Phison Electronics Corp.

Nonconsolidated Financial Statements for the Six Months Ended June 30, 2008 and 2007 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have audited the accompanying nonconsolidated balance sheets of Phison Electronics Corp. (the "Corporation") as of June 30, 2008 and 2007, and the related nonconsolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These nonconsolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these nonconsolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the nonconsolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall nonconsolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the six months then ended, 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 balance sheets of Phison Electronics Corp. and its subsidiaries as of June 30, 2008 and 2007 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the six months then ended, on which we have issued a review report dated August 7, 2008, which has an emphasis of a matter paragraph.

August 7, 2008

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

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 audit such nonconsolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' 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 auditors' report and nonconsolidated financial statements shall prevail.

PHISON ELECTRONICS CORP.

NONCONSOLIDATED BALANCE SHEETS
JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008 Amount	%	2007 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,049,258	13	$ 1,931,906	29
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	2,040,659	25	1,924,626	29
Related parties (Note 18)	51,223	1	17,178	-
Other financial assets (Note 18)	22,985	-	789	-
Inventories, net (Notes 2 and 7)	2,413,273	30	1,817,176	27
Deferred income tax assets - current (Notes 2 and 13)	80,633	1	109,635	2
Restricted assets (Note 19)	10,139	-	31,179	-
Other	1,068,044	14	302,386	4
Total current assets	6,736,214	84	6,134,875	91
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	398,503	5	168,269	3
Financial assets carried at cost - noncurrent (Notes 2 and 8)	46,348	1	25,700	-
Total long-term investments	444,851	6	193,969	3
PROPERTIES (Notes 2, 10 and 18)				
Cost				
Land	278,000	4	135,000	2
Building	386,553	5	-	-
Testing equipment	95,372	1	67,795	1
Office equipment	15,515	-	8,568	-
Leasehold improvements	2,588	-	18,612	1
Other equipment	1,887	-	2,960	-
Total cost	779,915	10	232,935	4
Less: Accumulated depreciation	52,862	1	38,230	1
	727,053	9	194,705	3
Construction in progress	-	-	96,967	2
Prepayments for land and equipment	10,000	-	12,745	-
Net properties	737,053	9	304,417	5
INTANGIBLE ASSETS (Notes 2, 11, 18 and 20)	60,932	1	83,539	1
OTHER ASSETS				
Guarantee deposits paid	6,197	-	4,500	-
Deferred income tax assets - noncurrent (Notes 2 and 13)	2,067	-	182	-
Miscellaneous (Note 12)	3,993	-	3,047	-
Total other assets	12,257	-	7,729	-
TOTAL	$ 7,991,307	100	$ 6,724,529	100

LIABILITIES AND SHAREHOLDERS' EQUITY	2008 Amount	%	2007 Amount	%
CURRENT LIABILITIES				
Notes and accounts payable				
Third parties	$ 1,002,767	12	$ 1,559,088	23
Related parties (Note 18)	936,126	12	504,885	8
Income tax payable (Notes 2 and 13)	49,012	1	103,642	2
Accrued expenses	952,635	12	498,957	7
Other	19,991	-	21,551	-
Total current liabilities	2,960,531	37	2,688,123	40
OTHER LIABILITIES				
Guarantee deposits received	288	-	-	-
Deferred credits (Notes 2 and 18)	12,489	-	-	-
Total other liabilities	12,777	-	-	-
Total liabilities	2,973,308	37	2,688,123	40
SHAREHOLDERS' EQUITY (Notes 2 and 15)				
Capital stock - NT$10.00 par value				
Authorized - 180,000 thousand shares in 2008 and 100,000 thousand shares in 2007				
Issued and outstanding - 104,480 thousand shares in 2008 and 76,577 thousand shares in 2007	1,044,802	13	765,771	11
Stock dividends to be issued	222,860	3	236,031	4
Capital surplus				
Additional paid-in capital	2,235,062	28	1,538,962	23
Long-term investment	21,088	-	-	-
Total capital surplus	2,256,150	28	1,538,962	23
Retained earnings				
Legal reserve	374,481	5	235,243	3
Unappropriated retained earnings	1,247,351	15	1,260,399	19
Total retained earnings	1,621,832	20	1,495,642	22
Other equity				
Treasury stock - 750 thousand shares	(127,645)	(1)	-	-
Total shareholders' equity	5,017,999	63	4,036,406	60
TOTAL	$ 7,991,307	100	$ 6,724,529	100

