in financial assets carried at cost - noncurrent	-	(4,800)
Net cash provided by investing activities	(115,227)	(13,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(210,000)	(126,812)
Bonus to employees and remuneration to directors and supervisors	(8,190)	(22,232)
Proceeds of exercise of stock options	6,150	900
Capital received in advance	-	4,287

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2006	2005
Net cash provided by financing activities	(212,040)	(143,857)
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,329	71,720
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	759,945	365,512
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 867,274	$ 437,232
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 541	$ 545
Income tax paid	$ 51,520	$ 13,765
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 17,674	$ 8,298
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	5,983	(1,437)
Cash paid	$ 23,657	$ 6,861
Increase in intangible assets	$ 565	$ 48,118
Increase in accrued expenses	-	(31,620)
Cash paid	$ 565	$ 16,498

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

(With Deloitte & Touche review report dated October 20, 2006) (Concluded)

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(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, 2006 and 2005, the Corporation had 258 and 175 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the 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 amount of allowance for sales returns and discounts; allowance for doubtful receivables, allowance for inventory valuation, pension, probable litigation loss, 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 ROC. 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.

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash and cash equivalents, assets held for trading and those to be converted to cash, sold or consumed within 12 months from the balance sheet date. Current liabilities are obligations held for trading and those expected to be due within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value, transaction costs are recognized as expense and are subsequently measured at fair value with fair value changes recognized in profit or loss. The purchase or sale of the financial instruments is recognized and de-recognized using trade date accounting.

Derivative financial instruments that do not meet the criteria for hedge accounting are classified as financial assets or liabilities held for trading. When the fair value is a positive amount, the derivative is recognized as a financial asset, when the fair value is a negative amount, the derivative is recognized as a financial liability.

The fair value of open-end funds is based on their net asset value on the balance sheet date.

Sales Recognition and Allowance for Doubtful Accounts

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 realizable. For products shipped for further processing, sales are not recognized because there is no transfer of titles and risks. Provisions for sales discounts and returns are estimated on the basis of historical experience and relevant factors.

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 transactions are frequent, then the sale revenues are not discounted to fair value.

Allowance for doubtful receivables is provided on the basis of a periodic review of the collectibility of individual receivables, including the analysis of the aging of all receivables as well as the economic environment.

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. An allowance for slow-moving items is provided on the basis of the Corporation's policy to an appropriate percentage of the allowance for losses.

Financial Assets Carried at Cost

If there is no active market for an equity instrument and the fair value of the equity instrument cannot be reliably estimated, the equity instrument, including unlisted stocks, emerging stocks, etc., is measured at original cost. Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions of the original cost of investments if these dividends are declared from investees' earnings attributable to periods before the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as increase in the number of shares held. Impairment losses are recognized if a decrease in the fair value of the instruments can be objectively related to an event. The reversal of impairment loss is not allowed.

Investments Accounted for by the Equity Method

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on an investee are accounted for by the equity method.

Under the equity method, the investment is stated at cost on the acquisition date and subsequently adjusted for the Corporation's proportionate share in the investee's net income and stockholders' equity in the same accounting period. If the Corporation subscribes for additional shares issued by an investee at a rate not equal to its current equity, the increase in the Corporation's equity in the investee's net assets is credited to capital surplus. Any decrease in the Corporation's equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the debit is made against unappropriated earnings.

Cash dividends received are accounted for as reductions of the carrying values of the long-term investments. Stock dividends received are recorded as an increase in the number of shares held.

If an investee becomes impaired, as defined in Statement of Financial Accounting Standards No. 35 - "Accounting for Asset Impairment," the recoverable amount of the investment is calculated and compared with carrying value. If the recoverable amount is less than the carrying amount, an impairment loss is recognized and charged to current income, and the recoverable amount becomes the new investment carrying value.

Costs of long-term investments sold are determined using the moving-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; office equipment, 3 years; leasehold improvements, 2 to 3 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 gain or loss is credited or charged to nonoperating income in the current period.

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

If the carrying value of assets (including properties, intangible assets, deferred charges and investments accounted for by the equity method) is less than their recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. However, the increase in carrying amount should not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized. The reversal of impairment loss on goodwill is not allowed.

