Phison Electronics Corp.

Nonconsolidated Financial Statements for the Three Months Ended March 31, 2009 and 2008 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the accompanying nonconsolidated balance sheets of Phison Electronics Corp. (the "Corporation") as of March 31, 2009 and 2008, and the related nonconsolidated statements of income and nonconsolidated cash flows for the three months then ended. These nonconsolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 9 to the nonconsolidated financial statements, the investments accounted for by the equity method as of March 31, 2009 and 2008 amounted to NT$372,849 thousand and NT$334,016 thousand, respectively, and the investment gain and loss for the three months ended March 31, 2009 and 2008 were loss NT$2,166 thousand and gain NT$6,033 thousand, respectively. These investment amounts and the related information of the investees in Note 23 to the nonconsolidated financial statements were based on unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been made had the financial statements of the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the nonconsolidated financial statements as of and for the three months ended March 31, 2009 and 2008 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 stated in Note 3 to the nonconsolidated financial statements, in March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

We have also reviewed the consolidated financial statements of Phison Electronics Corp. and its subsidiaries as of and for the three months ended March 31, 2009 and 2008 and have issued a review report dated April 15, 2009 (not presented herewith).

April 15, 2009

Notice to Readers

The accompanying nonconsolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying nonconsolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and nonconsolidated financial statements shall prevail.

PHISON ELECTRONICS CORP.

NONCONSOLIDATED BALANCE SHEETS
MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2009		**2008**	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 562,329	6	$1,689,843	20
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,181,442	13	381,559	5
Notes and accounts receivable				
Third parties, net (Notes 2 and 6)	1,950,300	22	1,908,013	22
Related parties (Note 20)	102,171	1	91,836	1
Other financial assets (Note 20)	31,483	1	230,342	3
Inventories, net (Notes 2, 3 and 7)	2,164,301	25	2,730,552	32
Prepayments (Note 12)	716,946	8	11,345	-
Deferred income tax assets - current (Notes 2 and 15)	180,442	2	178,194	2
Restricted assets (Note 21)	5,191	-	10,062	-
Other	117,271	1	165,167	2
Total current assets	7,011,876	79	7,396,913	87
LONG-TERM INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	415,365	5	354,412	4
Financial assets carried at cost - noncurrent (Notes 2 and 8)	31,256	-	39,300	-
Total long-term investments	446,621	5	393,712	4
PROPERTIES (Notes 2, 10, 20 and 21)				
Cost				
Land	388,000	4	180,000	2
Building	391,868	5	-	-
Testing equipment	103,032	1	88,399	1
Office equipment	14,862	-	10,345	-
Leasehold improvements	-	-	2,588	-
Other equipment	1,846	-	2,108	-
Total cost	899,608	10	283,440	3
Less: Accumulated depreciation	77,376	1	39,723	-
	822,232	9	243,717	3
Construction in progress	-	-	379,261	5
Prepayments for land and equipment	3,682	-	36,183	-
Net properties	825,914	9	659,161	8
INTANGIBLE ASSETS (Notes 2, 11, 20 and 22)	48,793	1	64,283	1
OTHER ASSETS				
Guarantee deposits paid (Note 21)	3,774	-	6,128	-
Long-term prepayments (Note 12)	508,650	6	-	-
Deferred income tax assets - noncurrent (Notes 2 and 15)	1,169	-	2,376	-
Miscellaneous (Notes 2 and 14)	4,239	-	3,836	-
Total other assets	517,832	6	12,340	-
TOTAL	$8,851,036	100	$8,526,409	100

