Phison Electronics Corp.

Nonconsolidated Financial Statements for the
Nine Months Ended September 30, 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 September 30, 2008 and 2007, and the related nonconsolidated statements of income and nonconsolidated cash flows for the nine 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 September 30, 2008 and 2007 amounted to NT$401,013 thousand and NT$191,896 thousand, respectively, and the investment income for the nine months ended September 30, 2008 and 2007 were NT$2,435 thousand and NT$30,213 thousand, respectively. These investments 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 nine months ended September 30, 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 and remunerations were previously recorded as appropriations from earnings.

We have also reviewed the consolidated financial statements of Phison Electronics Corp. and its subsidiaries for the nine months ended September 30, 2008 and have issued a review report dated October 15, 2008 (not presented herewith).

October 15, 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
SEPTEMBER 30, 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)	$1,264,991	17	$2,002,578	24
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,824,950	25	2,403,643	28
Related parties (Note 18)	193,004	3	66,012	1
Other financial assets (Note 18)	128,402	2	158,534	2
Inventories, net (Notes 2 and 7)	1,509,692	21	2,714,526	32
Prepayments	873,470	12	19,791	-
Deferred income tax assets - current (Notes 2 and 13)	76,496	1	93,927	1
Restricted assets (Note 19)	10,139	-	10,179	-
Other	47,421	1	213,847	3
Total current assets	5,928,565	82	7,683,037	91
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	421,414	6	191,896	2
Financial assets carried at cost - noncurrent (Notes 2 and 8)	46,348	-	32,300	1
Total long-term investments	467,762	6	224,196	3
PROPERTIES (Notes 2, 10 and 18)				
Cost				
Land	278,000	4	135,000	2
Buildings	391,153	6	-	-
Testing equipment	95,912	1	83,557	1
Office equipment	15,314	-	8,462	-
Leasehold improvements	-	-	18,941	-
Other equipment	1,887	-	3,314	-
Total cost	782,266	11	249,274	3
Less: Accumulated depreciation	58,818	1	43,207	1
	723,448	10	206,067	2
Construction in progress	-	-	227,060	3
Prepayments for land and equipment	65,000	1	13,500	-
Net properties	788,448	11	446,627	5
INTANGIBLE ASSETS (Notes 2, 11 and 20)	60,510	1	81,157	1
OTHER ASSETS				
Guarantee deposits paid (Note 19)	3,964	-	5,221	-
Deferred income tax assets - noncurrent (Notes 2 and 13)	1,757	-	151	-
Miscellaneous (Notes 2 and 12)	4,160	-	3,374	-
Total other assets	9,881	-	8,746	-
TOTAL	$7,255,166	100	$8,443,763	100

	2008		2007	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$1,070,971	15	$2,399,397	28
Related parties (Note 18)	644,808	9	1,087,736	13
Income tax payable (Notes 2 and 13)	-	-	86,507	1
Accrued expenses (Note 15)	370,934	5	217,630	3
Other (Note 18)	67,846	1	99,621	1
Total current liabilities	2,154,559	30	3,890,891	46
OTHER LIABILITIES				
Guarantee deposits received	353	-	-	-
Deferred credits (Notes 2 and 18)	11,373	-	-	-
Total other liabilities	11,726	-	-	-
Total liabilities	2,166,285	30	3,890,891	46
SHAREHOLDERS' EQUITY (Note 15)				
Capital stock - NT$10.00 par value				
Authorized - 180,000 thousand shares in 2008 and 130,000 thousand shares in 2007				
Issued and outstanding - 126,766 thousand shares in 2008 and 100,180 thousand shares in 2007	1,267,662	18	1,001,803	12
Capital surplus				
Additional paid-in capital	2,235,062	31	1,538,962	18
Long-term investment	21,088	-	4,517	-
Total capital surplus	2,256,150	31	1,543,479	18
Retained earnings				
Legal reserve	374,481	5	235,243	3
Unappropriated retained earnings	1,318,233	18	1,772,347	21
Total retained earnings	1,692,714	23	2,007,590	24
Other equity				
Treasury stock - 750 thousand shares	(127,645)	(2)	-	-
Total shareholders' equity	5,088,881	70	4,552,872	54
TOTAL	$7,255,166	100	$8,443,763	100