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 periods.

Income Tax

The Corporation uses inter-period tax allocation, in which deferred income tax assets and liabilities are recognized for the tax effects of temporary differences 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 the 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 purchases 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 annually since 1998 are recorded as expense in the year when the stockholders resolve to retain these earnings.

Foreign-currency Transactions

Assets, liabilities, revenues or expenses denominated in foreign currencies as a result of foreign-currency transactions on nonderivative financial instruments are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of the transactions.

On the balance sheet date, monetary assets or liabilities denominated in foreign currencies are translated at the prevailing exchange rates, and the resulting exchange differences are included in gain or loss for the current period.

The above prevailing exchange rates are based on the average of the bid and ask rates of major banks.

Reclassification

Certain accounts in the financial statements as of and for the nine months ended September 30, 2005 have been reclassified to conform to the presentation of financial statements as of and for the nine months ended September 30, 2006.

3. ACCOUNTING CHANGES

Effective January 1, 2006, the Corporation adopted the newly issued Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the related revisions of previously released Statements.

a. Effect of the first time adoption of the newly issued and revised SFASs

   The accounting changes had no effect on continuing operations, net income and earnings per share (net of tax) of the nine months ended September 30, 2006.

b. Reclassifications by the adoption of these SFASs

As a result of the accounting changes, effective January 1, 2006, certain accounts in the financial statement as of and for nine months ended September 30, 2005 were reclassified as follows to conform to the presentation of the financial statement as of and for the nine months ended September 30, 2006. However, the restatement of financial statement as of and for the nine months ended September 30, 2005 is not required. But it should be disclosed that the same account may be valued by different methods. It may not necessary to disclose the pro forma information of prior years.

The different accounting policies applied in measuring financial instruments in 2005 that differed from those of 2006 are described as follows:

1) Long-term investments

Long-term investments in which the Corporation does not exercise significant influence on the investees are accounted for by the cost method. Cash dividends received within one year of investment acquisition are accounted for as reductions of the carrying value of the long-term investments, and cash dividends received in subsequent years are recognized as dividend income.

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.

2) Derivative financial instruments

Forward exchange contracts are used for hedging and are recorded at the spot rates 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 contract and credited or charged to income. Any resulting gain or loss on the balance sheet 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.

Due to the adoption of new and amended Statements starting on January 1, 2006, certain accounts in the financial statements as of and for the nine months ended September 30, 2005 have been reclassified as follows to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2006.

	Before Reclassification	After Reclassification
<u>Balance sheet</u>		
Long-term investments	$ 34,300	$ -
Financial assets carried at cost - noncurrent	-	14,300
Investments accounted for by the equity method	-	20,000

Starting on January 1, 2006, the Corporation adopted newly revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under Purchase Method." These accounting changes had no effect on the income for the nine months ended September 30, 2006.

4. CASH AND CASH EQUIVALENTS

	September 30 2006	September 30 2005
Cash on hand	$ 252	$ 52
Savings accounts	201,354	193,228
Certificates of deposits	99,055	55,724
Foreign accounts	496,489	70,192
Checking accounts	10	21
Short-term bills and bonds acquired under repurchase agreements	70,114	118,015
	$ 867,274	$ 437,232

5. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Corporation entered into forward exchange contracts in the nine months ended September 30, 2005 to hedge exposures due to exchange rate fluctuations. The purpose of the hedge strategy was to reduce most of the risks arising from changes in market prices and cash flows. All of the outstanding forward exchange contracts of as of September 30, 2006 and 2005 had matured.

Net gains on financial assets held for trading in the nine months ended September 30, 2006 and 2005 were $1,593 thousand and $2,602 thousand, respectively. Net losses on financial liabilities held for trading in the nine months ended September 30, 2006 and 2005 was $165 thousand and $3,261 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	September 30 2006	September 30 2005
Notes receivable	$ 18,562	$ 40,889
Accounts receivable	1,582,660	724,506
	1,601,222	765,395
Less: Allowance for doubtful accounts	26,692	18,260
Allowance for sales returns and discounts	-	1,652
	$ 1,574,530	$ 745,483

The factored accounts receivable in the nine months ended September 30, 2006 were as follows:

Buyer	Factoring amount	Settle amount	Prepayment	Discounting Charge Rate (%)	Individual Buyer's Limit
Standard Chartered Bank	$63,106	$47,800	$15,306	6.0201~6.1469	US$5,000 thousand

The limit above is used in revolving bases.
The factor is Standard Chartered Bank (SCB). This sale is without recourse.

