Phison Electronics Corp.

Nonconsolidated Financial Statements for the Three Months Ended March 31, 2008 and 2007 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the accompanying nonconsolidated balance sheets of Phison Electronics Corp. (the "Corporation") as of March 31, 2008 and 2007, and the related nonconsolidated statements of income and nonconsolidated cash flows for the three months then ended. These nonconsolidated 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 nonconsolidated financial statements, the investments accounted for by the equity method as of March 31, 2008 and 2007 amounted to NT$334,016 thousand and NT$158,237 thousand, respectively, and the investment incomes for the three months ended March 31, 2008 and 2007 were NT$6,033 thousand and NT$9,698 thousand, respectively. These investment amounts and the related information of the investees in the Note 21 to the nonconsolidated 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 nonconsolidated financial statements as of and for the three months ended March 31, 2008 and 2007 of Phison Electronics Corp. 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 nonconsolidated financial statements, in March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

We have also reviewed the consolidated financial statements of Phison Electronics Corp. and its subsidiaries for the three months ended March 31, 2008 and have issued a review report dated April 21, 2008 (not presented herewith).

April 21, 2008

Notice to Readers

The accompanying nonconsolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to 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 nonconsolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and nonconsolidated financial statements shall prevail.

PHISON ELECTRONICS CORP.

NONCONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2008		2007	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$1,689,843	20	$1,633,011	32
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	381,559	4	-	-
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,856,261	22	1,585,246	31
Related parties (Note 18)	76,920	1	4,591	-
Other financial assets (Note 18)	230,342	3	61,672	1
Inventories, net (Notes 2 and 7)	2,730,552	32	1,057,237	21
Deferred income tax assets - current (Notes 2 and 13)	178,194	2	127,208	3
Restricted assets (Note 19)	10,062	-	24,017	-
Other	176,512	2	167,684	3
Total current assets	7,330,245	86	4,660,666	91
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	354,412	4	158,237	3
Financial assets carried at cost - noncurrent (Notes 2 and 8)	39,300	1	25,700	-
Total long-term investments	393,712	5	183,937	3
PROPERTIES (Notes 2, 10 and 18)				
Cost				
Land	180,000	2	135,000	3
Testing equipment	88,399	1	42,308	1
Office equipment	10,345	-	8,068	-
Leasehold improvements	2,588	-	17,836	-
Other equipment	2,108	-	2,961	-
Total cost	283,440	3	206,173	4
Less: Accumulated depreciation	39,723	-	32,973	-
	243,717	3	173,200	4
Construction in progress	379,261	5	-	-
Prepayments for land and equipment	36,183	-	16,329	-
Net properties	659,161	8	189,529	4
INTANGIBLE ASSETS (Notes 2, 11 and 20)	64,283	1	88,793	2
OTHER ASSETS				
Guarantee deposits paid	6,128	-	5,381	-
Deferred income tax assets - noncurrent (Notes 2 and 13)	2,376	-	212	-
Miscellaneous (Notes 2 and 12)	3,836	-	2,742	-
Total other assets	12,340	-	8,335	-
TOTAL	$8,459,741	100	$5,131,260	100

	2008		2007	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 705	-	$ -	-
Notes and accounts payable				
Third parties	1,455,530	17	1,179,453	23
Related parties (Note 18)	1,600,782	19	563,368	11
Income tax payable (Notes 2 and 13)	126,655	2	104,757	2
Accrued expenses (Note 15)	201,898	2	152,498	3
Other	20,562	-	11,195	-
Total current liabilities	3,406,132	40	2,011,271	39
OTHER LIABILITIES				
Guarantee deposits received	287	-	-	-
Deferred credits (Notes 2 and 18)	13,605	-	-	-
Total other liabilities	13,892	-	-	-
Total liabilities	3,420,024	40	2,011,271	39
SHAREHOLDERS' EQUITY (Notes 2 and 15)				
Capital stock - NT$10.00 par value				
Authorized - 130,000 thousand shares in 2008 and 100,000 thousand shares in 2007				
Issued and outstanding - 101,180 thousand shares in 2008 and 72,577 thousand shares in 2007	1,011,802	12	725,771	14
Capital surplus				
Additional paid-in capital	1,767,962	21	722,962	14
Retained earnings				
Legal reserve	235,243	3	128,122	3
Unappropriated retained earnings	2,152,355	25	1,543,134	30
Total retained earnings	2,387,598	28	1,671,256	33
Other equity				
Treasury stock - 750 thousand shares	(127,645)	(1)	-	-
Total shareholders' equity	5,039,717	60	3,119,989	61
TOTAL	$8,459,741	100	$5,131,260	100