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

(With Deloitte & Touche review report dated October 15, 2008)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 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	$ 14,594,894	100	$ 14,456,029	100
Less: Sales returns and allowances	75,248	-	111,584	1
Net sales	14,519,646	100	14,344,445	99
Service revenue	9,093	-	73,973	1
Total operating revenue	14,528,739	100	14,418,418	100
OPERATING COSTS (Notes 14 and 18)	13,473,798	93	12,562,411	87
GROSS PROFIT	1,054,941	7	1,856,007	13
OPERATING EXPENSES (Notes 2 and 14)				
Marketing	162,355	1	134,965	1
General and administrative	188,942	1	62,347	1
Research and development	319,233	2	302,070	2
Total operating expenses	670,530	4	499,382	4
OPERATING INCOME	384,411	3	1,356,625	9
NONOPERATING INCOME AND GAINS				
Foreign exchange gains, net (Note 2)	63,695	-	11,708	-
Interest income	21,249	-	14,588	-
Gain on disposal of investments, net (Notes 2 and 5)	3,953	-	2,263	-
Equity in net gain of investees (Notes 2 and 9)	2,504	-	30,213	-
Other	65,508	1	9,612	-
Total nonoperating income and gains	156,909	1	68,384	-
NONOPERATING EXPENSES AND LOSSES				
Losses on inventory valuation and obsolescence (Notes 2 and 7)	24,036	-	50,920	-
Other	1,205	-	927	-
Total nonoperating expenses and losses	25,241	-	51,847	-
INCOME BEFORE INCOME TAX	516,079	4	1,373,162	9
INCOME TAX EXPENSE (Notes 2 and 13)	136,755	1	183,334	1
NET INCOME	$ 379,324	3	$ 1,189,828	8

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PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	$ 4.17	$ 3.06	$ 11.55	$ 10.01
Diluted	$ 4.13	$ 3.04	$ 11.55	$ 10.01

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

(With Deloitte & Touche review report dated October 15, 2008) (Concluded)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 379,324	$ 1,189,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax	91,867	38,924
Amortization	41,273	35,530
Gain on disposal of intangible assets	(37,697)	(197)
Depreciation	30,104	15,707
Losses on inventory valuation and obsolescence	24,036	50,920
Reversal of allowance for doubtful accounts	(18,277)	-
Equity in net gain of investees	(2,504)	(30,213)
Loss on the sale and retirement of properties, net	190	180
Donation of shares of an equity-method investee	-	372
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	-	150,129
Notes and accounts receivable	(161,536)	(305,392)
Other financial assets	(127,161)	(158,369)
Inventories	249,370	(1,266,594)
Other current assets	(652,561)	(9,873)
Notes and accounts payable	(695,217)	837,895
Income tax payable	(111,670)	52
Accrued expenses	130,214	928
Other current liabilities	42,487	9,845
Prepaid pension cost	(457)	(933)
Net cash (used in) provided by operating activities	(818,215)	558,739
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(289,429)	(318,285)
Increase in investments accounted for by the equity method	(135,137)	(54,500)
Proceeds of the disposal of intangible assets	50,000	200
Increase in intangible assets	(27,261)	(23,939)
Increase in financial assets carried at cost - noncurrent	(7,048)	(12,300)
Decrease (increase) in guarantee deposits paid	2,748	(233)
Proceeds of the disposal of properties	2,134	-
Decrease in restricted assets	114	18,838
Net cash used in investing activities	(403,879)	(390,219)

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PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	$ (602,582)	$ (290,309)
Proceeds of the issuance of capital stock	500,100	856,000
Cash paid for acquisition of treasury stock	(127,645)	-
Bonus to employees and remuneration to directors and supervisors	(40,784)	(17,555)
Increase in guarantee deposit received	353	-
Net cash (used in) provided by financing activities	(270,558)	548,136
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,492,652)	716,656
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,757,643	1,285,922
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,264,991	$ 2,002,578
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 755	$ 118
Income tax paid	$ 171,734	$ 144,358
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 285,729	$ 384,897
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	3,700	(66,612)
Purchase properties	$ 289,429	$ 318,285
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Bonus to employees	$ 32,512	$ 33,815
Remuneration to directors and supervisors	$ 188	$ 188

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

(With Deloitte & Touche review report dated October 15, 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 September 30, 2008 and 2007, the Corporation had 374 and 350 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.