	2009		**2008**	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Notes 13 and 21)	$ 152,595	2	$ -	-
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	-	-	705	-
Notes and accounts payable				
Third parties	986,179	11	1,507,282	18
Related parties (Note 20)	1,299,766	15	1,615,698	19
Income tax payable (Notes 2 and 15)	27,852	-	126,655	2
Accrued expenses (Note 17)	515,032	6	201,898	2
Other (Note 20)	49,538	-	20,562	-
Total current liabilities	3,030,962	34	3,472,800	41
OTHER LIABILITIES				
Guarantee deposits received	353	-	287	-
Deferred credits (Notes 2 and 20)	9,141	-	13,605	-
Total other liabilities	9,494	-	13,892	-
Total liabilities	3,040,456	34	3,486,692	41
SHAREHOLDERS' EQUITY (Notes 2, 3 and 17)				
Capital stock - NT$10.00 par value				
Authorized - 180,000 thousand shares in 2009 and 130,000 thousand shares in 2008				
Issued and outstanding - 128,466 thousand shares in 2009 and 101,180 thousand shares in 2008	1,284,662	15	1,011,802	12
Capital surplus				
Additional paid-in capital	2,308,162	26	1,767,962	21
From long-term investment	21,088	-	-	-
Employees' stock options	8,196	-	-	-
Total capital surplus	2,337,446	26	1,767,962	21
Retained earnings				
Legal reserve	374,481	4	235,243	3
Unappropriated retained earnings	1,941,636	22	2,152,355	25
Total retained earnings	2,316,117	26	2,387,598	28
Other equity				
Treasury stock - 750 thousand shares	(127,645)	(1)	(127,645)	(2)
Total shareholders' equity	5,810,580	66	5,039,717	59
TOTAL	$8,851,036	100	$8,526,409	100

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

(With Deloitte & Touche review report dated April 15, 2009)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 20)				
Gross sales	$ 4,366,390	101	$ 4,473,729	100
Less: Sales returns and allowances	51,800	1	21,134	-
Net sales	4,314,590	100	4,452,595	100
Service revenue	6,751	-	2,760	-
Total operating revenue	4,321,341	100	4,455,355	100
OPERATING COSTS (Notes 3, 7, 16 and 20)	3,542,936	82	4,065,528	91
GROSS PROFIT	778,405	18	389,827	9
OPERATING EXPENSES (Note 16)				
Marketing	68,288	2	41,563	1
General and administrative	56,096	1	45,932	1
Research and development	259,884	6	77,459	2
Total operating expenses	384,268	9	164,954	4
OPERATING INCOME	394,137	9	224,873	5
NONOPERATING INCOME AND GAINS				
Foreign exchange gain, net (Note 2)	47,542	1	-	-
Interest income	1,200	-	4,752	-
Equity in net gain of investees (Notes 2 and 9)	-	-	6,097	-
Other (Notes 2, 5 and 20)	9,789	-	53,972	2
Total nonoperating income and gains	58,531	1	64,821	2
NONOPERATING EXPENSES AND LOSSES				
Impairment loss on financial assets carried at cost (Notes 2 and 8)	4,100	-	-	-
Equity in net loss of investees (Note 2 and 9)	1,758	-	-	-
Foreign exchange loss, net (Note 2)	-	-	72,246	2
Other (Note 2)	10	-	811	-
Total nonoperating expenses and losses	5,868	-	73,057	2
INCOME BEFORE INCOME TAX	446,800	10	216,637	5
INCOME TAX (BENEFIT) EXPENSE (Notes 2 and 15)	(1,943)	-	14,485	-
NET INCOME	$ 448,743	10	$ 202,152	5

(Continued)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	$ 3.54	$ 3.56	$ 1.77	$ 1.65
Diluted	$ 3.44	$ 3.45	$ 1.76	$ 1.65

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

(With Deloitte & Touche review report dated April 15, 2009) (Concluded)

PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 448,743	$ 202,152
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income tax	(29,965)	(10,450)
Amortization	12,857	16,533
Depreciation	10,586	4,903
Compensation cost of employee stock options	7,875	-
Impairment loss on financial assets carried at cost	4,100	-
Allowance for sale returns and discounts	1,959	-
Equity in net loss (gain) of investees	1,758	(6,097)
Gain on disposal of intangible assets (including realized deferred credits)	(1,116)	(35,465)
Reversal of the allowance for doubtful accounts	(257)	(11,449)
Loss (gain) on disposal of properties, net	(7)	29
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	(1,181,442)	(381,559)
Notes and accounts receivable	(504,229)	(150,259)
Other financial assets	423	(229,101)
Inventories	(1,034,306)	(947,454)
Other current assets	(560,856)	90,718
Financial liabilities at fair value through profit or loss - current	-	705
Notes and accounts payable	604,223	711,984
Income tax payable	27,852	14,985
Accrued expenses	155,190	(6,122)
Other current liabilities	3,152	(8,909)
Accrued pension cost	93	(133)
Net cash used in operating activities	(2,033,367)	(744,989)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(8,277)	(130,668)
Increase in intangible assets	(7,059)	(5,194)
Decrease in guarantee deposits paid	454	584
Decrease (increase) in restricted assets	(91)	191
Proceeds of the disposal of properties	28	2,134
Increase in investments accounted for by the equity method	-	(112,500)
Proceeds of the disposal of intangible assets	-	50,000
Net cash used in investing activities	(14,945)	(195,453)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	152,595	-
Proceeds of the issuance of capital stock	90,100	-

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PHISON ELECTRONICS CORP.

NONCONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
Cash paid for acquisition of treasury stock	$ -	$ (127,645)
Increase in guarantee deposits received	-	287
Net cash provided by (used in) financing activities	242,695	(127,358)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,805,617)	(1,067,800)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,367,946	2,757,643
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 562,329	$ 1,689,843
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 10	$ 21
Income tax paid	$ 170	$ 9,951
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	$ 6,620	$ 131,080
Decrease (increase) in payables to contractors and equipment suppliers (included in other current liabilities)	1,657	(412)
Acquisition of properties	$ 8,277	$ 130,668

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

(With Deloitte & Touche review report dated April 15, 2009) (Concluded)

1. ORGANIZATION AND OPERATIONS

Phison Electronics Corp. (the "Corporation") was incorporated on November 8, 2000 under the Company Law of the Republic of China (ROC). The Corporation mainly designs and sells flash memory controllers and peripheral system applications as well as designs the TI DSP (Texas Instruments' digital signal processor) system.

The Corporation's shares have been traded on the Gre-Tai Securities Market (the over-the-counter securities exchange of the ROC) since December 6, 2004.

As of March 31, 2009 and 2008, the Corporation had 396 and 347 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 consist of raw materials, supplies, semifinished goods, work-in-process and finished goods. Before January 1, 2009, inventories were stated at the lower of cost or market value (replacement cost or net realizable value). Any write-down was made on an item by item basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods, semifinished goods, and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

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: building, 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 in 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 three months ended March 31, 2008 have been reclassified to be consistent with the presentation of nonconsolidated financial statement as of and for the three months ended March 31, 2009.

3. ACCOUNTING CHANGE

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the Accounting Research and Development Foundation (the "ARDF") 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 $81,077 thousand and $24,409 thousand in net income and of $0.64 and $0.20 in basic earnings per share after income tax for the three months ended March 31, 2009 and 2008, respectively.

Accounting for Employee Stock Options

On January 1, 2008, the Corporation adopted the newly released SFAS No. 39, "Accounting for Share-Based Payments" to account for employee stock options. This accounting change resulted in a decrease of $5,906 thousand in net income and of $0.05 in basic earnings per share after income tax for the three months ended March 31, 2009.

Accounting for Inventories

On January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. This accounting change did not have a material effect in net income for the three months ended March 31, 2009.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2009	2008
Cash on hand	$ 217	$ 190
Savings accounts	124,290	578,576
Certificates of deposits	301,039	679,237
Foreign saving accounts	136,773	220,003
Checking accounts	10	17
Short-term bill and bonds acquired under repurchase agreements	-	211,820
	$ 562,329	$ 1,689,843

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments classified as held for trading were as follows:

	March 31 2009	March 31 2008
Financial assets held for trading		
Beneficiary certificates - open-end funds	$ 1,181,442	$ 381,559
Financial liabilities held for trading		
Forward exchange contracts	$ -	$ 705

The Corporation entered into forward exchange contracts to hedge against exposures due to exchange rate fluctuations. The purpose of the hedge strategy was to reduce most of the risks arising from changes in market prices and cash flows. Outstanding forward exchange contracts as of March 31, 2008 were as follows:

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

Net gains on financial assets held for trading in the three months ended on March 31, 2009 and 2008 were $1,442 thousand and $1,559 thousand, respectively. Net gain on financial liabilities held for trading in the three months ended on March 31, 2009 and 2008 were $0 thousand and $657 thousand, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

	March 31 2009	March 31 2008
Notes receivable	$ 626	$ 349
Accounts receivable	1,960,237	1,923,613
	1,960,863	1,923,962
Less: Allowance for doubtful accounts	8,604	15,949
Allowance for sale returns and discounts	1,959	-
	$ 1,950,300	$ 1,908,013

The factored accounts receivable were as follows:

Factor	Factored Amount	Settle Amount	Prepay-ment	Discount Rate (%)	Factor's Limit
Three months ended March 31, 2008					
Standard Chartered Bank	$ 5,295	$ 3,455	$ 1,840	3.1237-4.4027	US$ 2,000 thousand

The limit above is used in revolving bases.

