Phison Electronics Corp.

Financial Statements for the
Three Months Ended March 31, 2007 and 2006 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the accompanying balance sheet of Phison Electronics Corp. (the "Corporation") as of March 31, 2007 and 2006, and the related statements of income and cash flows for the three 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.

Except as stated in the following paragraph, 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.

As stated in Note 9 to the financial statements, the investments accounted for by the equity method as of March 31, 2007 amounted to NT$158,237 thousand, and the investment income for the three months ended March 31, 2007 was NT$9,698 thousand. The amounts referring to the equity-method investments and the related information of its investees disclosed in Note 22 to the financial statements were based on unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been made had the financial statements of the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the financial statements as of and for the three months ended March 31, 2007 and 2006 referred to in the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the 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 with SFAS No. 34 and No. 36.

April 26, 2007

<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
MARCH 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2007 Amount	%	2006 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$1,633,011	32	$ 845,535	26
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,585,246	31	814,678	26
Related parties (Note 18)	4,591	-	72,131	2
Other financial assets	61,672	1	48,787	1
Inventories, net (Notes 2 and 7)	1,057,237	21	990,280	31
Deferred income tax assets - current (Notes 2 and 13)	127,208	3	54,969	2
Restricted assets (Note 19)	24,017	-	10,058	-
Other	167,684	3	185,094	6
Total current assets	4,660,666	91	3,021,532	94
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	158,237	3	19,989	1
Financial assets carried at cost - noncurrent (Notes 2 and 8)	25,700	-	24,060	1
Total long-term investments	183,937	3	44,049	2
PROPERTIES (Notes 2 and 10)				
Cost				
Land	135,000	3	-	-
Testing equipment	42,308	1	26,661	1
Office equipment	8,068	-	5,411	-
Leasehold improvements	17,836	-	12,056	1
Other equipment	2,961	-	4,499	-
Total cost	206,173	4	48,627	2
Less: Accumulated depreciation	32,973	-	19,971	1
	173,200	4	28,656	1
Prepayment for equipment	16,329	-	-	-
Net properties	189,529	4	28,656	1
INTANGIBLE ASSETS (Notes 2, 11 and 20)	35,162	1	41,065	1
OTHER ASSETS				
Guarantee deposits paid (Note 19)	5,381	-	42,322	1
Deferred charges, net (Note 2)	53,631	1	30,408	1
Deferred income tax assets - noncurrent (Notes 2 and 13)	212	-	378	-
Miscellaneous (Notes 2 and 12)	2,742	-	1,074	-
Total other assets	61,966	1	74,182	2
TOTAL	$5,131,260	100	$3,209,484	100

LIABILITIES AND SHAREHOLDERS' EQUITY	2007 Amount	%	2006 Amount	%
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$1,179,453	23	$ 690,290	22
Related parties (Note 18)	563,368	11	425,556	13
Income tax payable (Notes 2 and 13)	104,757	2	22,438	-
Accrued expenses (Note 18)	152,498	3	90,018	3
Other	11,195	-	57,216	2
Total current liabilities	2,011,271	39	1,285,518	40
Total liabilities	2,011,271	39	1,285,518	40
SHAREHOLDERS' EQUITY (Note 15)				
Capital stock - NT$10.00 par value				
Authorized - 100,000 thousand shares in 2007 and 60,000 thousand shares in 2006				
Issued and outstanding - 72,577 thousand shares in 2007 and 52,708 thousand shares in 2006	725,771	14	527,081	16
Capital surplus				
Additional paid-in capital	722,962	14	501,962	16
Retained earnings				
Legal reserve	128,122	3	69,113	2
Unappropriated retained earnings	1,543,134	30	825,810	26
Total retained earnings	1,671,256	33	894,923	28
Total shareholders' equity	3,119,989	61	1,923,966	60
TOTAL	$5,131,260	100	$3,209,484	100

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

(With Deloitte & Touche review report dated April 26, 2007)