7. INVENTORIES, NET

	September 30 2006	September 30 2005
Finished goods	$ 80,959	$ 11,391
Semifinished goods	135,805	48,371
Work-in-process	387,011	62,385
Raw materials	953,430	375,629
	1,557,205	497,776
Less: Allowance for inventory valuation and obsolescence losses	147,003	12,602
	$ 1,410,202	$ 485,174

On February 27, 2006, Quan Yi Technology, the Corporation's outsourcing partner, was stolen of products included those of the Corporation. Thus, the Corporation lost approximately $48,533 thousand in inventory. The compensation has been processed by the insurance company as the amount of $46,076 thousand and was recognized as other financial assets .

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30 2006	September 30 2005
Common stock - unlisted stocks	$ 20,000	$ 14,300

The above investments in stocks were measured at cost because the related instruments had no active market and their fair value could not be reliably measured.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	September 30			
	2006		2005	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 76,334	18	$ -	-
Lian Xu Dong Investment Corporation	20,152	100	20,000	100
	$ 96,486		$ 20,000	

In July 2005, the Corporation invested in Lian Xu Dong Investment Corporation, which engages in investment. In addition, in July 2006, the Corporation invested in Aptos Technology, which assembles and tests memory cards to stabilize the production of the Corporation's memory cards.

The carrying value of the equity-method investment and the related investment income as of the nine months ended September 30, 2006 was $3,359 thousand, which determined on the basis of unreviewed financial statements. The Corporation's management believed that, had the investee's financial statements been reviewed, any resulting adjustments would not have had a material impact on the Corporation's financial statements as of and for the nine months ended September 30, 2006.

10. PROPERTIES

September 30

	2006	2005
Accumulated depreciation		
Testing equipment	$ 13,996	$ 8,218
Office equipment	3,007	1,954
Leasehold improvements	6,538	2,166
Other equipment	2,913	2,260
	$ 26,454	$ 14,598

11. INTANGIBLE ASSETS

	September 30	
	2006	2005
Royalty	$ 32,975	$ 41,190
Technology license fees	1,814	2,436
Patents	1,475	1,565
Trademarks	54	94
	$ 36,318	$ 45,245

12. PENSION PLAN

The Labor Pension Act (the “Act”) took effect on July 1, 2005. The Corporation employees subject to the Labor Standards Law (the “Law”) as of September 30, 2005 were allowed to choose to continue to be subject to the pension plan under the Law or to be subject instead to the new pension plan under the Act, with their service years accumulated as of September 30, 2005 to be retained. Those hired on or after July 1, 2005 automatically become subject to the pension plan under the Act.

The Act provides for a defined contribution pension plan. Based on this plan, the rate of the Corporation’s required monthly contributions, starting on July 1, 2005, to the employees’ individual pension accounts is at 6% of monthly salaries and wages. The Corporation recognized a defined contribution pension cost of $4,776 thousand and $1,151 thousand in the nine months ended September 30, 2006 and 2005,respectively.

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 2% of monthly salaries and wages to a pension fund. The fund is administered by the employees’ pension fund committee and deposited in the committee’s name in the Central Trust of China. Other information on the defined benefit pension plan is summarized as follows:

a. Changes in the pension fund

	Nine Months Ended September 30	
	2006	2005
Balance, beginning of period	$ 5,786	$ 3,511
Contributions	1,921	1,583
Interest earned	101	31
Balance, end of period	$ 7,808	$ 5,125

b. Changes in accrued pension cost (prepaid pension)

Balance, beginning of period	$ (375)	$ 718
Net periodic pension cost	169	1,523
Contributions	(1,921)	(1,583)
Balance, end of period	$ (2,127)	$ 658

c. Net pension costs in the nine months ended September 30, 2006 and 2005 were $169 thousand and $1,523 thousand, respectively.