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

(With Deloitte & Touche review report dated April 21, 2008)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	$ 4,473,729	100	$ 4,098,429	99
Less: Sales returns and allowances	21,134	-	41,530	1
Net sales	4,452,595	100	4,056,899	98
Service revenue	2,760	-	66,293	2
Total operating revenue	4,455,355	100	4,123,192	100
OPERATING COSTS (Notes 14 and 18)	4,065,528	91	3,721,236	90
GROSS PROFIT	389,827	9	401,956	10
OPERATING EXPENSES (Note 14)				
Marketing	41,563	1	36,903	1
General and administrative	45,932	1	14,641	-
Research and development	77,459	2	87,836	2
Total operating expenses	164,954	4	139,380	3
OPERATING INCOME	224,873	5	262,576	7
NONOPERATING INCOME AND GAINS				
Equity in net gain of investees (Notes 2 and 9)	6,097	-	9,698	-
Interest income	4,752	-	1,733	-
Other (Note 18)	53,972	2	32,309	1
Total nonoperating income and gains	64,821	2	43,740	1
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	72,246	2	-	-
Other	811	-	704	-
Total nonoperating expenses and losses	73,057	2	704	-
INCOME BEFORE INCOME TAX	216,637	5	305,612	8
INCOME TAX EXPENSE (Notes 2 and 13)	14,485	-	30,018	1
NET INCOME	$ 202,152	5	$ 275,594	7

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	$ 2.15	$ 2.01	$ 3.22	$ 2.90
Diluted	$ 2.15	$ 2.00	$ 3.22	$ 2.90

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 202,152	$ 275,594
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of intangible assets	(35,465)	(197)
Amortization	16,533	10,038
Reversal of the allowance for doubtful accounts	(11,449)	-
Deferred income tax	(10,450)	5,582
Equity in net gain of investees	(6,097)	(9,698)
Depreciation	4,903	4,236
Losses on disposal of properties, net	29	-
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	(381,559)	150,129
Notes and accounts receivable	(83,591)	574,426
Other financial assets	(229,101)	(61,507)
Inventories	(947,454)	441,615
Other current assets	90,718	57,137
Financial liabilities at fair value through profit or loss - current	705	-
Notes and accounts payable	645,316	(906,417)
Income tax payable	14,985	18,302
Accrued expenses	(6,122)	(30,201)
Other current liabilities	(8,909)	(12,630)
Accrued pension cost	(133)	(301)
Net cash (used in) provided by operating activities	(744,989)	516,108
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(130,668)	(115,487)
Increase in investments accounted for by the equity method	(112,500)	(45,500)
Proceeds from disposal of intangible assets	50,000	200
Increase in intangible assets	(5,194)	(7,139)
Proceeds from disposal of properties	2,134	-
Decrease (increase) in guarantee deposits paid	584	(393)
Decrease in restricted assets	191	5,000
Increase in financial assets carried at cost - noncurrent	-	(5,700)
Net cash used in investing activities	(195,453)	(169,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid for acquisition of treasury stock	(127,645)	-
Increase in guarantee deposits received	287	-
Net cash used in financing activities	(127,358)	-

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	**2007**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$(1,067,800)	$ 347,089
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,757,643	1,285,922
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,689,843	$ 1,633,011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 21	$ 84
Income tax paid	$ 9,951	$ 6,134
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 131,080	$ 116,148
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	(412)	(661)
Acquisition of properties	$ 130,668	$ 115,487