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: buildings, 20 years; 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, 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. For long term equity investments for which the Corporation has significant influence but with no control, the carrying amount of each investment is compared with its own recoverable amount for the purpose of impairment testing. 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. The Corporation 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.

3. ACCOUNTING CHANGE

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 $93,648 thousand in net income and of NT$0.76 in basic earnings per share after income tax for the nine months ended September 30, 2008.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2008	2007
Cash on hand	$ 367	$ 203
Savings accounts	174,300	413,934
Certificates of deposits	587,121	261,022
Foreign savings accounts	503,193	1,067,251
Checking accounts	10	16
Short-term bill and bonds acquired under repurchase agreements	-	260,152
	$ 1,264,991	$ 2,002,578

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 forward exchange contracts had matured as of September 30, 2008 and 2007.

On the financial instruments held for trading in the nine months ended September 30, 2008 and 2007, net gains on financial assets were $2,760 thousand and $2,370 thousand, respectively, and net gain or loss on financial liabilities in the nine months ended September 30, 2008 and 2007 were gain $1,193 thousand and loss $107 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	September 30	
	2008	2007
Notes receivable	$ 1,196	$ 2,926
Accounts receivable	1,832,771	2,422,724
	1,833,967	2,425,650
Less: Allowance for doubtful accounts	9,017	22,007
	$ 1,824,950	$ 2,403,643

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepay-ment	Discount Rate (%)	Factor's Limit
Nine months ended September 30, 2008					
Standard Chartered Bank	$ 8,537	$ 8,537	$ -	3.1237-4.4027	US$ 2,000 thousand
Nine months ended September 30, 2007					
Standard Chartered Bank	5,988	5,942	46	5.9144-6.3583	US$ 2,000 thousand

The limit above is used on a revolving basis.

The factor is Standard Chartered Bank (SCB). This sale is without recourse.

7. INVENTORIES, NET

	September 30 2008	September 30 2007
Finished goods	$ 10,992	$ 20,575
Semifinished goods	271,269	356,603
Work in process	243,953	458,696
Raw materials	1,214,972	2,122,763
	1,741,186	2,958,637
Less: Allowance for inventory valuation and obsolescence losses	231,494	244,111
	$ 1,509,692	$ 2,714,526

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30 2008	September 30 2007
Common stock - unlisted stocks	$ 35,200	$ 25,700
Foreign beneficiary certificate	11,148	6,600
	$ 46,348	$ 32,300

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

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	September 30			
	2008		2007	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 326,823	21	$ 171,569	21
Flexmedia Electronics Corporation	51,599	30	-	-
Micro Tops Electronics Corporation	22,591	49	-	-
Lian Xu Dong Investment Corporation	20,401	100	20,327	100
	$ 421,414		$ 191,896	

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 2008, the Corporation and TOSHIBA Corporation, Japan, a corporate member of the Corporation's board of directors, jointly established Micro Tops Electronics Corporation, which researches, develops and designs flash memory controllers and peripheral system applications.

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 recognized by the equity-method as follows:

	Nine Months Ended September 30	
	2008	2007
Reviewed		
Lian Xu Dong Investment Corporation	$ 69	$ -
Unreviewed		
Aptos Technology	10,840	30,074
Flexmedia Electronics Corporation	(8,358)	-
Micro Tops Electronics Corporation	(47)	-
Lian Xu Dong Investment Corporation	-	139
	2,435	30,213
	$ 2,504	$ 30,213

10. PROPERTIES

	Nine Months Ended September 30 2008	2007
Accumulated depreciation		
Buildings	$ 13,732	$ -
Testing equipment	38,276	24,014
Office equipment	5,822	4,223
Leasehold improvements	-	13,230
Other equipment	988	1,740
	$ 58,818	$ 43,207

11. INTANGIBLE ASSETS

	September 30 2008	2007
Computer software	$ 39,676	$ 48,360
Royalty	18,267	29,074
Patents	1,997	2,531
Technology license fees	570	1,192
	$ 60,510	$ 81,157

12. PENSION PLAN

The Labor Pension 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 $7,883 thousand and $6,583 thousand in the nine months ended September 30, 2008 and 2007, respectively.