13. 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	
	2006	**2005**
Income tax on pretax income at statutory rate (25%)	$ 165,853	$ 94,196
Add (deduct) tax effects of		
Permanent difference	(93)	(1,065)
Temporary difference	15,404	(10,110)
Tax-exempt income	(105,948)	(63,302)
Additional 10% tax on unappropriated earnings	11,220	7,881
Investment tax credits	(43,218)	(13,800)
Current income tax payable	$ 43,218	$ 13,800

b. Income tax expense consisted of:

Current income tax payable	$ 43,218	$ 13,800
Deferred income tax	(29,920)	(1,724)
Adjustment to prior year’s taxes	497	(176)
Income tax expense	$ 13,795	$ 11,900

c. Deferred income tax assets and liabilities consisted of:

	September 30	
	2006	**2005**
Current		
Investment tax credits	$ 43,218	$ 13,000
Allowance for inventory valuation and obsolescence losses	36,751	3,150
Allowance for doubtful accounts	2,333	2,356
Foreign exchange gain	(381)	(3,328)
Other	185	322
	$ 82,106	$ 15,500
Noncurrent		
Investment tax credits	$ 71,409	$ 57,660
Other	288	-
	71,697	57,660
Less: Valuation allowance	(71,409)	57,660

	$ 288	$ -

The effective tax rate used for computing deferred income tax assets as of September 30, 2006 and 2005 was 25%.

d. As of September 30, 2006, investment tax credits were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 5,031	$ -	2008
		83,259	45,072	2009
		69,555	69,555	2010
		$ 157,845	$ 114,627	

e. 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

f. Integrated income tax information was as follows:

	September 30	
	2006	2005
Balance of imputation credit account (ICA)	$ 36,066	$ 11,636

The actual ratios of imputation tax credits to the 2005 and 2004 earnings were 5.67% and 3.81%, respectively.

g. As of September 30, 2006, there were no unappropriated earnings generated before January 1, 1998.

h. Income tax returns through 2003 had been examined by the tax authorities. However, the Corporation disputed the tax-exemption income by the tax authorities on the 2003 and 2002 return. The Corporation will file an appeal for tax authorities to reexamine the 2003 and 2002 returns. Nevertheless, the Corporation believes that the effect of possible tax liabilities would not be material.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Nine Months Ended September 30					
	2006			2005		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						

Salary	$ 21,781	$107,032	$128,813	$ 22,874	$ 60,516	$ 83,390
Labor and health insurance	1,727	5,999	7,726	1,009	4,094	5,103
Pension cost	1,280	3,665	4,945	494	2,180	2,674
Other	4,021	11,940	15,961	2,089	9,444	11,533
	$ 28,809	$128,636	$157,445	$ 26,466	$ 76,234	$102,700
Depreciation	$ 1,879	$ 7,588	$ 9,467	$ 2,111	$ 4,089	$ 6,200
Amortization	-	18,897	18,897	-	15,429	15,429

15. STOCKHOLDERS' EQUITY

a. Capital surplus

Under the Company Law, capital surplus may 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, shareholders' interests, balance between cash and stock dividends, and the Corporation's long-term financial plans. The board of directors prepares the proposal on annual earnings distribution for the stockholders' approval. Profits may be distributed as cash or stock dividend; however, cash dividends should be at least 10% of total distribution, the Corporation's operating results to 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 exceeds 50% of the Corporation's paid-in capital, the excess may be distributed as follows: (a) if the Corporation has no earnings, the excess may be declared as dividends or bonus; and (b) if the Corporation has no deficit, only the excess portion that is over 25% of the Corporation's paid-in capital may be declared as stock dividends.