PHISON ELECTRONICS CORP.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	$ 4,098,429	99	$ 1,854,943	101
Less: Sales returns and allowances	41,530	1	33,213	2
Net sales	4,056,899	98	1,821,730	99
Service revenue	66,293	2	13,224	1
Total operating revenue	4,123,192	100	1,834,954	100
OPERATING COSTS (Notes 14 and 18)	3,721,236	90	1,564,524	85
GROSS PROFIT	401,956	10	270,430	15
OPERATING EXPENSES (Notes 14 and 18)				
Marketing	36,903	1	18,001	1
General and administrative	14,641	-	9,289	-
Research and development	87,836	2	50,999	3
Total operating expenses	139,380	3	78,289	4
OPERATING INCOME	262,576	7	192,141	11
NONOPERATING INCOME AND GAINS				
Foreign exchange gains, net (Note 2)	26,362	1	-	-
Equity in net gain of investees (Notes 2 and 9)	9,698	-	26	-
Interest income	1,733	-	1,333	-
Gains on disposal of investments, net (Notes 2 and 5)	67	-	1,151	-
Other	5,880	-	4,661	-
Total nonoperating income and gains	43,740	1	7,171	-
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	-	-	43,858	3
Foreign exchange loss, net (Note 2)	-	-	5,967	-
Other	704	-	1	-
Total nonoperating expenses and losses	704	-	49,826	3
INCOME BEFORE INCOME TAX	305,612	8	149,486	8
INCOME TAX EXPENSE (Notes 2 and 13)	30,018	1	57	-
NET INCOME	$ 275,594	7	$ 149,429	8

(Continued)

	2007		2006	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 16)				
Basic	$ 4.21	$ 3.80	$ 2.19	$ 2.19
Diluted	$ 4.21	$ 3.80	$ 2.18	$ 2.18

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

(With Deloitte & Touche review report dated April 26, 2007) (Concluded)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 275,594	$ 149,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	10,038	6,196
Equity in net gain of investees	(9,698)	(26)
Deferred income tax	5,582	(2,873)
Depreciation	4,236	2,954
Gain on disposal of intangible assets	(197)	-
Losses on inventory valuation and obsolescence	-	43,858
Reversal of doubtful accounts	-	(4,293)
Losses on disposal of financial assets carried at cost	-	(291)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	150,129	-
Notes and accounts receivable	574,426	223,352
Other financial assets	(61,507)	(48,477)
Inventories	441,615	(396,355)
Other current assets	57,137	(66,854)
Notes and accounts payable	(906,417)	259,586
Income tax payable	18,302	2,884
Accrued expenses	(30,201)	(57,725)
Other current liabilities	(12,630)	(17,035)
Accrued pension cost	(301)	(699)
Net cash provided by operating activities	516,108	93,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(115,487)	(6,812)
Increase in investments accounted for by the equity method	(45,500)	-
Increase in deferred charges	(6,560)	(11,293)
Increase in financial assets carried at cost - noncurrent	(5,700)	-
Decrease in restricted assets	5,000	4,901
Increase in intangible assets	(579)	(326)
Increase in guarantee deposits paid	(393)	(352)
Proceeds from disposal of intangible assets	200	-
Proceeds from disposal of financial assets carried at cost - noncurrent	-	881
Net cash used in investing activities	(169,019)	(13,001)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issuance of capital stock	-	4,960

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 347,089	$ 85,590
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,285,922	759,945
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,633,011	$ 845,535
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 84	$ -
Income tax paid	$ 6,134	$ 6,192
INVESTING ACTIVITES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 116,148	$ 2,226
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	(661)	4,586
Cash paid	$ 115,487	$ 6,812

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

(With Deloitte & Touche review report dated April 26, 2007) (Concluded)

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(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 March 31, 2007 and 2006, the Corporation had 302 and 233 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, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China. 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 accounts, allowance for inventory valuation and obsolescence losses, pension, probable litigation loss, depreciation of properties, impairment loss on assets, 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.

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

Current and Noncurrent Assets and Liabilities

Current assets include 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. When dispose of financial instruments, the difference between the purchase or sale price and book value of the financial instruments is 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 accounts is provided on the basis of a periodic review of the collectibility of 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 or net loss and in other changes in shareholders' equity of the investees and 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 weighted-average method.

Properties

Properties are stated at cost less accumulated depreciation. Significant additions 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 1 to 6 years.

Deferred Charges

Deferred charges, mainly the costs of acquiring computer software, are amortized using the straight-line method over 3 to 5 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. Investments in which the Corporation has significant influence over investees are tested for impairment separately at their carrying amounts. 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.

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 shareholders 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 three months ended March 31, 2006 have been reclassified to be consistent with the presentation of financial statement as of and for the three months ended March 31, 2007.

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. These accounting changes had no effect on income for the three months ended March 31, 2006.