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

(With Deloitte & Touche audit report dated August 7, 2008)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 18)				
Gross sales	$ 9,403,406	101	$ 8,485,647	100
Less: Sales returns and allowances	50,913	1	76,783	1
Net sales	9,352,493	100	8,408,864	99
Service revenue	4,911	-	68,118	1
Total revenue	9,357,404	100	8,476,982	100
OPERATING COST (Notes 14 and 18)	8,467,385	90	7,423,287	87
GROSS PROFIT	890,019	10	1,053,695	13
OPERATING EXPENSES (Notes 2 and 14)				
Marketing	111,954	1	84,496	1
General and administrative	129,639	2	42,217	1
Research and development	211,781	2	190,623	2
Total operating expenses	453,374	5	317,336	4
OPERATING INCOME	436,645	5	736,359	9
NONOPERATING INCOME AND GAINS				
Interest income	14,283	-	10,318	-
Gain on disposal of investments, net (Notes 2 and 5)	3,953	-	825	-
Equity in net gain of investees (Notes 2 and 9)	2,230	-	20,103	-
Other	58,897	1	20,986	-
Total nonoperating income and gains	79,363	1	52,232	-
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	60,748	1	-	-
Loss on inventory valuation and obsolescence (Notes 2 and 7)	13,415	-	-	-
Other (Note 2)	1,069	-	713	-
Total nonoperating expenses and losses	75,232	1	713	-
INCOME BEFORE INCOME TAX	440,776	5	787,878	9
INCOME TAX EXPENSE (Notes 2 and 13)	132,334	2	109,999	1
NET INCOME	$ 308,442	3	$ 677,879	8

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	$ 4.37	$ 3.06	$ 8.25	$ 7.10
Diluted	$ 4.33	$ 3.03	$ 8.25	$ 7.10

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

(With Deloitte & Touche audit report dated August 7, 2008) (Concluded)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding: Shares (Thousands)	Capital Stock Issued and Outstanding: Amount	Stock Dividends to Be Issued	Capital Surplus: Share Issuance in Excess of Par Value	Capital Surplus: Long-term Investment	Capital Surplus: Total	Retained Earnings: Legal Reserve	Retained Earnings: Unappropriated	Retained Earnings: Total	Treasury Stock	Total Shareholders' Equity
BALANCE, JANUARY 1, 2008	101,180	$1,011,802	$ -	$1,767,962	$ 4,517	$1,772,479	$235,243	$1,977,073	$2,212,316	$ -	$4,996,597
Appropriation of the 2007 earnings											
Legal reserve	-	-	-	-	-	-	139,238	(139,238)	-	-	-
Bonus to employees - stock	-	-	22,000	-	-	-	-	(22,000)	(22,000)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Stock dividends - NT$1.93637 per share	-	-	200,860	-	-	-	-	(200,860)	(200,860)	-	-
Cash dividends - NT$5.80912 per share	-	-	-	-	-	-	-	(602,582)	(602,582)	-	(602,582)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(13,484)	(13,484)	-	(13,484)
Balance after appropriation	101,180	1,011,802	222,860	1,767,962	4,517	1,772,479	374,481	938,909	1,313,390	-	4,320,531
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 its current equity	-	-	-	-	16,571	16,571	-	-	-	-	16,571
Issuance of capital stock as of June 16, 2008 - NT$128.00 per share	1,200	12,000	-	141,600	-	141,600	-	-	-	-	153,600
Issuance of capital stock as of June 23, 2008 - NT$165.00 per share	2,100	21,000	-	325,500	-	325,500	-	-	-	-	346,500
Acquisition of treasury stock - 750 thousand shares	-	-	-	-	-	-	-	-	-	(127,645)	(127,645)
Net income in the six months ended June 30, 2008	-	-	-	-	-	-	-	308,442	308,442	-	308,442
BALANCE, JUNE 30, 2008	104,480	$1,044,802	$222,860	$2,235,062	$21,088	$2,256,150	$374,481	$1,247,351	$1,621,832	$ (127,645)	$5,017,999
BALANCE, JANUARY 1, 2007	72,577	$ 725,771	$ -	$ 722,962	$ 562	$ 723,524	$128,122	$1,269,708	$1,397,830	$ -	$2,847,125
Appropriation of the 2006 earnings											
Legal reserve	-	-	-	-	-	-	107,121	(107,121)	-	-	-
Bonus to employees - stock	-	-	18,300	-	-	-	-	(18,300)	(18,300)	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
Stock dividends - NT$2.84329 per share	-	-	217,731	-	-	-	-	(217,731)	(217,731)	-	-
Cash dividends - NT$3.79106 per share	-	-	-	-	-	-	-	(290,309)	(290,309)	-	(290,309)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(11,558)	(11,558)	-	(11,558)
Balance after appropriation	72,577	725,771	236,031	722,962	562	723,524	235,243	584,689	819,932	-	2,505,258
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 its current equity	-	-	-	-	(562)	(562)	-	(2,169)	(2,169)	-	(2,731)
Issuance of capital stock as of June 14, 2007 - NT$214.00 per share	4,000	40,000	-	816,000	-	816,000	-	-	-	-	856,000
Net income in the six months ended June 30, 2007	-	-	-	-	-	-	-	677,879	677,879	-	677,879
BALANCE, JUNE 30, 2007	76,577	$ 765,771	$236,031	$1,538,962	$ -	$1,538,962	$235,243	$1,260,399	$1,495,642	$ -	$4,036,406