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

7. INVENTORIES, NET

	March 31	
	2009	2008
Merchandise	$ 99	$ -
Finished goods	4,762	12,304
Semifinished goods	501,152	537,986
Work in process	271,800	240,792
Raw materials	1,386,488	1,939,470
	$ 2,164,301	$ 2,730,552

Allowance for inventory valuation and obsolescence losses as of March 31, 2009 and 2008 were $188,495 thousand and $275,837 thousand, respectively. The cost of inventories recognized as cost of goods sold during the three months ended March 31, 2009 and 2008 were $3,542,936 thousand and $4,065,528 thousand, respectively.

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	2009	2008
Common stock - unlisted stocks	$ 18,100	$ 32,700
Foreign beneficiary certificate	13,156	6,600
	$ 31,256	$ 39,300

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

An investment impairment loss was recognized for the three months ended March 31, 2009 after an evaluation of the net asset value of common stocks and foreign beneficiary certificate, summarized as follows:

	Three Months Ended March 31, 2009
Trison Technology Corporation	$ 2,500
Metison Technologies Corporation	300
Jafco Asia Technology Fund IV L.P.	1,300
	$ 4,100

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31			
	2009		2008	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted stocks				
Aptos Technology	$ 326,174	20.81	$ 276,976	24.82
Flexmedia Electronics Corporation	46,675	30.00	57,040	30.00
Microtops Design Corporation	22,073	49.00	-	-
Lian Xu Dong Investment Corporation	20,443	100.00	20,396	100.00
	$ 415,365		$ 354,412	

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 Microtops Design Corporation, which researches, develops and designs flash memory controllers and peripheral system applications.

The investment gain and loss recognized by the equity-method in the three months ended March 31, 2009 and 2008 were summarized as follows:

	Three Months Ended March 31	
	2009	2008
Reviewed		
Lian Xu Dong Investment Corporation	$ 4	$ 64
Microtops Design Corporation	404	-
	408	64
Unreviewed		
Aptos Technology	87	8,952
Flexmedia Electronics Corporation	(2,253)	(2,919)
	(2,166)	6,033
	$ (1,758)	$ 6,097

10. PROPERTIES

	March 31	
	2009	2008
Accumulated depreciation		
Building	$ 23,069	$ -
Testing equipment	46,016	31,032
Office equipment	7,207	5,176
Leasehold improvements	-	2,481
Other equipment	1,084	1,034
	$ 77,376	$ 39,723

11. INTANGIBLE ASSETS

	March 31	
	2009	2008
Computer software	$ 33,278	$ 37,791
Royalty	13,914	23,071
Patents	1,342	2,540
Technology license fee	259	881
	$ 48,793	$ 64,283

12. PREPAYMENTS AND LONG-TERM PREPAYMENTS

To have a steady long-term supply of NAND Flash products to meet increasing business needs as well as enhance the cooperative relationship with the supplier, the Corporation made prepayments for the future product purchases. The prepayments were US$26,442 thousand in June 2008 and US$20,000 thousand in March 2009. As of March 31, 2009, the prepayments (included in current assets) and long-term prepayments were $707,045 thousand and $508,650 thousand, respectively.

13. SHORT-TERM LOANS

	March 31, 2009
Secured	$ 152,595
Interest rate	0.994%
Maturity date	2009/4/7

The assets pledged for the secured loans, please refer to Note 21.

14. 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 $2,908 thousand and $2,425 thousand in the three months ended March 31, 2009 and 2008, 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 2007, with the Bank of Taiwan as the survivor entity) in the committee's name.