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

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

On June 14, 2006 and June 16, 2005, the shareholders approved the board of directors' proposal on the appropriation and dividends per share of the 2005 and 2004 earnings, as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2005	**For Fiscal Year 2004**	**For Fiscal Year 2005**	**For Fiscal Year 2004**
Legal reserve	$ 59,009	$ 34,833	$ -	$ -
Bonus to employees - stock	19,500	18,000	-	-
Bonus to employees - cash	23,000	18,000	-	-
Stock dividends	158,000	90,580	2.99088	2.49380
Cash dividends	210,000	126,812	3.97523	3.49130
Remuneration to directors and supervisors	8,377	5,171	-	-
	$ 477,886	$ 293,396		

c. Stock options

On May 16, 2003 and October 21, 2003, the Securities and Futures Commission 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, 2006 and 2005 were as follows:

	Nine Months Ended September 30			
	2006		2005	
	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)
Beginning balance	615	$10	1,359	$10
Options granted	(615)	10	(90)	10
Options canceled	-	-	(54)	10
Ending balance	-		1,215	

As of September 30, 2006, all of the outstanding options had been converted to common stock.

In the nine months ended September 30, 2006, stock options consisting of 615 thousand units had been converted to 615 thousand common shares. As a result, there were increases of $6,150 thousand in capital stock.

16. 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, 2006					
Basic EPS					
Income available to common shareholders	$ 663,451	$ 649,656	70,605	$ 9.40	$ 9.20
Effect of dilutive potential common stock - stock options	-	-	602		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 663,451	$ 649,656	71,207	$ 9.32	$ 9.12
Nine months ended September 30, 2005					
Basic EPS					
Income available to common shareholders	$ 376,824	$ 364,924	61,227	$ 6.15	$ 5.96
Effect of dilutive potential common stock - stock options	-	-	1,479		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 376,824	$ 364,924	62,706	$ 6.01	$ 5.82

The average number of shares outstanding for EPS calculation had been adjusted retroactively for the distribution of stock dividends and stock bonuses (see Note 15). The retroactive adjustment caused the basic EPS before income tax and after income tax in the nine months ended September 30, 2005 to decrease from NT$8.00 to NT$6.15 and from NT$7.74 to NT$5.96 , respectively. The diluted EPS before income tax and after income tax in the nine months ended September 30, 2005 decreased from NT$7.81 to NT$6.01 and from NT$7.56 to NT$5.82 , respectively.

17. FINANCIAL INSTRUMENTS

a. Fair value

	September 30			
	2006		2005	
Nonderivative financial instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 867,274	$ 867,274	$ 437,232	$ 437,232
Notes and accounts receivable	1,709,347	1,709,347	863,719	863,719
Other financial assets	150,497	150,497	58,751	58,751
Restricted assets	15,058	15,058	11,992	11,992
Financial assets carried at cost	20,000		14,300	
Guarantee deposits paid	44,647	44,647	41,970	41,970
Liabilities				
Notes and accounts payable	2,296,906	2,296,906	905,277	905,277
Guarantee deposits received	-	-	168	168

Effective January 1, 2006, the Corporation adopted newly issued SFAS No.34 - "Accounting for Financial Instruments"; thus, the derivative financial instruments were not recognized in the 2005 financial statements. Please refer to Note 3 for the description of the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of SFAS No. 34.

b. The methods and assumptions applied in determining fair values of financial instruments were as follows:

1) Short-term financial instruments - the carrying value reported in the balance sheets is a reasonable basis for estimating fair value because these instruments have short maturities. These instruments included cash and cash equivalents, notes and accounts receivables, other financial assets, restricted assets, notes and accounts payable and short-term debts.

2) Fair values of financial assets carried at cost have no active market and their fair value cannot be reliably estimated. Thus, the fair values of these financial assets cannot be estimated.

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

c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation methods.

d. No gain or loss was recognized for fair value changes based on of using valuation methods in the nine months ended September 30, 2006 and 2005.

e. The financial assets exposed to fair value interest rate risk amounted to $224,227 thousand and $225,731 thousand as of September 30, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to $697,843 thousand and $263,420 thousand as of September 30, 2006 and 2005, respectively.

f. The interest income on financial assets were not carried at fair value and financial assets at fair value through profit or loss was $7,145 thousand and $3,109 thousand as of September 30, 2006 and 2005, respectively. The interest expense for financial liabilities was not carried at fair value and financial liabilities at fair value through profit or loss was $541 thousand and $545 thousand as of September 30, 2006 and 2005, respectively.

g. Financial risks:

1) Market risk

All derivative transactions are used to hedge exchange rate fluctuations of net foreign currency-denominated assets or liabilities. Gains or losses on these hedging instruments are likely to offset the gains or losses on the hedged items. Thus, the market risk is immaterial.