The Labor Standards 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 nine months ended September 30, 2008 and 2007 were $760 thousand and $200 thousand, respectively.

b. Changes in the pension fund

	Nine Months Ended September 30	
	2008	2007
Balance, beginning of period	$ 9,892	$ 8,179
Contributions	1,217	1,133
Interest earned	315	184
Balance, end of period	$ 11,424	$ 9,496

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

	2008	2007
Balance, beginning of period	$ (3,703)	$ (2,441)
Net pension cost	760	200
Contributions	(1,217)	(1,133)
Balance, end of period	$ (4,160)	$ (3,374)

13. INCOME TAX

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

	Nine Months Ended September 30	
	2008	2007
Income tax on pretax income at statutory rate (25%)	$ 129,010	$ 343,280
Add (deduct) tax effects of		
Permanent difference	(1,840)	(8,178)
Temporary difference	(33,675)	10,407
Tax-exempt income	(28,324)	(78,552)
Additional 10% tax on unappropriated earnings	35,639	38,619
Investment tax credits	(50,405)	(152,788)
Current income tax payable	$ 50,405	$ 152,788

b. Income tax expense consisted of:

	2008	2007
Current income tax payable	$ 50,405	$ 152,788
Deferred income tax	91,867	38,924
Adjustment to prior year’s taxes	(5,517)	(8,378)
Income tax expense	$ 136,755	$ 183,334

c. Deferred income tax assets (liabilities) consisted of:

	September 30 2008	September 30 2007
Current, net		
Allowance for inventory valuation and obsolescence losses	$ 57,873	$ 61,028
Investment tax credits	28,367	31,560
Foreign exchange (gain) loss	(11,012)	1,193
Deferred revenue	1,116	-
Other	152	146
	76,496	93,927
Less: Valuation allowance	-	-
	$ 76,496	$ 93,927
Noncurrent, net		
Deferred revenue	$ 1,727	$ -
Other	30	151
	1,757	151
Less: Valuation allowance	-	-
	$ 1,757	$ 151

The effective tax rate used for computing deferred income tax assets on September 30, 2008 and 2007 was 25%.

d. As of September 30, 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	$ 75,971	$ 28,367	2012

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:

	September 30 2008	September 30 2007
Balance of imputation credit account (ICA)	$ 108,364	$ 123,158

The actual creditable ratio for the 2007 and 2006 earnings appropriation were 11.54% and 8.33%, respectively.

g. As of September 30, 2008, there were no unappropriated earnings generated before January 1, 1998.

h. Income tax returns through 2006 had been examined by the tax authorities.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Nine Months Ended September 30					
	2008			2007		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 34,347	$222,640	$256,987	$ 43,968	$162,087	$206,055
Labor and health insurance	2,847	9,827	12,674	2,327	8,164	10,491
Pension cost	2,003	6,640	8,643	1,550	5,233	6,783
Other	7,646	19,993	27,639	7,579	19,334	26,913
	$ 46,843	$259,100	$305,943	$ 55,424	$194,818	$250,242
Depreciation	$ 9,892	$ 20,212	$ 30,104	$ 4,292	$ 11,415	$ 15,707
Amortization	306	40,967	41,273	45	35,485	35,530

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. This common share issuance was approved by and registered with the government authorities on June 30, 2008. The difference in price between par value and offering price was $141,600 thousand, recognized as additional paid-in capital. (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. This common share issuance was approved by and registered with the government authorities on June 30, 2008. The difference in price between par value and offering price was $325,500 thousand, recognized as additional paid-in capital. As of September 30, 2008 there were 17,000 thousand common shares had not been privately placed.

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 paid-in capital. 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%, as remuneration to directors and supervisors;

2) 22% to 32%, 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 nine months ended September 30, 2008, the bonus to employees and bonus to directors and supervisors, representing 22% and 1% of net income (net of the bonus to employees and bonus to directors and supervisors), 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 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. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting.

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.