Defined benefit pension plan was summarized as follows:

a. Net pension costs for the three months ended March 31, 2009 and 2008 were $517 thousand and $253 thousand, respectively.

b. Changes in the pension fund

	Three Months Ended March 31	
	2009	2008
Balance, beginning of period	$ 11,848	$ 9,892
Contributions	424	386
Interest earned	250	314
Balance, end of period	$ 12,522	$ 10,592

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

	2009	2008
Balance, beginning of period	$ (4,332)	$ (3,703)
Net pension cost	517	253
Contributions	(424)	(386)
Balance, end of period	$ (4,239)	$ (3,836)

15. INCOME TAX

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

	Three Months Ended March 31	
	2009	2008
Income tax on pretax income at statutory rate (25%)	$ 111,690	$ 54,149
Add (deduct) tax effects of		
Permanent difference	1,465	(1,779)
Temporary difference	(1,241)	14,229
Tax-exempt income	(47,241)	(16,967)
Investment tax credits	(36,651)	(24,816)
Current income tax payable	$ 28,022	$ 24,816

b. Income tax expense consisted of:

Current income tax payable	$ 28,022	$ 24,816
Deferred income tax	(29,965)	(10,450)
Adjustments to prior year's taxes	-	119
Income tax (benefit) expense	$ (1,943)	$ 14,485

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

	March 31	
	2009	2008
Current, net		
Investment tax credits	$ 143,722	$ 82,779
Allowance for inventory valuation and obsolescence losses	47,123	68,959
Foreign exchange (gain) loss, net	(11,799)	25,401
Deferred credits	1,116	1,116
Other	280	(61)
	180,442	178,194
Less: Valuation allowance	-	-
	$ 180,442	$ 178,194
Noncurrent, net		
Deferred credits	$ 1,169	$ 2,285
Other	-	91
	1,169	2,376
Less: Valuation allowance	-	-
	$ 1,169	$ 2,376

The effective tax rate used for computing deferred income tax assets on March 31, 2009 and 2008 was 25%.

d. As of March 31, 2009, 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	$ 108,939	$ 24,539	2012
		67,856	67,856	2013
		$ 176,795	$ 92,395	
	Investment in an undeveloped area	$ 72,495	$ 51,327	2012

e. The Corporation's net operating income generated from the following expansion projects is exempt from income taxes:

	Tax-exemption Period
Second expansion and construction of the Corporation's factories	August 1, 2004 to July 31, 2009
Third expansion and construction of the Corporation's factories	February 28, 2006 to February 27, 2011
Fourth expansion and construction of the Corporation's factories	August 10, 2007 to August 9, 2012

f. Integrated income tax information was as follows:

	March 31	
	2009	2008
Balance of imputation credit account (ICA)	$ 109,698	$ 129,422

The estimated creditable ratio for the 2008 earnings appropriation and the actual creditable ratio for the 2007 earnings appropriation were 7.35% and 11.71%, 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 2008 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

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

16. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Three Months Ended March 31					
	2009			2008		
	Classified as Operating Cost	Classified as Operating Expense	Total	Classified as Operating Cost	Classified as Operating Expense	Total
Labor cost						
Salary	$ 13,470	$246,347	$259,817	$ 10,850	$ 56,280	$ 67,130
Labor and health insurance	1,100	3,694	4,794	894	3,015	3,909
Pension cost	783	2,642	3,425	631	2,047	2,678
Other	1,773	4,694	6,467	2,386	6,208	8,594
	$ 17,126	$257,377	$274,503	$ 14,761	$ 67,550	$ 82,311
Depreciation	$ 3,597	$ 6,989	$ 10,586	$ 1,730	$ 3,173	$ 4,903
Amortization	86	12,771	12,857	884	15,649	16,533

17. SHAREHOLDERS' EQUITY

a. Capital

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; (3) on February 3, 2009, the board of directors resolved to issue 1,700 thousand common shares at $10.00 par value and set February 18, 2009 as the fund raising deadline, with $53 as the offering price. This common share issuance was approved by and registered with the government authorities on March 6, 2009. The difference in price between par value and offering price was $73,100 thousand, recognized as additional paid-in capital.

On February 3, 2009, the board of directors decided to issue upper limit 32,000 thousand common shares by private place. However, this plan had not been resolved by the shareholders meeting.

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 surplus. 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 three months ended March 31, 2009, the bonus to employees of $103,402 thousand and remuneration to directors and supervisors of $4,700 thousand, which representing 22% and 1% of net income (net of the bonus to employees and remuneration to directors and supervisors), respectively, were accrued based on past experiences. Material differences between such estimated amounts and the amounts proposed by the board of directors in the following year are adjusted for 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.