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

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, 2008 and 2007, the Corporation had 347 and 302 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying nonconsolidated financial statements have been prepared 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 nonconsolidated 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, bonuses to employees and remuneration to directors and supervisors, etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying nonconsolidated 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 nonconsolidated 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, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other 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 are financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value, with fair value changes recognized as profit or loss. On initial recognition, the financial instruments are recognized at fair value, and transaction costs are recognized as expense. When the instruments are remeasured at fair value, the fair value changes are recognized as profit or loss. On financial instrument disposal, the difference between the purchase or selling price and book value of the financial instrument is recognized as profit or loss. A regular 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. If the fair value of the derivative is a positive amount, the derivative is recognized as a financial asset; otherwise, 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, taking into account sales discounts agreed on by the Corporation and its customers. 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 - unlisted stocks, emerging-market stock, 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 on investees’ earnings attributable to periods before the purchase of the 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 in the same accounting period as that of the Corporation. 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 service lives estimated as follows: testing equipment, 3 to 6 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, trademarks, technology license fee and the costs of acquiring computer software, are amortized using the straight-line method over 1 to 6 years.

Asset Impairment

If the carrying value of assets (including properties, intangible assets 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 due to the increase in recoverable amount is recognized as income. However, the increased carrying amount should not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

Deferred Credits

Gains from transaction with equity-method investees are deferred in the year of transaction and will be realized and recognized in the year when the gains are realized.

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.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction to arrive at shareholders' equity.

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 nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of the transactions. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

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 exchange rates used in currency translation are based on the average of the buying and selling rates of major banks.

Reclassification

Certain accounts in the financial statements as of and for the three months ended March 31, 2007 have been reclassified to be consistent with the presentation of financial statement as of and for the three months ended March 31, 2008.

3. ACCOUNTING CHANGES

In March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remunerations to directors and supervisors beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in decreases of $24,409 thousand in net income and of $0.24 in basic earnings per share after income tax for the three months ended March 31, 2008.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2008	**2007**
Cash on hand	$ 190	$ 156
Savings accounts	578,576	351,428
Certificates of deposits	679,237	258,522
Foreign saving accounts	220,003	972,855
Checking accounts	17	50
Short-term bill and bonds acquired under repurchase agreements	211,820	50,000
	$ 1,689,843	$ 1,633,011

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments classified as held for trading were as follows:

	March 31, 2008
Financial assets held for trading	
Beneficiary certificates - open-end funds	$381,559
Financial liabilities held for trading	
Forward exchange contracts	$ 705

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. Outstanding forward exchange contracts as of March 31, 2008 were as follows:

	Currency	Maturity Date	Contract Amount (in Thousands)
March 31, 2008			
Sell	US$/NT$	2008/4/10-2008/4/22	US$4,000/NT$120,772

Net gains on financial assets held for trading in the three months ended on March 31, 2008 and 2007 were $1,559 thousand and $151 thousand, respectively. Net gain or loss on financial liabilities held for trading in the three months ended on March 31, 2008 and 2007 were gain $657 thousand and loss $84 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	March 31	
	2008	**2007**
Notes receivable	$ 349	$ 14,628
Accounts receivable	1,871,861	1,592,746
	1,872,210	1,607,374
Less: Allowance for doubtful accounts	15,949	22,128
	$ 1,856,261	$ 1,585,246

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepay-ment	Discount Rate (%)	Factor's Limit
Three months ended March 31, 2008					
Standard Chartered Bank	$ 5,295	$ 3,455	$ 1,840	3.1237-4.4027	US$ 2,000 thousand
Three months ended March 31, 2007					
Standard Chartered Bank	2,298	-	2,298	6.0306-6.0412	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	
	2008	**2007**
Finished goods	$ 15,772	$ 13,667
Semifinished goods	642,001	193,181
Work in process	248,355	305,687
Raw materials	2,100,261	737,893
	3,006,389	1,250,428
Less: Allowance for inventory valuation and obsolescence losses	275,837	193,191
	$ 2,730,552	$ 1,057,237