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

(With Deloitte & Touche audit report dated August 7, 2008)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 308,442	$ 677,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax	87,420	23,185
Gain on disposal of intangible assets	(36,581)	(197)
Amortization	28,493	22,716
Depreciation	19,700	9,493
Losses on inventory valuation and obsolescence	13,415	-
Reversal of allowance for doubtful accounts	(8,788)	-
Equity in net gain of investees	(2,230)	(20,103)
Loss on sold and retirement of properties, net	190	-
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	(244,953)	222,459
Other financial assets	(21,744)	(624)
Inventories	(643,590)	(318,324)
Other current assets	(799,714)	(78,369)
Notes and accounts payable	(472,103)	(585,265)
Income tax payable	(62,658)	17,187
Accrued expenses	68,924	(25,234)
Other current liabilities	(6,074)	(3,067)
Accrued pension cost	(290)	(606)
Net cash (used in) provided by operating activities	(1,772,141)	91,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(226,924)	(234,839)
Increase in investments accounted for by the equity method	(112,500)	(45,500)
Proceeds of the disposal of intangible assets	50,000	200
Increase in intangible assets	(14,903)	(13,759)
Increase in financial assets carried at cost - noncurrent	(7,048)	(5,700)
Proceeds of the disposal of properties	2,134	-
Decrease in guarantee deposits paid	515	488
Decrease (increase) in restricted assets	114	(2,162)
Net cash used in investing activities	(308,612)	(301,272)

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PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issuance of capital stock	$ 500,100	$ 856,000
Cash paid for acquisition of treasury stock	(127,645)	-
Remuneration to directors and supervisors	(375)	(375)
Increase in guarantee deposit received	288	-
Net cash provided by financing activities	372,368	855,625
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,708,385)	645,984
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,757,643	1,285,922
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,049,258	$ 1,931,906
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 698	$ 85
Income tax paid	$ 107,572	$ 69,627
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 223,930	$ 236,293
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	2,994	(1,454)
Purchase properties	$ 226,924	$ 234,839
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Cash dividends	$ 602,582	$ 290,309
Bonus to employees	$ 60,000	$ 40,000
Remuneration to directors and supervisors	$ 13,109	$ 11,183

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

(With Deloitte & Touche audit report dated August 7, 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 June 30, 2008 and 2007, the Corporation had 368 and 325 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.

Reclassification

Certain accounts in the nonconsolidated financial statements as of and for the six months ended June 30, 2007 have been reclassified to be consistent with the presentation of nonconsolidated financial statements as of and for the six months ended June 30, 2008.

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 $79,984 thousand in net income and of NT$0.79 in basic earnings per share after income tax for the six months ended June 30, 2008.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2008	2007
Cash on hand	$ 173	$ 152
Savings accounts	136,838	1,062,937
Certificates of deposits	765,149	160,011
Foreign savings accounts	95,772	348,381
Checking accounts	10	368
Short-term bill and bonds acquired under repurchase agreements	51,316	360,057
	$ 1,049,258	$ 1,931,906

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 June 30, 2008 and 2007.