Starting on January 1, 2006, the Corporation adopted the newly revised SFAS No. 1 - "Conceptual Framework of 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 three months ended March 31, 2006.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2007	**2006**
Cash on hand	$ 156	$ 167
Savings accounts	351,428	370,756
Certificates of deposits	258,522	118,680
Foreign accounts	972,855	164,985
Checking accounts	50	36
Short-term bill and bonds acquired under repurchase agreements	50,000	190,911
	$ 1,633,011	$ 845,535

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

The Corporation entered into forward exchange contracts to hedge exposures due to exchange rate fluctuations. The purpose of the hedge strategy was to reduce most of the risks arising from changes in market prices and cash flows. All of the outstanding forward exchange contracts of as of March 31, 2007 and 2006 had matured.

Net gains on financial assets held for trading in the three months ended on March 31, 2007 and 2006 were $151 thousand and $1,151 thousand, respectively. Net losses on financial liabilities held for trading in the three months ended on March 31, 2007 and 2006 were $84 thousand and $165 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	March 31	
	2007	**2006**
Notes receivable	$ 14,628	$ 24,699
Accounts receivable	1,592,746	808,759
	1,607,374	833,458
Less: Allowance for sales returns and discounts	-	1,652
Allowance for doubtful accounts	22,128	17,128
	$ 1,585,246	$ 814,678

The factored accounts receivable in the three months ended March 31, 2007 were as follows:

Buyer	Factoring Amount	Settle Amount	Prepayment	Discounting Charge Rate (%)	Individual Buyer's Limit
Standard Chartered Bank	$2,298	$ -	$2,298	6.0306-6.0412	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

	March 31 2007	March 31 2006
Finished goods	$ 13,667	$ 51,394
Semifinished goods	193,181	162,382
Work in process	305,687	191,491
Raw materials	737,893	701,472
	1,250,428	1,106,739
Less: Allowance for inventory valuation and obsolescence losses	193,191	116,459
	$ 1,057,237	$ 990,280

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31 2007	March 31 2006
Emerging stocks	$ -	$ 4,060
Common stock - unlisted stocks	25,700	20,000
	$ 25,700	$ 24,060

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

	March 31			
	2007		2006	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 137,961	24	$ -	-
Lian Xu Dong Investment Corporation	20,276	100	19,989	100
	$ 158,237		$ 19,989	

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

In September 2006, the Corporation had been authorized to invest Dong Ke Hong Technology (Shenzhen) by Investment Commission, MOEA. As of March 31, 2007, the Corporation has no outflow amount of the Investment.

The investment gain and loss were recognized by the equity-method and determined on the basis of the investees' unreviewed financial statement in the three months ended March 31, 2007 and 2006 are summarized as follows:

	Three Months Ended March 31	
	2007	2006
Aptos Technology	$ 9,611	$ -
Lian Xu Dong Investment Corporation	87	26
	$ 9,698	$ 26

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 three months ended March 31, 2006.

10. PROPERTIES

	March 31	
	2007	2006
Accumulated depreciation		
Testing equipment	$ 17,997	$ 10,845
Office equipment	3,751	2,445
Leasehold improvements	9,759	4,051
Other equipment	1,466	2,630
	$ 32,973	$ 19,971

11. INTANGIBLE ASSETS

	March 31	
	2007	2006
Royalty	$ 31,588	$ 37,063
Patents	2,025	1,803
Technology license fees	1,503	2,125
Trademarks	46	74
	$ 35,162	$ 41,065

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 June 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 June 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 defined contribution pension cost of $1,937 thousand and $1,584 thousand in the three months ended March 31, 2007 and 2006, 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. Net pension costs in the three months ended March 31, 2007 and 2006 were $67 thousand and $57 thousand, respectively.

b. Changes in the pension fund

	Three Months Ended March 31	
	2007	**2006**
Balance, beginning of period	$ 8,179	$ 5,786
Contributions	368	756
Interest earned	184	101
Balance, end of period	$ 8,731	$ 6,643

c. Changes in prepaid pension cost (included in other assets - miscellaneous)

	2007	2006
Balance, beginning of period	$ (2,441)	$ (375)
Net periodic pension cost	67	57
Contributions	(368)	(756)
Balance, end of period	$ (2,742)	$ (1,074)

13. INCOME TAX

The Basic Income Tax Act (BITA) has took effect on January 1, 2006. Based on the BITA, basic income is the sum of the taxable income as calculated in accordance with the Income Tax Act, plus deductions claimed in regard to investment tax credit granted under other laws. Basic tax is the basic income multiplied by a 10% tax rate. The tax payable of the current year is the higher of the basic income tax and income tax payable calculated in accordance with the Income Tax Act. BITA had no affected on the tax liability in the three months ended March 31, 2007 and 2006.