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	2008	2007
Common stock - unlisted stocks	$ 32,700	$ 25,700
Foreign beneficiary certificate	6,600	-
	$ 39,300	$ 25,700

These stocks and beneficiary certificate were measured at cost because they had no active market and their fair value could not be reliably measured.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31			
	2008		2007	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 276,976	24.82	$ 137,961	23.61
Flexmedia Electronics Corporation	57,040	30.00	-	-
Lian Xu Dong Investment Corporation	20,396	100.00	20,276	100.00
	$ 354,412		$ 158,237	

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 November 2007, the Corporation and Wintek Corp., a TFT-LCD panel manufacturer, jointly established Flexmedia Electronics Corporation, which researches, develops, produces and sells high-tech multimedia products.

In September 2006, the Investment Commission of the Ministry of Economic Affairs (MOEA) authorized the Corporation to invest in Dong Ke Hong Technology (Shenzhen). As of September 2007, the Corporation had not remitted out any capital. Under MOEA regulations, if the Corporation does not remit out any capital within one year from the authorization date, the authorization loses its validity.

The investment gain and loss were recognized by the equity-method as follows:

	Three Months Ended March 31	
	2008	2007
Reviewed		
Lian Xu Dong Investment Corporation	$ 64	$ -
Unreviewed		
Aptos Technology	8,952	9,611
Flexmedia Electronics Corporation	(2,919)	-
Lian Xu Dong Investment Corporation	-	87
	6,033	9,698
	$ 6,097	$ 9,698

10. PROPERTIES

	March 31	
	2008	2007
Accumulated depreciation		
Testing equipment	$ 31,032	$ 17,997
Office equipment	5,176	3,751
Leasehold improvements	2,481	9,759
Other equipment	1,034	1,466
	$ 39,723	$ 32,973

11. INTANGIBLE ASSETS

	March 31	
	2008	2007
Computer softwares	$ 37,791	$ 53,631
Royalty	23,071	31,588
Patents	2,540	2,025
Technology license fees	881	1,503
Trademarks	-	46
	$ 64,283	$ 88,793

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 $2,425 thousand and $1,937 thousand in the three months ended March 31, 2008 and 2007, 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 basic salary or wage of the year 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 Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity) in the committee's name.

Other information on the defined benefit pension plan is summarized as follows:

a. Net pension costs in the three months ended March 31, 2008 and 2007 were $253 thousand and $67 thousand, respectively.

b. Changes in the pension fund

	Three Months Ended March 31	
	2008	2007
Balance, beginning of period	$ 9,892	$ 8,179
Contributions	386	368
Interest earned	314	184
Balance, end of period	$ 10,592	$ 8,731

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

	2008	2007
Balance, beginning of period	$ (3,703)	$ (2,441)
Net periodic pension cost	253	67
Contributions	(386)	(368)
Balance, end of period	$ (3,836)	$ (2,742)

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, 2008 and 2007.

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

	Three Months Ended March 31	
	2008	2007
Income tax on pretax income at statutory rate (25%)	$ 54,149	$ 76,393
Add (deduct) tax effects of		
Permanent difference	(1,779)	(2,495)
Temporary difference	14,229	(3,291)
Tax-exempt income	(16,967)	(21,735)
Investment tax credits	(24,816)	(24,436)
Current income tax expense payable	$ 24,816	$ 24,436

b. Income tax expense consisted of:

	2008	2007
Current income tax payable	$ 24,816	$ 24,436
Deferred income tax	(10,450)	5,582
Adjustments to prior year's taxes	119	-
Income tax expense	$ 14,485	$ 30,018

c. Deferred income tax assets and liabilities consisted of:

	March 31	
	2008	2007
Current, net		
Investment tax credits	$ 82,779	$ 78,605
Allowance for inventory valuation and obsolescence losses	68,959	48,297
Foreign exchange loss (gain), net	25,401	(1,368)
Deferred credits	1,116	-
Allowance for doubtful accounts	-	1,502
Other	(61)	172
	178,194	127,208
Less: Valuation allowance	-	-
	$ 178,194	$ 127,208
Noncurrent, net		
Deferred credits	$ 2,285	$ -
Investment tax credits	-	2,456
Other	91	212
	2,376	2,668
Less: Valuation allowance	-	2,456
	$ 2,376	$ 212