The appropriations of earnings for 2008 and 2007 had been proposed in the board of directors and approved in the shareholders' meetings on February 19, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2008	For Fiscal Year 2007	For Fiscal Year 2008	For Fiscal Year 2007
Legal reserve	$ 55,398	$ 139,238	$ -	$ -
Cash dividends	380,000	602,582	2.97534	5.80912
Stock dividends	120,000	200,860	0.93958	1.93637
Bonus to employees - stock	-	22,000	-	-
Bonus to employees - cash	-	60,000	-	-
Remuneration to directors and supervisors	-	13,484	-	-
	$ 555,398	$ 1,038,164		

In their meeting on February 19, 2009, the board of directors proposed the appropriation from the 2008 earnings of $143,000 thousand as bonus to employees and $6,495 thousand as remuneration to directors and supervisors.

When the number of shares outstanding for distribution increases or decreases on the dividend distribution date, the board of directors is authorized to change dividend amounts on the basis of the actual number of shares outstanding on the dividend distribution date.

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

d. Stock options

On May 23, 2007, January 3, 2008 and November 19, 2008, the Financial Supervisory Commission under the Executive Yuan approved the Corporation's Employee Stock Option Plans, consisting of the third plan, the fourth plan and the fifth plan, respectively, and under which qualified employees obtained 1,000 thousand units, 500 thousand units, and 4,000 thousand units, respectively, of option rights. For all the plans, each unit represents one common share. The third plan and the fourth plan option rights are valid for three years from the date of issuance and exercisable at certain percentages after the second year of issuance, and the fifth plan option rights are valid for four years from the date of issuance and exercisable at 50 percent after the second year of issuance and at 100 percent after the third 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 exercise prices have been adjusted to reflect the appropriation of dividends.

The changes in outstanding stock options for the three months ended March 31, 2009 and 2008 were as follows:

	Three Months Ended March 31			
	2009		2008	
	Number of Options (in Thousands)	Weighted-average Exercise Price (NT$)	Number of Options (in Thousands)	Weighted-average Exercise Price (NT$)
Balance, beginning of period	1,500	$106.10	1,000	$139.60
Options granted	3,157	74.00	-	-
Options exercised	-	-	-	-
Balance, end of period	4,657		1,000	
Options exercisable, end of period	-		-	
Weighted-average fair value of options granted (NT$)	$31.64		$60.57	

The information about outstanding options as of March 31, 2009 and 2008 was as follows:

	March 31			
	2009		2008	
	Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)	Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
The third plan	$139.60	1.46	$139.60	2.29
The fourth plan	39.10	2.22		
The fifth plan	74.00	2.88-3.35		

The third plan options were issued on December 21, 2007. And if 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 three months ended March 31, 2009 and 2008 assuming employee stock options granted before January 1, 2008 were accounted for under Statement of Financial Accounting Standards No. 39 - “Accounting for Share-Based Payments” is as follows:

	Three Months Ended March 31	
	2009	2008
Net income	$ 410,078	$ 193,689
After income tax basic earnings per share (NT$)	$ 3.25	$ 1.58

The fourth plan and fifth plan options were issued on November 20, 2008, and January 19, 2009, respectively, and these two plans were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

	The Fourth Plan	The Fifth Plan
Grant-date share price (NT$)	$39.10	$74.00
Exercise price (NT$)	$39.10	$74.00
Expected volatility	63.47%	60.24%-62.55%
Expected life (years)	2.50	3.00-3.50
Expected dividend yield	0%	0%
Risk-free interest rate	1.33%	0.84%-0.88%

Compensation cost was recognized $7,875 thousand for the three months ended March 31, 2009.

e. Treasury stock

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Three months ended March 31, 2009				
For transfer to employees	750	-	-	750
Three months ended March 31, 2008				
For transfer to employees	-	750	-	750

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

18. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) were as follows:

	Amounts (Numerator) Before Income Tax	Amounts (Numerator) After Income Tax	Number of Shares (Denominator) (in Thousands)	EPS (NT$) Before Income Tax	EPS (NT$) After Income Tax
Three months ended March 31, 2009					
Basic EPS					
Income available to common shareholders	$ 446,800	$ 448,743	126,212	$ 3.54	$ 3.56
Effect of dilutive potential common stock					
Employee stock options	-	-	774		
Bonus to employees	-	-	3,027		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 446,800	$ 448,743	130,013	$ 3.44	$ 3.45