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

	Three Months Ended March 31	
	2007	2006
Income tax on pretax income at statutory rate (25%)	$ 76,393	$ 37,361
Add (deduct) tax effects of		
Permanent difference	(2,495)	(294)
Temporary difference	(3,291)	7,544
Tax-exempt income	(21,735)	(38,751)
Investment tax credits	(24,436)	(2,930)
Current income tax expense payable	$ 24,436	$ 2,930

b. Income tax expense consisted of:

Current income tax payable	$ 24,436	$ 2,930
Deferred income tax	5,582	(2,873)
Income tax expense	$ 30,018	$ 57

c. Deferred income tax assets and liabilities consisted of:

	March 31	
	2007	2006
Current, net		
Investment tax credits	$ 78,605	$ 24,031
Allowance for inventory valuation and obsolescence losses	48,297	29,115
Allowance for doubtful accounts	1,502	2,018
Foreign exchange gain	(1,368)	(794)
Other	172	599
	127,208	54,969
Less: Valuation allowance	-	-
	$ 127,208	$ 54,969
Noncurrent, net		
Investment tax credits	$ 2,456	$ 92,231
Other	212	378
	2,668	92,609
Less: Valuation allowance	2,456	92,231
	$ 212	$ 378

The effective tax rate used for computing deferred income tax assets on March 31, 2007 and 2006 was 25%.

d. As of March 31, 2007, 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	$ 111,276	$ 81,061	2010

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
Third expansion and construction of the Corporation's factories	February 28, 2006 to February 27, 2011

f. Integrated income tax information was as follows:

	March 31	
	2007	2006
Balance of imputation credit account (ICA)	$ 42,078	$ 11,686

The estimated creditable ratio for the 2006 earnings appropriation and the actual creditable ratio for the 2005 earnings appropriation were 8.14% and 5.67%, respectively.

The tax credits allocable to the shareholders are based on the balance of ICA on the dividend distribution date. Accordingly, the expected imputed tax credit ratio for 2006 may be adjusted because the actual tax credit may differ from the expected tax credit.

g. As of March 31, 2007, there were no unappropriated earnings generated before January 1, 1998.

h. Income tax returns through 2004 had been examined by the tax authorities. However, the Corporation disputed the tax-exemption income by the tax authorities on the 2002 return. The Corporation will file an appeal for tax authorities to reexamine the 2002 return. Nevertheless, the Corporation believes that the effect of possible tax liabilities should not be material.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Three Months Ended March 31					
	2007			2006		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 8,629	$ 42,935	$ 51,564	$ 6,263	$ 23,773	$ 30,036
Labor and health insurance	692	2,316	3,008	511	1,927	2,438
Pension cost	479	1,525	2,004	483	1,158	1,641
Other	2,223	5,567	7,790	1,247	3,390	4,637
	$ 12,023	$ 52,343	$ 64,366	$ 8,504	$ 30,248	$ 38,752
Depreciation	$ 740	$ 3,496	$ 4,236	$ 601	$ 2,353	$ 2,954
Amortization	-	10,038	10,038	-	6,196	6,196

15. SHAREHOLDERS' EQUITY

a. Capital

In their meeting on November 1, 2006, the Corporation's shareholders decided to issue upper limit 13,500 thousand common shares by private equity raising. On November 2, 2006, the board of directors resolved to issue 2,000 thousand common shares by private equity raising, the share issuance at a NT$10.00 par value and set December 15, 2006 as the fund raising deadline, with NT$120.5 as the offering price. This common share issuance was approved by and registered with the government authorities on January 12, 2007. The difference in price between par value and offering price was $221,000 thousand, recognized as additional paid-in capital. As of March 31, 2007, leave 11,500 thousand common shares not be issued by private equity raising.

b. 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. Capital surplus generated from adjustments due to investee's equity is restricted to be used.

c. Appropriation of earnings and dividend policy

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

1) 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 shareholders' 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 should also be considered in dividend appropriation.

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.