The effective tax rate used for computing deferred income tax assets on March 31, 2008 and 2007 was 25%.

d. As of March 31, 2008, 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	$ 100,551	$ 61,743	2011
		21,036	21,036	2012
		$ 121,587	$ 82,779	

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
Fourth expansion and construction of the Corporation's factories	August 10, 2007 to August 9, 2012

f. Integrated income tax information was as follows:

	March 31	
	2008	2007
Balance of imputation credit account (ICA)	$ 129,422	$ 42,078

The creditable ratio for distribution of earnings of 2007 and 2006 was 11.35% (estimate) and 8.33%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

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

h. Income tax returns through 2005 had been examined by the tax authorities.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Three Months Ended March 31					
	2008			2007		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 10,850	$ 56,280	$ 67,130	$ 8,629	$ 42,935	$ 51,564
Labor and health insurance	894	3,015	3,909	692	2,316	3,008
Pension cost	631	2,047	2,678	479	1,525	2,004
Other	2,386	6,208	8,594	2,223	5,567	7,790
	$ 14,761	$ 67,550	$ 82,311	$ 12,023	$ 52,343	$ 64,366
Depreciation	$ 1,730	$ 3,173	$ 4,903	$ 740	$ 3,496	$ 4,236
Amortization	884	15,649	16,533	-	10,038	10,038

15. SHAREHOLDERS' EQUITY

a. Capital

In their meeting on November 1, 2006, the Corporation's shareholders decided to issue up to 13,500 thousand common shares by private place, as follows: (1) on November 2, 2006, the board of directors resolved to issue 2,000 thousand common shares at $10.00 par value and set December 15, 2006 as the fund raising deadline, with $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. (2) on April 26, 2007, the board of directors resolved to issue 4,000 thousand common shares at $10.00 par value and set June 14, 2007 as the fund raising deadline, with $214 as the offering price. This common share issuance was approved by and registered with the government authorities on July 4, 2007. The difference in price between par value and offering price was $816,000 thousand, recognized as additional paid-in capital. (3) on October 12, 2007, the board of directors resolved to issue 1,000 thousand common shares at $10.00 par value and set October 31, 2007 as the fund raising deadline, with

$239 as the offering price. This common share issuance was approved by and registered with the government authorities on November 16, 2007. The difference in price between par value and offering price was $229,000 thousand, recognized as additional paid-in capital.

As of December 31, 2007, the Corporation had 7,000 thousand common shares issued and outstanding. Because the Corporation had no plan to raise capital soon, the Corporation decided to cancel the remain 6,500 thousand authorized common shares, in accordance with the Securities and Exchange Act of the Republic of China.

In their meeting on March 24, 2008, the Corporation's shareholders decided to issue up to 5,000 thousand common shares by private place, as follows: (1) on March 25, 2008, the board of directors resolved to issue 1,200 thousand common shares at $10.00 par value and set June 16, 2008 as the fund raising deadline, with $128 as the offering price. (2) on April 21, 2008, the board of directors resolved to issue 2,100 thousand common shares at $10.00 par value and set June 23, 2008 as the fund raising deadline, with $165 as the offering price.

b. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the issue of shares in excess of par value, 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 on long-term equity investments should not be used for any purpose.

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) 1.5%, as remuneration to directors and supervisors;
2) 9% to 14%, as bonus to employees; and
3) The remainder, as dividends.

If the bonus to employees is distributed as stock dividend, the employees of the Corporation must be matched certain specific terms, when the stock dividend be distributed.

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.

For the three months ended March 31, 2008, the bonus to employees and bonus to directors and supervisors, representing 14% and 1.5% of net income, respectively, were accrued based on past experiences. Material differences between the estimated bonuses and remunerations and the amounts proposed by the Board of Directors in the following year are retroactively adjusted in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as changes in accounting estimate.