On the financial instruments held for trading in the six months ended on June 30, 2008 and 2007, net gains on financial assets were $2,760 thousand and $909 thousand, respectively, and net gain or loss on financial liabilities in the six months ended on June 30, 2008 and 2007 were gain $1,193 thousand and loss $84 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	June 30	
	2008	2007
Notes receivable	$ 238	$ 12,029
Accounts receivable	2,058,927	1,934,725
	2,059,165	1,946,754
Less: Allowance for doubtful accounts	18,506	22,128
	$ 2,040,659	$ 1,924,626

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepay-ment	Discount Rate (%)	Factor's Limit
Six months ended June 30, 2008					
Standard Chartered Bank	$ 8,537	$ 8,537	$ -	3.1237-4.4027	US$ 2,000 thousand
Six months ended June 30, 2007					
Standard Chartered Bank	2,452	2,298	154	6.0201-6.0412	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

	June 30 2008	June 30 2007
Finished goods	$ 15,424	$ 17,921
Semifinished goods	778,628	179,819
Work in process	144,773	316,913
Raw materials	1,695,321	1,495,714
	2,634,146	2,010,367
Less: Allowance for inventory valuation and obsolescence losses	220,873	193,191
	$ 2,413,273	$ 1,817,176

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	June 30 2008	June 30 2007
Common stock - unlisted stocks	$ 35,200	$ 25,700
Foreign beneficiary certificate	11,148	-
	$ 46,348	$ 25,700

These stocks and beneficiary certificate 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

	June 30			
	2008		2007	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 324,146	21	$ 147,958	23
Flexmedia Electronics Corporation	53,988	30	-	-
Lian Xu Dong Investment Corporation	20,369	100	20,311	100
	$ 398,503		$ 168,269	

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 recognized by the equity-method as follows:

	Six Months Ended June 30	
	2008	2007
Audited		
Aptos Technology	$ 8,163	$ 19,981
Flexmedia Electronics Corporation	(5,970)	-
	2,193	19,981
Unaudited		
Lian Xu Dong Investment Corporation	37	122
	$ 2,230	$ 20,103

Except Apto's and Flexmedia's financial statement, Lian Xu Dong's was determined on the basis of the investees' unaudited financial statement. The Corporation's management believed that, had the investee's financial statements been audited, any resulting adjustments would not have had a material impact on the Corporation's financial statements as of and for the six months ended June 30, 2008.

All subsidiaries were included in the consolidated financial statements of the Corporation and subsidiaries as of and for the six months ended June 30, 2008 and 2007.

10. PROPERTIES

	June 30	
	2008	2007
Accumulated depreciation		
Testing equipment	$ 35,141	$ 21,015
Buildings	9,092	-
Office equipment	5,123	4,176
Leasehold improvements	2,587	11,439
Other equipment	919	1,600
	$ 52,862	$ 38,230

11. INTANGIBLE ASSETS

	June 30	
	2008	2007
Computer software	$ 37,406	$ 50,165
Royalty	20,444	29,359
Patents	2,356	2,668
Technology license fees	726	1,347
	$ 60,932	$ 83,539

12. PENSION PLAN

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 $5,063 thousand and $4,115 thousand in the six months ended June 30, 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 six months ended June 30, 2008 and 2007 were $507 thousand and $134 thousand, respectively.

b. Changes in the pension fund

	Six Months Ended June 30	
	2008	2007
Balance, beginning of period	$ 9,892	$ 8,179
Contributions	797	740
Interest earned	315	184
Balance, end of period	$ 11,004	$ 9,103

	Six Months Ended June 30	
	2008	2007
c. Changes in prepaid pension cost (included in other assets - miscellaneous)		
Balance, beginning of period	$ (3,703)	$ (2,441)
Net pension cost	507	134
Contributions	(797)	(740)
Balance, end of period	$ (3,993)	$ (3,047)

13. INCOME TAX

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

	Six Months Ended June 30	
	2008	2007
Income tax on pretax income at statutory rate (25%)	$ 110,184	$ 196,960
Add (deduct) tax effects of		
Permanent difference	(1,709)	(5,285)
Temporary difference	(6,997)	(1,193)
Tax-exempt income	(36,256)	(38,716)
Additional 10% tax on unappropriated earnings	35,639	38,619
Investment tax credits	(50,430)	(95,193)
Current income tax payable	$ 50,431	$ 95,192

b. Income tax expense consisted of:

	2008	2007
Current income tax payable	$ 50,431	$ 95,192
Deferred income tax	87,420	23,185
Adjustment to prior year's taxes	(5,517)	(8,378)
Income tax expense	$ 132,334	$ 109,999

c. Deferred income tax assets consisted of:

	June 30	
	2008	2007
Current, net		
Investment tax credits	$ 6,135	$ 58,898
Allowance for inventory valuation and obsolescence losses	55,218	48,298
Foreign exchange loss	18,012	1,656
Deferred credits	1,116	-
Allowance for doubtful accounts	-	622
Other	152	161
	80,633	109,635
Less: Valuation allowance	-	-
	$ 80,633	$ 109,635
Noncurrent, net		
Deferred credits	$ 2,006	$ -
Other	61	182
	2,067	182
Less: Valuation allowance	-	-
	$ 2,067	$ 182

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

d. As of June 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	$ 53,765	$ 6,135	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:

	June 30	
	2008	2007
Balance of imputation credit account (ICA)	$ 227,499	$ 105,719

The estimated creditable ratio for the 2007 earnings appropriation and the actual creditable ratio for the 2006 earnings appropriation were 11.51% 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 June 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

	Six Months Ended June 30					
	2008			2007		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 22,487	$157,874	$180,361	$ 30,703	$111,322	$142,025
Labor and health insurance	1,855	6,264	8,119	1,477	5,079	6,556
Pension cost	1,307	4,263	5,570	986	3,263	4,249
Other	4,992	12,937	17,929	4,570	11,527	16,097
	$ 30,641	$181,338	$211,979	$ 37,736	$131,191	$168,927
Depreciation	$ 6,589	$ 13,111	$ 19,700	$ 2,178	$ 7,315	$ 9,493
Amortization	204	28,289	28,493	-	22,716	22,716

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 June 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 six months ended June 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 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.

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:

	Six Months Ended June 30, 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 June 30, 2008 is as follows:

June 30, 2008	
Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
$176	2.08

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 six months ended June 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:

	Six Months Ended June 30, 2008
Net income	$292,428
After income tax basic earnings per share (NT$)	$ 2.90

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 August 7, 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
Six months ended June 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
Six months ended June 30, 2008					
Basic EPS					
Income available to common shareholders	$ 440,776	$ 308,442	100,830	$ 4.37	$ 3.,06
Effect of dilutive potential common stock					
Stock options	-	-	175		
Bonus to employees	-	-	805		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 440,776	$ 308,442	101,810	$ 4.33	$ 3.03
Retroactive adjustment due to the recording of dividend appropriation after the financial statement date					
Pro forma basic EPS	$ 440,776	$ 308,442	122,554	$ 3.60	$ 2.52
Pro forma diluted EPS	$ 440,776	$ 308,442	123,724	$ 3.56	$ 2.49
Six months ended June 30, 2007					
Basic EPS					
Income available to common shareholders	$ 787,878	$ 677,879	95,521	$ 8.25	$ 7.10
Effect of dilutive potential common stock					
Stock options	-	-	-		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 787,878	$ 677,879	95,521	$ 8.25	$ 7.10
Retroactive adjustment due to the recording of dividend appropriation after the financial statement date					
Pro forma basic EPS	$ 787,878	$ 677,879	116,217	$ 6.78	$ 5.83
Pro forma diluted EPS	$ 787,878	$ 677,879	116,217	$ 6.78	$ 5.83

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 six months ended June 30, 2007 to all decrease from NT$9.29 to NT$7.10, respectively.

17. FINANCIAL INSTRUMENTS

a. Fair value

	June 30			
	2008		2007	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
<u>Nonderivative financial instruments</u>				
Assets				
Cash and cash equivalents	$ 1,049,258	$ 1,049,258	$ 1,931,906	$ 1,931,906
Notes and accounts receivable	2,091,882	2,091,882	1,941,804	1,941,804
Other financial assets	22,985	22,985	789	789
Restricted assets	10,139	10,139	31,179	31,179
Financial assets carried at cost - noncurrent	46,348		25,700	
Guarantee deposits paid	6,197	6,197	4,500	4,500
Liabilities				
Notes and accounts payable	1,938,893	1,938,893	2,063,973	2,063,973
Accrued expenses	952,635	952,635	498,957	498,957
Guarantee deposits received	288	288	-	-

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 six months ended June 30, 2008 and 2007.

e. The financial assets exposed to fair value interest rate risk amounted to $826,604 thousand and $551,247 thousand as of June 30, 2008 and 2007, respectively. The financial assets exposed to cash flow interest rate risk amounted to $232,610 thousand and $1,411,318 thousand as of June 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 June 30, 2008. However, as of June 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

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.