The 2006 earnings appropriation proposed by the Board of Directors on March 21, 2007 and the 2005 earnings appropriation resolved by the shareholders in their meeting on June 14, 2006 were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2006	**For Fiscal Year 2005**	**For Fiscal Year 2006**	**For Fiscal Year 2005**
Legal reserve	$ 107,121	$ 59,009	$ -	$ -
Bonus to employees - stock	18,300	19,500	-	-
Bonus to employees - cash	40,000	23,000	-	-
Stock dividends	217,731	158,000	3	2.99088
Cash dividends	290,309	210,000	4	3.97523
Remuneration to directors and supervisors	11,558	8,377	-	-
	$ 685,019	$ 477,886		

The appropriation of the Corporation's 2006 earnings had not been resolved by the shareholders meeting until June 13, 2007. Information on earnings appropriation can be assessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

d. 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 three months ended March 31, 2006 was as follows:

	Three Months Ended March 31, 2006	
	Outstanding Option Rights (in Thousands)	Exercise Price (NT$)
Beginning balance	615	$10
Options granted	(496)	10
Ending balance	119	

As of December 31, 2006, all of the outstanding options had been converted to common 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
Three months ended March 31, 2007					
Basic EPS					
Income available to common shareholders	$ 305,612	$ 275,594	72,577	$ 4.21	$ 3.80
Effect of dilutive potential common stock - stock options	-	-	-		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 305,612	$ 275,594	72,577	$ 4.21	$ 3.80
Three months ended March 31, 2006					
Basic EPS					
Income available to common shareholders	$ 149,486	$ 149,429	68,219	$ 2.19	$ 2.19
Effect of dilutive potential common stock - stock options	-	-	357		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 149,486	$ 149,429	68,576	$ 2.18	$ 2.18

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 after income tax in the three months ended March 31, 2006 to decrease from NT$2.85 to NT$2.19. The diluted EPS after income tax in the three months ended March 31, 2006 decreased from NT$2.83 to NT$2.18.

17. FINANCIAL INSTRUMENTS

a. Fair value

	March 31			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 1,633,011	$ 1,633,011	$ 845,535	$ 845,535
Notes and accounts receivable	1,589,837	1,589,837	886,809	886,809
Other financial assets	61,672	61,672	48,787	48,787
Restricted assets	24,017	24,017	10,058	10,058
Financial assets carried at cost - noncurrent	25,700		24,060	
Guarantee deposits paid	5,381	5,381	42,322	42,322
Liabilities				
Notes and accounts payable	1,742,821	1,742,821	1,115,846	1,115,846

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.

2) Fair values of financial assets carried at cost-noncurrent 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, fair values are estimated at their carrying amount because these deposits do not have specific due dates.

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

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 three months ended March 31, 2007 and 2006.

e. The financial assets exposed to fair value interest rate risk amounted to $332,539 thousand and $359,649 thousand as of March 31, 2007 and 2006, respectively. The financial assets exposed to cash flow interest rate risk amounted to $1,324,283 thousand and $535,741 thousand as of March 31, 2007 and 2006, 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 $1,733 thousand and $1,333 thousand in the three months ends March 31, 2007 and 2006, respectively. The interest expense for financial liabilities was not carried at fair value and financial liabilities at fair value through profit or loss was $84 thousand and $0 dollar in the three months ends March 31, 2007 and 2006, 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 December 31, 2006. However, as of March 31, 2007, 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

In addition to those disclosed in other notes to the nonconsolidated 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")	Board director
Toshiba Europe GmbH	Subsidiary of Toshiba
Toshiba International Procurement Hong Kong Ltd.	Subsidiary of Toshiba
Toshiba Of Canada Limited	Subsidiary of Toshiba
Toshiba America Information	Subsidiary of Toshiba
Toshiba Singapore Pte Ltd Computer System Division	Subsidiary of Toshiba
Toshiba Digital Media Network Taiwan Corporation	Subsidiary of Toshiba

(Continued)

Related Party	Relationship with the Corporation
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
M-Systems B.V	Board director (merged into Sandisk on March 15, 2007)
M-Systems Flash Disk Pioneers (“M-Systems”)	Parent company of M-Systems B.V (merged into Sandisk on March 15, 2007).
M-Systems Asia Ltd.	Subsidiary of M-Systems B.V (merged into Sandisk on March 15, 2007)
TwinSys Data Storage Limited Partnership (“TwinSys“)	Subsidiary of M-Systems (merged into Sandisk on March 15, 2007)
Lian Xu Dong Investment Corp.	Subsidiary
Aptos Technology	Investment by the equity method (change to equity method since August 31,2006)

(Concluded)

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.