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 50% of the Corporation's paid-in capital may be declared as stock dividends.

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 appropriations of earnings for 2007 and 2006 had been proposed in the board and approved in the shareholders' meetings on March 25, 2008 and June 13, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2007	For Fiscal Year 2006	For Fiscal Year 2007	For Fiscal Year 2006
Legal reserve	$ 139,238	$ 107,121	$-	$-
Bonus to employees - stock	22,000	18,300	-	-
Bonus to employees - cash	60,000	40,000	-	-
Stock dividends	200,860	217,731	2	2.84329
Cash dividends	602,582	290,309	6	3.79106
Remuneration to directors and supervisors	13,484	11,558	-	-
	$ 1,038,164	$ 685,019		

When the number of shares outstanding for distribution have increase or decrease on the dividend distribution date, the board of directors is authorized to change these dividend amounts on the basis of the actual number of shares outstanding on the dividend distribution date.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

d. Stock options

On May 23, 2007, the Financial Supervisory Commission, Executive Yuan approved the Corporation's Employee Stock Option Plan ("the third plan"), under which qualified employees obtained 1,000 thousand units of option rights. For this plans, each unit represents one common share, and the option rights 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 information about employee stock options was as follows:

	Three Months Ended March 31, 2008	
	Number of Options (in Thousands)	Exercise Price (NT$)
Balance, beginning of period	1,000	$ 176
Options granted	-	-
Options exercised	-	-
Balance, end of period	1,000	

The information on the outstanding options of the third plan as of March 31, 2008 is as follows:

March 31, 2008	
Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
$176	2.29

The third plan was priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

Grant-date share price (NT$)	$176
Exercise price (NT$)	$176
Expected volatility	53.12%
Expected life (years)	2.50
Expected dividend yield	0%
Risk-free interest rate	2.2%

The pro forma information for the three months ended March 31, 2008 assuming employee stock options granted before January 1, 2008 were accounted for under Statement of Financial Accounting Standards No. 39 - "Accounting for Share-Based Payments" is as follows:

	Three Months Ended March 31, 2008
Net income	$193,689
After income tax basic earnings per share (NT$)	$ 1.92

On November 22, 2007, the board of directors approved the Corporation's Employee Stock Option Plan, under which qualified employees received 500 thousand units of option rights, with each unit representing one common share. This option right is valid for three years from the issuance date, and its exercise price is decided under procedures stated in the plan. On January 3, 2008, the plan was approved by the Financial Supervisory Commission under the Executive Yuan. As of April 21, 2008, the date of the accompanying auditors' report, the Corporation's president had not determined the unit issuance date.

e. Treasury stock

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Three months ended March 31, 2008				
For transfer to employees	-	750	-	750

Under the Securities and Exchange Act, the Corporation should neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

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, 2008					
Basic EPS					
Income available to common shareholders	$ 216,637	$ 202,152	100,772	$ 2.15	$ 2.01
Effect of dilutive potential common stock - stock options	-	-	64		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 216,637	$ 202,152	100,836	$ 2.15	$ 2.00
Three months ended March 31, 2007					
Basic EPS					
Income available to common shareholders	$ 305,612	$ 275,594	95,043	$ 3.22	$ 2.90
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	95,043	$ 3.22	$ 2.90

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused the basic and diluted after income tax EPS for the three months ended March 31, 2007 to all decrease from NT$3.80 to NT$2.90, respectively.

17. FINANCIAL INSTRUMENTS

a. Fair value

	March 31			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 1,689,843	$ 1,689,843	$ 1,633,011	$ 1,633,011
Financial assets at fair value through profit or loss - current	381,559	381,559	-	-
Notes and accounts receivable	1,933,181	1,933,181	1,589,837	1,589,837
Other financial assets	230,342	230,342	61,672	61,672
Restricted assets	10,062	10,062	24,017	24,017
Financial assets carried at cost - noncurrent	39,300		25,700	
Guarantee deposits paid	6,128	6,128	5,381	5,381
Liabilities				
Notes and accounts payable	3,056,312	3,056,312	1,742,821	1,742,821
Accrued expenses	201,898	201,898	152,498	152,498
Guarantee deposits received	287	287	-	-
Derivative financial instruments				
Forward exchange contract - sell $US dollars	-	(705)	-	-
Derivative financial instruments according to the region				
Forward exchange contract-Taiwan	-	(705)	-	-

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 accrued expenses.