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

On June 13, 2008 and 2007, the shareholders approved the Board of Directors' proposal on the appropriation and dividends per share of the 2007 and 2006 earnings, 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	1.93637	2.84329
Cash dividends	602,582	290,309	5.80912	3.79106
Remuneration to directors and supervisors	13,484	11,558	-	-
	$ 1,038,164	$ 685,019		

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

The appropriation of the 2007 earnings had been approved by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan. The Board of Directors resolved that August 13, 2008 should be the ex-dividend date.

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:

	Nine Months Ended September 30, 2008	
	Number of Options (in Thousands)	Exercise Price (NT$)
Balance, beginning of period	1,000	$139.60
Options granted	-	-
Options exercised	-	-
Balance, end of period	1,000	

The information on the outstanding options of the third plan as of September 30, 2008 is as follows:

September 30, 2008	
Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
$139.60	1.88

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$)	$139.60
Exercise price (NT$)	$139.60
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 nine months ended September 30, 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:

	Nine Months Ended September 30, 2008
Net income	$355,676
After income tax basic earnings per share (NT$)	$ 2.87

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 October 15, 2008, the date of the accompanying independent accountant's review 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
Nine months ended September 30, 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
Nine months ended September 30, 2008					
Basic EPS					
Income available to common shareholders	$ 516,079	$ 379,324	123,768	$ 4.17	$ 3.06
Effect of dilutive potential common stock					
Stock options	-	-	48		
Bonus to employees	-	-	1,040		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 516,079	$ 379,324	124,856	$ 4.13	$ 3.04
Nine months ended September 30, 2007					
Basic EPS					
Income available to common shareholders	$ 1,373,162	$ 1,189,828	118,897	$ 11.55	$ 10.01
Effect of dilutive potential common stock					
Stock options	-	-	-		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 1,373,162	$ 1,189,828	118,897	$ 11.55	$ 10.01

The Corporation presumes that the bonus to employees will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The average number of shares outstanding for EPS calculation had been adjusted retroactively for the distribution of stock dividends and stock bonuses. This adjustment caused the basic and diluted after income tax EPS for the nine months ended September 30, 2007 to all decrease from NT$12.17 to NT$10.01.

17. FINANCIAL INSTRUMENTS

a. Fair value

	September 30			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Cash and cash equivalents	$ 1,264,991	$ 1,264,991	$ 2,002,578	$ 2,002,578
Notes and accounts receivable	2,017,954	2,017,954	2,469,655	2,469,655
Other financial assets	128,402	128,402	158,534	158,534
Restricted assets	10,139	10,139	10,179	10,179
Financial assets carried at cost - noncurrent	46,348		32,300	
Guarantee deposits paid	3,964	3,964	5,221	5,221
Liabilities				
Notes and accounts payable	1,715,779	1,715,779	3,487,133	3,487,133
Accrued expenses	370,934	370,934	217,630	217,630
Guarantee deposits received	353	353	-	-

b. The methods and assumptions applied in determining fair values of financial instruments are 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) Financial assets carried at cost - noncurrent have no active market; thus, their fair value cannot be reliably estimated.

3) 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. No gain or loss was recognized for changes in fair value estimates based on valuation methods in the nine months ended September 30, 2008 and 2007.

e. The financial assets exposed to fair value interest rate risk amounted to $599,260 thousand and $531,353 thousand as of September 30, 2008 and 2007, respectively. The financial assets exposed to cash flow interest rate risk amounted to $677,493 thousand and $1,481,185 thousand as of September 30, 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 derivative 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 financial instrument contracts. Other factors that affect financial assets include credit risk concentration, components of financial instruments, contract amount and other receivables. The maximum credit risk exposure of each financial instrument is the same as its carrying value.

3) Liquidity risk

The Corporation has no cash flow risks because it has sufficient operating capital to meet cash needs and had no forward exchange contracts outstanding as of September 30, 2008. However, as of September 30, 2008, the Corporation had equity instruments without any active market; thus, it expects to have significant liquidity risk.

4) Cash flow interest rate risk.