	Three Months Ended March 31			
	2007		2006	
	Amount	%	Amount	%
1) Net sales				
M-Systems	$ -	-	$ 67,903	4
Other	22,447	1	24,220	1
	$ 22,447	1	$ 92,123	5
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 666,285	23	$ 852,301	55
Other	-	-	2,738	-
	$ 666,285	23	$ 855,039	55
3) Royalty expenses (included in sales expenses)				
M-Systems	$ 7,803	21	$ 6,776	38
4) Processing expenses (included in manufacture expenses)				
Aptos Technology	$ 34,216	10	$ -	-

	March 31			
	2007		2006	
	Amount	%	Amount	%
5) Notes and accounts receivable				
M-Systems	$ -	-	$ 51,127	6
Other	4,591	-	21,004	2
	$ 4,591	-	$ 72,131	8
6) Notes and accounts payable				
Toshiba Electronics Taiwan Corp.	$ 529,467	30	$ 425,556	38
Aptos Technology	33,901	2	-	-
	$ 563,368	32	$ 425,556	38
7) Accrued expense				
Aptos Technology	$ 221	-	$ -	-
M-Systems	-	-	6,797	8
	$ 221	-	$ 6,797	8

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 Bureau and the court as follows:

	March 31	
	2007	2006
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 15,017	$ 5,058
The issuance of L/C for purchasing materials - certificates of deposits	9,000	5,000
Guarantee deposits paid - certificates of deposits	-	40,000
	$ 24,017	$ 50,058

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of March 31, 2007 were as follows:

a. The Corporation rents its office under operating lease agreements expiring in February 2010.

   As of March 31, 2007, future remaining lease payments were as follows:

Period/Year	**Amount**
2007 (From April to December)	$ 8,137
2008	1,776
2009	1,368
2010	228
	$ 11,509

b. Unused letters of credit amounted to JPY4,020 thousand and $395,410 thousand.

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

d. On February 21, 2006, the Corporation received a formal complaint from Carry Computer Eng Co., Ltd. ("Carry") on its product, a UFD with display which can show the density and related data. Carry claimed that the Corporation, the Corporation's president and engineers infringed Carry's copyright, reneged, and accessed Carry's trade secrets.

   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.

21. SUBSEQUENT EVENTS

a. In their meeting on November 1, 2006, the Corporation's shareholders decided to issue up to 13,500 thousand common shares though private placement. On April 26, 2007, the board of directors resolved to issue 4,000 thousand common shares private placement at NT$10.00 par value and set June 14, 2007 as the fund-raising deadline, with NT$214.00 as the offering price.

b. On April 26, 2007, the Board of Directors approved the Corporation's Employee Stock Option Plan, which provided qualified employees with 1,000 thousand units of option rights, with each unit representing one common share. Under this plan, the option right is valid for three years from the insurance date, and its exercise price is decided by the procedure of the plans. The plan is waiting approval by the Financial Supervisory Commission, Executive Yuan.

22. 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: None

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: Table 2 (attached)

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

g. Total purchases from or sales 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

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
MARCH 31, 2007
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2007				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market value or Net Asset Value	
Phison Electronics Corp.	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Investments accounted for by the equity method	2,000	$ 20,276	100.00	$ 20,276	Note 2
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	11,097	137,961	23.61	137,961	Note 2
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	19,483	Note 2
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	5,700	19.00	5,695	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 financial statements, which had not been reviewed.

TABLE 2

PHISON ELECTRONICS CORP.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2007
(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Phison Electronics Corp.	Land	January 18, 2007	$135,000	Full payment	Kuan Yuan Paper MAG. Co., Ltd. and Ms. June Shu Hsieh	-	-	-	-	$ -	Valuation report	For constructing a building	-

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
THREE MONTHS ENDED MARCH 31, 2007
(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	
Phison Electronics Corp.	Toshiba Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 666,285	23	Net 30 days after monthly closing	None	None	$ (529,467)	(30)	-

PHISON ELECTRONICS CORP.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2007
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2007			Net Income of the Investee	Investment Income (Note)	Note
				March 31, 2007	March 31, 2006	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Phison Electronics Corp.	Lian Xu Dong Investment Corp.	Hsinchu, Taiwan	Investment	$ 20,000	$ 20,000	2,000	100.00	$ 20,276	$ 87	$ 87	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	124,820	79,320	11,097	23.61	137,961	43,406	9,611	Investment by the equity method

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