2) Credit risk

Credit risk represents the potential impact on financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Other factors that affect financial assets include credit risk concentration, components of financial instruments, contract amount and other receivables. The maximum credit risk exposure of each financial instrument is the same as its carrying value.

3) Liquidity risk

The Corporation has no cash flow risks because it has sufficient operating capital to meet cash needs, and had no forward exchange contracts outstanding as of September 30, 2006. However, as of September 30, 2006, the Corporation had equity instruments without any active market; thus, it expects to have significant liquidity risk.

4) Cash flow interest rate risk.

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

18. RELATED-PARTY TRANSACTIONS

Except as disclosed in notes to the financial statements, the Corporation's related-party transactions were as follows:

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

Related Party	Relationship with the Corporation
Toshiba Corporation, Japan ("Toshiba")	A board director
Toshiba Electronics Europe Gmbh	Subsidiary of Toshiba
Toshiba Europe Gmbh	Subsidiary of Toshiba
Toshiba International Procurement Hong Kong Ltd.	Subsidiary of Toshiba
Toshiba Of Canada Limited	Subsidiary of Toshiba
Toshiba Digital Media Network Taiwan Corporation	Subsidiary of Toshiba
Taiwan Toshiba International Procurement Corp.	Subsidiary of Toshiba
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
M-Systems B.V.	A board director
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.	Subsidiary
Aptos Technology	Investment by the equity method

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

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

	Nine Months Ended September 30			
	2006		2005	
	Amount	%	Amount	%
1) Net sales				
M-Systems	$ 316,876	4	$ 333,998	8
Toshiba Europe Gmbh	93,372	1	101	-
Toshiba International Procurement Hong Kong Ltd.	68,138	1	-	-
M-Systems Asia Ltd.	7,084	-	39,108	1
TwinSys	2,166	-	80,142	2
Other	559	-	528	-
	$ 488,195	6	$ 453,877	11
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 1,990,648	30	$ 1,677,443	48
Other	7,077	-	10,962	-
	$ 1,997,725	30	$ 1,688,405	48
3) Royalty expenses (included in sales expenses)				
M-Systems	$ 22,017	24	$ 17,576	29
4) Processing expenses (included in manufacture expenses)				
Aptos Technology	$ 16,233	2	$ -	-

	September 30			
	2006		2005	
	Amount	%	Amount	%
5) Notes and accounts receivable				
M-Systems	$ 98,072	6	$ 117,244	14
Toshiba Europe Gmbh	31,377	2	-	-
Toshiba International Procurement Hong Kong Ltd.	5,012	-	-	-
M-Systems Asia Ltd.	-	-	902	-
Other	356	-	90	-
	$ 134,817	8	$ 118,236	14
6) Notes and accounts payable				
Toshiba Electronics Taiwan Corp.	$ 530,427	23	$ 403,555	45
Aptos Technology	17,163	1	-	-
M-Systems	-	-	1,448	-
	$ 547,590	24	$ 405,003	45

7) Accrued expenses - royalty

M-Systems	$ 14,688	10	$ 31,620	32

19. PLEDGED ASSETS

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

	September 30	
	2006	**2005**
Guarantee deposits paid - certificates of deposits	$ 40,000	$ 40,000
Refundable deposits for the Customs Duty Bureau - certificates of deposits	10,058	4,990
The issuance of L/C for purchasing materials - certificates of deposits	5,000	5,000
Compensating balance - savings accounts	-	2,002
	$ 55,058	$ 51,992

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of September 30, 2006 were as follows:

a. The Corporation rents its office under operating lease agreements expiring on April 2008.

As of September 30, 2006, future remaining lease payments were as follows:

Period/Year	**Amount**
2006 (4th quarter)	$ 2,370
2007	9,482
2008	407
	$ 12,259

b. Unused letters of credit amounted to $45,000 thousand and US $3,500 thousand.

c. On August 15, 2002, Feiya Technology Corp. ("Feiya," which was 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 the alleged theft of trade secrets. The Hsinchu District Court rejected this claim 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. On September 22, 2006, the Corporation and Feiya settled this case and agreed to waive the rights on each other. Thus, the Corporation applied to the court for the reversal of the litigation loss of $45,000 thousand and recognized this amount as other income. Nevertheless, the Corporation deposited $40,000 thousand as litigation guarantee while awaiting the completion of the court's closing of this case.