Market interest rate fluctuations have an impact on assets and liabilities with floating interest rate, thus affecting cash flows. However, the Corporation had no liabilities with floating interest rate; thus, it has 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
Toshiba America Information	Subsidiary of Toshiba
Toshiba Singapore Pte Ltd. Computer System Division	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
Micro Tops Electronics Corp.	Equity-method investee

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

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

	Nine Months Ended September 30			
	2008		2007	
	Amount	%	Amount	%
1) Net sales				
Toshiba Corporation, Japan	$ 669,930	5	$ 85,438	-
Other	123,868	-	104,182	1
	$ 793,798	5	$ 189,620	1

	Nine Months Ended September 30			
	2008		2007	
	Amount	%	Amount	%
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 4,563,500	39	$ 3,126,200	25
Other	4,421	-	-	-
	$ 4,567,921	39	$ 3,126,200	25
3) Processing expenses (included in manufacture expenses)				
Aptos Technology	$ 274,530	17	$ 149,283	13

	September 30			
	2008		2007	
	Amount	%	Amount	%
4) Notes and accounts receivable				
Toshiba Corporation, Japan	$ 147,891	7	$ 55,828	2
Other	45,113	3	10,184	1
	$ 193,004	10	$ 66,012	3
5) Other receivables (included in other financial assets)				
Flexmedia Electronics Corp.	$ 21,181	16	$ -	-
Aptos Technology	1,586	2	-	-
	$ 22,767	18	$ -	-
6) Notes and accounts payable				
Toshiba Electronics Taiwan Corp.	$ 545,835	32	$ 1,024,176	29
Aptos Technology	98,717	6	63,543	2
Other	256	-	17	-
	$ 644,808	38	$ 1,087,736	31

7) 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 September 30, 2008, the realized deferred credits had accumulated to $3,348 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value for $2,134 thousand.

8) On July 31, 2008, the board of directors approved the sale of a part of the Corporation's land and buildings to Aptos Technology Corporation ("Aptos"), an equity-method investee, to expand Aptos' production facilities for its growing share of the market. The expected selling price was $170,040 thousand, payment is in three installments, with a first payment of $34,000 thousand completed as of September 30, 2008 (included in other current liabilities).

19. PLEDGED ASSETS

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

	September 30	
	2008	**2007**
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 10,139	$ 10,179
Guarantee deposits paid - certificate of deposits	2,000	-
	$ 12,139	$ 10,179

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of September 30, 2008 were as follows:

a. The Corporation rents its office from third parties under an operating lease agreement expiring in February 2010.

   As of September 30, 2008, future remaining lease payments were as follows:

Period/Year	Amount
2008 (from October to December)	$ 751
2009	2,348
2010	228
	$ 3,327

b. Unused letters of credit amounted to $961,016 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. On October 3, 2008, the Hsinchu District Court judged the Corporation's president and engineers win in lawsuit.

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 sued the Corporation for infringement of four SanDisk patents. In response to respondents' defenses, SanDisk terminated three of the patents at issue from investigation in May, August and September of 2008. The result of these developments is that there is only one of the original patents still asserted against the Corporation.

   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. 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.

g. On July 17, 2008, the Corporation filed a complaint against Fineart Technology Co., Ltd. ("Fineart") because the Corporation claimed that Fineart did not carry out its obligations under a software development contract. 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: Table 2 (attached)

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: Table 3 (attached)

f. Disposal of individual real estate at prices of at least $100 million or 20% of the paid-in capital: Table 4 (attached)

g. Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: Table 5 (attached)

h. Receivables from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 6 (attached)

i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 7 (attached)

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

k. Investment in Mainland China: None

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type/Name and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2008				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	$ 20,401	100.00	$ 20,401	Note 3
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	19,513	326,823	20.81	326,823	Note 2
	Flexmedia Electronics Corp.	Investment by the equity method	Investments accounted for by the equity method	6,000	51,599	30.00	51,599	Note 2
	Micro Tops Electronic Corp.	Investment by the equity method	Investments accounted for by the equity method	2,264	22,591	49.00	22,591	Note 2
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	16,251	Note 2
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	5,700	19.00	3,963	Note 2
	Hycon Technologies Corporation	-	Financial assets carried at cost - noncurrent	700	7,000	7.95	4,654	Note 2
	Opiron Technology Solutions Corp.	-	Financial assets carried at cost - noncurrent	250	2,500	16.67	1,544	Note 2
	Foreign beneficiary certificate							
	Jafco Asia Technology Fund IV L.P.	-	Financial assets carried at cost - noncurrent	350	11,148	0.50	10,359	Note 4
Lian Xu Dong Investment Corp.	Common stock							
	Jim-Dandy Technologies Corporation	-	Financial assets carried at cost - noncurrent	1,000	10,000	19.23	13,031	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 as of September 30, 2008, which had not been reviewed.