(Continued)

Three months ended March 31, 2008	Amounts (Numerator) Before Income Tax	After Income Tax	Number of Shares (Denominator) (in Thousands)	EPS (NT$) Before Income Tax	After Income Tax
Basic EPS					
Income available to common shareholders	$ 216,637	$ 202,152	122,485	$ 1.77	$ 1.65
Effect of dilutive potential common stock					
Employee stock options	-	-	77		
Bonus to employees	-	-	217		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	$ 216,637	$ 202,152	122,779	$ 1.76	$ 1.65

(Concluded)

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees and remuneration to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should 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 entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused the basic and diluted after income tax EPS for the three months ended March 31, 2008 to decrease from NT$2.01 to NT$1.65 and from NT$2.00 to NT$1.65, respectively.

19. FINANCIAL INSTRUMENTS

a. Fair value

	March 31			
	2009		2008	
Nonderivative financial instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 562,329	$ 562,329	$ 1,689,843	$ 1,689,843
Financial assets at fair value through profit or loss - current	1,181,442	1,181,442	381,559	381,559
Notes and accounts receivable	2,052,471	2,052,471	1,999,849	1,999,849
Other financial assets	31,483	31,483	230,342	230,342
Restricted assets	5,191	5,191	10,062	10,062
Financial assets carried at cost - noncurrent	31,256		39,300	
Guarantee deposits paid	3,774	3,774	6,128	6,128

(Continued)

	March 31			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Short-term loans	$ 152,595	$ 152,595	$ -	$ -
Notes and accounts payable	2,285,945	2,285,945	3,122,980	3,122,980
Accrued expenses	515,032	515,032	201,898	201,898
Guarantee deposits received	353	353	287	287
Derivative financial instruments				
Forward exchange contract - sell $US dollars	-	-	-	(705)
Derivative financial instruments according to the region				
Forward exchange contract-Taiwan	-	-	-	(705)

(Concluded)

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

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

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

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

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

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

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

d. The gain was recognized $1,442 thousand and $854 thousand for fair value changes based on of using valuation methods for the three months ended March 31, 2009 and 2008, respectively.

e. The financial assets exposed to fair value interest rate risk amounted to $308,230 thousand and $901,119 thousand as of March 31, 2009 and 2008, respectively. The financial assets exposed to cash flow interest rate risk amounted to $261,063 thousand and $798,579 thousand as of March 31, 2009 and 2008, respectively. The financial liabilities exposed to cash flow interest rate risk amounted to $152,595 thousand as of March 31, 2009.

f. Financial risks:

1) Market risk

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

2) Credit risk

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

3) Liquidity risk

The Corporation has no cash flow risks because it has sufficient operating capital to meet cash needs. However, as of March 31, 2009 and 2008, the Corporation had equity instruments with no quoted prices in an active market; thus, it expects to have significant liquidity risk

4) Cash flow interest rate risk.

Due to market interest rate fluctuations, assets and liabilities with floating interest rate will affect cash flows. Although the Corporation's short-term loans are floating-rate loans, their amounts are not material and entail no significant liquidity risk.

20. 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 Personal Computer System Corporation	Subsidiary of Toshiba
Toshiba Electronics Taiwan Corp.	Subsidiary of Toshiba
Lian Xu Dong Investment Corp.	Subsidiary
Aptos Technology	Equity-method investee
Flexmedia Electronics Corp.	Equity-method investee
Microtops Design 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.