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-Systems royalties and commissions at a percentage of net sales over six years.

e. On February 21, 2006, the Corporation received a formal complaint from Carry Computer Eng Co., Ltd.

("Carry") on its product, a UFD with display which can show the density and related data. Carry claimed that the Corporation, the Corporation's president and engineers infringed Carry's copyright, reneged, and accessed Carry's trade secrets.

The Corporation believes that Carry's charges are groundless because of the following reasons:

1) There is no evidence that the information in question is Carry's copyrighted or trade secret.

2) The product concept in question was presented by Carry during the 2005 Cebit Show held in Germany.

3) Carry is not an inventor of the product in question. In addition, many inventions are posted on the patent database, which the public, including the Corporation, can research and use as basis for making its own products.

4) The Corporation has the same kind of product, but this product is based on a different technology.

In addition, the Corporation's shipped less than 10 thousand units of the product; thus, the Corporation believes the complaint would not have material effect on the Corporation's financial statements.

f. In 2005, Fineart Technology Co., Ltd. ("Fineart") alleged that Pen Mail, a USB (universal serial bus)-enhancing software developed by the Corporation for a client, infringed the patent on Fineart's product, Flash Mail. Fineart filed a lawsuit and claimed $20,000 thousand as damages. The case is now under negotiation for the parties to waive the rights to each other. After evaluation, the Corporation believes it had not infringed the patent of Fineart. To avoid further misunderstanding on this case, the Corporation had ceased to use the Pen Mail software, which was developed to increase the functions of a product developed for a client. Nevertheless, considering that sales of Pen Mail were less than expected, the Corporation ceased the use of the software. The Corporation believes the suit would not have a material effect on the Corporation's financial statements and operations.

21. 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: None

i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 4 (attached)

j. Derivative transactions: Notes 5 and 17 to the financial statements.

k. Investment in Mainland China: None

TABLE 1

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2006 Shares (in Thousands)	Carrying Value	Percentage of Ownership	Net Asset Value	Note
the "Corporation"	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Investments accounted for by the equity method	2,000	$ 20,152	100.00	$ 20,152	Note 2
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	7,597	76,334	18.09	76,334	Note 2
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	17,230	Note 2

Note 1: The Corporation held marketable securities that had not been guaranteed, pledged or mortgaged as collaterals or restricted by other commitments.

Note 2: The calculation of the net asset value was based on the investee's most recent financial statements, which had not been reviewed.

TABLE 2

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, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	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
the "Corporation"	Beneficiary certificate													
	ABN Bond Fund	Financial assets at fair value through profit or loss	-	-	-	$ -	8,696	$ 130,000	8,696	$ 130,140	$ 130,000	$ 140	-	$ -
	Ta Chong Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	7,771	100,000	7,771	100,298	100,000	298	-	-
	NITC Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	737	120,000	737	120,278	120,000	278	-	-

TABLE 3

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, 2006
(In Thousands of New Taiwan Dollars)

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	
the “Corporation”	Toshiba Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation’s board of directors	Purchase	$ 1,990,648	30	Net 30 days after monthly closing	None	None	($ 530,427)	(23)	-
	M-Systems Flash Disk Pioneers Ltd.	Parent company of a corporate member of the Corporation’s board of directors	Sales	(316,876)	(4)	Net 30 days after monthly closing	None	None	98,072	6	-

TABLE 4

PHISON ELECTRONICS CORP.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
NINE MONTHS ENDED SEPTEMBER 30, 2006
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2006			Net Income of the Investee	Investment Income (Loss)	Note
				September 30, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
the "Corporation"	Lian Xu Dong Investment Corp.	Hsinchu, Taiwan	Investment	$20,000	$20,000	2,000	100.00	$20,152	$ 181	$ 189	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test、flash application	79,321	-	7,597	18.09	76,334	(18,178)	(3,548)	Investment by the equity method

Note: The calculation of the carrying value was based on the investee's most recent financial statements, which had not been reviewed.