Note 3: The calculation of the net asset value was based on the investee’s financial statements as of September 30, 2008, which had been reviewed.

Note 4: The calculation of the market value was based on their net assets value as of September 30, 2008.

TABLE 2

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Units (Thousands)	Amount	Units (Thousands)	Amount	Units (Thousands)	Amount	Carrying Value	Gain on Disposal	Units (Thousands)	Amount
Phison Electronics Corp.	Common Stock Aptos Technology	Long-term investments - equity method.	-	-	12,121	$ 186,912	4,500	$ 112,500	-	-	-	-	19,513 (Note)	$ 326,823 (Note)

Note: The shares included the stock dividends adjustment of 2,892 thousand shares. The amount included the effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to it's current equity adjustment 16,571 thousand and the investment income adjustment of 10,840 thousand.

PHISON ELECTRONICS CORP.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
Phison Electronics Corp.	Land	May 1, 2008	$ 98,000	Full payment	Kuan Yuan Paper MAG. Co., Ltd.	-	-	-	-	$ -	Valuation report	For constructing a building	-
	Land	June 23, 2008	110,000	$65,000	Kuan Yuan Paper MAG. Co., Ltd.	-	-	-	-	-	Valuation report	For constructing a building	-

TABLE 4

PHISON ELECTRONICS CORP.

DISPOSAL OF INDIVIDUAL REAL ESTATE PROPERTIES AT PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Original Acquisition Date	Carrying Amount	Transaction Amount	Proceeds Collection Status	Gain(Loss) on Disposal	Counter-party	Nature of Relationship	Purpose of Disposal	Price Reference	Other Terms
Phison Electronics Corp.	Land and buildings	August 21, 2008 (Note 1)	Land: January 15, 2007 Buildings: April 1, 2008	$126,271 (Note 2)	$170,040	Payment is in three installments; with a first payment of $34,000 thousand completed as of September 30, 2008.	$43,769 (Note 2)	Aptos Technology	Investment by the equity method	Providing the growing need for Aptos.	Valuation report	-

Note 1: The transaction date is the signing day of the contract, which stipulated that payments should be made in three installments and that property trunover would be made only on the last installment payment.

Note 2: The above amount was based on the property book value as of July 31, 2008, the day the Corporation's board of directors approved this sale. The total transaction amount will be determined on the day this transaction is registered with the authorities.

PHISON ELECTRONICS CORP.

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 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	$ 4,563,500	39	Net 30 days after monthly closing	None	None	$ (545,835)	(32)	-
	TOSHIBA Corporation, Japan	A corporate member of the Corporation's board of directors	Sale	(669,930)	(5)	Net 30 days after monthly closing	None	None	147,891	7	-

TABLE 6

PHISON ELECTRONICS CORP.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Phison Electronics Corp.	Toshiba Corporation, Japan	The board director of the Corporation	Accounts receivable $147,891	34.28	$ -	-	$ -	$ -

PHISON ELECTRONICS CORP.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2008			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 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	$ 20,401	$ 69 (Note 2)	$ 69	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	245,947	133,447	19,513	20.81	326,823	47,696 (Note 1)	10,840	Investment by the equity method
	Flexmedia Electronics Corp.	Hsinchu, Taiwan	High-tech Multi-Media production R&D, sales and product	60,000	60,000	6,000	30.00	51,599	(27,864) (Note 1)	(8,358)	Investment by the equity method
	Micro Tops Electronics Corp.	Miaoli, Taiwan	Flash memory controllers and peripheral system applications and design TI DSP system	22,638	-	2,264	49.00	22,591	(95) (Note 1)	(47)	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.

Note 2: The calculation of the investee carrying value was based on the investee’s financial statements, which had been reviewed.