2) Fair values of financial assets at fair value through profit or loss - current were based on their quoted market price.

3) Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

4) Financial assets carried at cost-noncurrent have no active market; thus their fair value cannot be reliably estimated.

5) For guarantee deposits paid and guarantee deposits 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. The gain was recognized $854 and $0 thousand for fair value changes based on of using valuation methods for the three months ended March 31, 2008 and 2007, respectively.

e. The financial assets exposed to fair value interest rate risk amounted to $901,119 thousand and $332,539 thousand as of March 31, 2008 and 2007, respectively. The financial assets exposed to cash flow interest rate risk amounted to $798,579 thousand and $1,324,283 thousand as of March 31, 2008 and 2007, respectively.

f. 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. However, as of March 31, 2008, the date of the accompanying reviewers' report, the Corporation had equity instruments with no quoted prices in an 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

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

(Continued)

Related Party	Relationship with the Corporation
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
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
Lian Xu Dong Investment Corp.	Subsidiary
Aptos Technology	Equity method investee
Flexmedia Electronics Corp.	Equity method investee

(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			
	2008		2007	
	Amount	%	Amount	%
1) Net sales				
Toshiba Corporation, Japan	$ 167,948	4	$ 5,124	-
Other	41,712	1	17,323	1
	$ 209,660	5	$ 22,447	1
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 2,193,631	49	$ 666,285	23
Other	87	-	-	-
	$ 2,193,718	49	$ 666,285	23
3) Processing expenses (included in manufacturing expenses)				
Aptos Technology	$ 131,130	25	$ 34,216	10

	March 31			
	2008		2007	
	Amount	%	Amount	%
4) Notes and accounts receivable				
Toshiba Corporation, Japan.	$ 68,586	4	$ -	-
Other	8,334	-	4,591	-
	$ 76,920	4	$ 4,591	-
5) Other receivables (included in other financial assets)				
Flexmedia Electronics Corp.	$ 21,000	9	$ -	-

In January 2008, the Corporation sold its high-tech multimedia technology and the related patent to Flexmedia Electronics Corp. ("Flexmedia") for $50,000 thousand. The gain on this sale was $49,070 thousand, but of this amount, $14,721 thousand was deferred and recognized at the percentage of the Corporation's equity in Flexmedia. As of March 31, 2008, the realized deferred credits had accumulated to $1,116 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value for $2,134 thousand.

6) Notes and accounts payable

	March 31			
	2008		2007	
	Amount	%	Amount	%
Toshiba Electronics Taiwan Corp.	$ 1,569,160	51	$ 529,467	30
Aptos Technology	31,622	1	33,901	2
	$ 1,600,782	52	$ 563,368	32

19. PLEDGED ASSETS

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

	March 31	
	2008	2007
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 10,062	$ 15,017
The issuance of L/C for purchasing materials - certificates of deposits	-	9,000
	$ 10,062	$ 24,017

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of March 31, 2008 were as follows:

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

   As of March 31, 2008, future remaining lease payments were as follows:

Period/Year	Amount
2008 (from April to December)	$ 2,243
2009	2,302
2010	228
	$ 4,773

b. Unused letters of credit amounted to US$3,003 thousand and $748,940 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.

e. In October 2007, SanDisk Corporation ("Sandisk") filed three complaints of patent infringement in the United States District Court of the Western District of Wisconsin and in the United States International Trade Commission (ITC) against the Corporation.

   1) In the ITC lawsuit filed on October 24, 2007, SanDisk is suing the Corporation for infringement of four SanDisk patents. The ITC will make an investigation.

   2) In the first United States District Court of the Western District of Wisconsin case filed on October 24, 2007, SanDisk is suing the Corporation for infringement of two patents.