	Six Months Ended June 30			
	2008		2007	
	Amount	**%**	**Amount**	**%**
1) Net sales				
Toshiba Corporation, Japan	$ 323,123	3	$ 7,098	-
Other	82,236	1	46,894	-
	$ 405,359	4	$ 53,992	-
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 3,418,047	42	$ 1,737,645	23
Other	768	-	-	-
	$ 3,418,815	42	$ 1,737,645	23
3) Processing expenses (included in manufacture expenses)				
Aptos Technology	$ 198,859	21	$ 56,647	8
4) Notes and accounts receivable				
Toshiba Corporation, Japan	$ 45,556	2	$ 1,960	-
Other	5,667	-	15,218	1
	$ 51,223	2	$ 17,178	1
5) Other receivables (included in other financial assets)				
Flexmedia Electronics Corp.	$ 21,000	91	$ -	-
Aptos Technology	1,192	5	-	-
	$ 22,192	96	$ -	-
6) Notes and accounts payable				
Toshiba Electronics Taiwan Corp.	$ 927,617	48	$ 504,885	24
Aptos Technology	8,509	-	-	-
	$ 936,126	48	$ 504,885	24

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 June 30, 2008, the realized deferred credits had accumulated to $2,232 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value for $2,134 thousand.

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:

	June 30	
	2008	2007
Refundable deposits for the Customs Duty Bureau - certificates of deposits	$ 10,139	$ 10,179
The issuance of L/C for purchasing materials - certificates of deposits	-	21,000
	$ 10,139	$ 31,179

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

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

Period/Year	Amount
2008 (from July to December)	$ 1,498
2009	2,346
2010	228
	$ 4,072

b. Unused letters of credit amounted to $1,008,976 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. In response to Judge's order to stay, in May 2008, SanDisk terminated one of the patents at issue from the investigation. The result of these developments is that there are now effectively only three of the original patents still asserted against the Company.

   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 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. SUBSEQUENT EVENT

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's production facilities for its growing share of the market, the expected selling price is $170,040 thousand.

22. ADDITIONAL DISCLOSURES

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

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities held: Table 1 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: 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: None

g. Total purchases from or sales to related parties amounting to at least $100 million or 20% of the paid-in capital: Table 4 (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 5 (attached)

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

k. Investment in Mainland China: None

TABLE 1

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
JUNE 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	June 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	$ 20,369	100.00	$ 20,369	Note 2
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	19,513	324,146	20.81	324,146	Note 3
	Flexmedia Electronics Corp.	Investment by the equity method	Investments accounted for by the equity method	6,000	53,988	30.00	53,988	Note 3
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	20,000	11.76	18,741	Note 2
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	5,700	19.00	4,390	Note 2
	Hycon Technologies Corporation	-	Financial assets carried at cost - noncurrent	700	7,000	7.95	5,486	Note 2
	Opiron Technology Solutions Corp.	-	Financial assets carried at cost - noncurrent	250	2,500	16.67	1,870	Note 2
	Foreign beneficiary certificate							
	Jafco Asia Technology Fund IV L.P.	-	Financial assets carried at cost - noncurrent	350	11,148	0.50	10,014	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	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 as of June 30, 2008, which had not been audited.

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

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

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
SIX MONTHS ENDED JUNE 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)	$ 324,146 (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 8,163 thousand.

TABLE 3

PHISON ELECTRONICS CORP.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 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	$10,000	Kuan Yuan Paper MAG. Co., Ltd.	-	-	-	-	-	Valuation report	For constructing a building	-

TABLE4

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
SIX MONTHS ENDED JUNE 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. (the "Corporation")	TOSHIBA Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 3,418,047	42	Net 30 days after monthly closing	None	None	$ (927,617)	(48)	-
	TOSHIBA Corporation, Japan	A corporate member of the Corporation's board of directors	Sale	(323,123)	(3)	Net 30 days after monthly closing	None	None	45,556	2	-

PHISON ELECTRONICS CORP.

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2008			Net (Loss) Income of the Investee	Investment (Loss) Income (Note)	Note
				June 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	$ 20,369	$ 37	$ 37 (Note 1)	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	245,947	133,447	19,513	20.81	324,146	34,835	8,163 (Note 2)	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	53,988	(19,901)	(5,970) (Note 2)	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 audited.

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