   3) In the second United States District Court of the Western District of Wisconsin case filed on October 25, 2007, SanDisk is suing the Corporation for infringement of the same four patents at issue in the ITC complaint.

   The Corporation has authorized the U.S. law firm Fish & Richardson P.C. and Whyte Hirschboeck Dudek S.C. to handle these lawsuits. As of February 15, 2008, the date of the accompanying auditors' report, both of the Wisconsin cases are presently stayed, pending the outcome of the ITC investigation. Up to currently, the Corporation believes this case would not have a material effect on the Corporation's financial statements.

f. On January 25, 2008, Uniquestar Electronics Inc. filed a complaint, demanding that the Corporation pay $3,525 thousand, because the Corporation's processing factory went out of business. The district court will investigate this case soon. The Corporation believes this case would not have a material effect on the Corporation's financial statements.

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: None

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 purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: Table 2 (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 3 (attached)

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

k. Investment in Mainland China: None

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2008				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Phison Electronics Corp.	Beneficiary certificate							
	ING Bond Fund	-	Financial assets at fair value through profit or loss	1,306	$ 20,082	-	$ 20,082	Note 3
	IBT Gallop Bond Fund	-	Financial assets at fair value through profit or loss	3,613	40,164	-	40,164	Note 3
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss	4,763	60,252	-	60,252	Note 3
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss	2,214	30,123	-	30,123	Note 3
	Maga Diamond Bond Fund	-	Financial assets at fair value through profit or loss	3,420	40,155	-	40,155	Note 3
	Polaris De-Bao Bond Fund	-	Financial assets at fair value through profit or loss	1,775	20,081	-	20,081	Note 3
	Polaris De-Li Bond Fund	-	Financial assets at fair value through profit or loss	1,961	30,123	-	30,123	Note 3
	President James Bond Fund	-	Financial assets at fair value through profit or loss	2,552	40,164	-	40,164	Note 3
	IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss	3,022	40,167	-	40,167	Note 3
	PCA Well Pool Fund	-	Financial assets at fair value through profit or loss	4,715	60,248	-	60,248	Note 3
	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Investments accounted for by the equity method	2,000	20,396	100.00	20,396	Note 2
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	16,621	276,976	24.82	276,976	Note 2
	Flexmedia Electronics Corp.	Investment by the equity method	Investments accounted for by the equity method	6,000	57,040	30.00	57,040	Note 2
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	20,120	Note 2
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	5,700	19.00	4,772	Note 2
	Hycon Technologies Corporation	-	Financial assets carried at cost - noncurrent	700	7,000	7.95	5,834	Note 2
	Foreign beneficiary certificate							
	Jafco Asia Technology Fund IV L.P.	-	Financial assets carried at cost - noncurrent	-	6,600	0.50	5,654	Note 3

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2008				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Lian Xu Dong Investment Corp.	Common stock Jim-Dandy Technologies Corporation	-	Financial assets carried at cost - noncurrent	1,000	$ 10,000	19.23	$ 10,000	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.

Note 3: The calculation of the market value was based on their net assets value as of March 31, 2008.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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, 2008
(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	$ 2,193,631	49	Net 30 days after monthly closing	None	None	$ (1,569,160)	(51)	-
	TOSHIBA Corporation, Japan	The Corporation's board of directors	Sale	(167,948)	(4)	Net 30 days after monthly closing	None	None	68,586	4	-

TABLE 3

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2008			Net (Loss) Income of the Investee	Investment (Loss) Income (Note)	Note
				March 31, 2008	December 31, 2007	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	$ 20,396	$ 64	$ 64 (Note 1)	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	245,947	133,447	16,621	24.82	276,976	39,697	8,952 (Note 1)	Investment by the equity method
	Flexmedia Electronics Corp.	Hsinchu, Taiwan	Hihg-tech Multi-Media production R&D, sales and product	60,000	60,000	6,000	30.00	57,040	(9,730)	(2,919) (Note 1)	Investment by the equity method

Note 1: The calculation of the investee carrying value was based on the investee's financial statements, which had not been reviewed.