	Three Months Ended March 31			
	2009		2008	
	Amount	%	Amount	%
1) Net sales				
Toshiba Corporation, Japan	$ 110,065	3	$ 167,948	4
Aptos Technology	59,232	1	23,869	1
Other	9,365	-	17,843	-
	$ 178,662	4	$ 209,660	5
2) Purchase				
Toshiba Electronics Taiwan Corp.	$ 2,104,153	51	$ 2,193,631	49
Other	6,844	-	87	-
	$ 2,110,997	51	$ 2,193,718	49
3) Processing expenses (included in manufacturing expenses)				
Aptos Technology	$ 82,306	21	$ 131,130	25

	March 31			
	2009		2008	
	Amount	%	Amount	%
4) Notes and accounts receivable				
Toshiba Corporation, Japan.	$ 50,211	3	$ 68,586	4
Aptos Technology	46,130	2	14,916	1
Other	5,830	-	8,334	-
	$ 102,171	5	$ 91,836	5
5) Other receivables (included in other financial assets)				
Aptos Technology	$ 1,827	6	$ -	-
Microtops Design Corp.	1,034	3	-	-
Flexmedia Electronics Corp.	217	1	21,000	9
	$ 3,078	10	$ 21,000	9
6) Notes and accounts payable				
Toshiba Electronics Taiwan Corp.	$ 1,232,878	54	$ 1,569,160	50
Aptos Technology	66,883	3	46,538	2
Other	5	-	-	-
	$ 1,299,766	57	$ 1,615,698	52

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 March 31, 2009, the realized deferred credits had accumulated to $5,580 thousand. The Corporation also sold to Flexmedia some testing equipments 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 March 31, 2009 (included in other current liabilities).

21. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collaterals to get a credit line from a bank for purchasing materials and as refundable deposits as required by customs authorities and by the court in line with a certain lawsuit:

	March 31	
	2009	**2008**
Building, net	$ 264,480	$ -
Land	90,000	-
Refundable deposits for the Customs Duty Bureau - certificates of deposits	5,191	10,062
Guarantee deposits paid - certificates of deposits	2,000	-
	$ 361,671	$ 10,062

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies as of March 31, 2009 were as follows:

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

As of March 31, 2009, future remaining lease payments were as follows:

Period/Year	**Amount**
2009 (from April to December)	$ 1,753
2010	228
	$ 1,981

b. Unused letters of credit amounted to $1,014,178 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 chairman 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. When the Corporation presented its defense, SanDisk terminated three of the patents in May, August and September of 2008. Thus, only one patent was left for ITC’s infringement investigation, which was completed in April 2009. ITC’s preliminary conclusion was that the Corporation did not infringe SanDisk’s patent.

   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. (“Uniquestar”) filed a complaint, demanding that the Corporation pay Uniquestar $3,525 thousand because the Corporation’s processing factory went out of business, resulting in losses to Uniquestar. In March 2009, the Hsinchu District Court ruled in favor of Uniquestar and required the Corporation to pay Uniquester $1,242 thousand in damages. The Corporation disagreed with this decision and filed an appeal with the court. 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.

23. ADDITIONAL DISCLOSURES

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

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities held: Table 1 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the paid-in capital: Table 2 (attached)

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: None

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

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 19 to the financial statements.

k. Investment in Mainland China: None

TABLE 1

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD
MARCH 31, 2009
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type/Name and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2009				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Phison Electronics Corp.	Beneficiary certificate							
	The RSIT Enhanced Bond Fund	-	Financial assets at fair value through profit or loss - current	10,532	$ 120,212	-	$ 120,212	Note 4
	The Forever Bond Fund	-	Financial assets at fair value through profit or loss - current	8,071	120,195	-	120,195	Note 4
	Polaris De-Li Bond Fund	-	Financial assets at fair value through profit or loss - current	7,711	120,118	-	120,118	Note 4
	Polaris De-Bao Bond Fund	-	Financial assets at fair value through profit or loss - current	10,476	120,115	-	120,115	Note 4
	UPAMC James Bond Fund	-	Financial assets at fair value through profit or loss - current	6,273	100,133	-	100,133	Note 4
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	7,258	100,103	-	100,103	Note 4
	ING Taiwan Income Fund	-	Financial assets at fair value through profit or loss - current	6,113	100,098	-	100,098	Note 4
	Yua Ta Wan Tai Bond Fund	-	Financial assets at fair value through profit or loss - current	6,927	100,094	-	100,094	Note 4
	ING Bond Fund	-	Financial assets at fair value through profit or loss - current	5,139	80,069	-	80,069	Note 4
	Maga Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	5,047	60,091	-	60,091	Note 4
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	353	60,081	-	60,081	Note 4
	NITC Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	4,122	60,079	-	60,079	Note 4
	PCA Well Pool Fund	-	Financial assets at fair value through profit or loss - current	3,090	40,054	-	40,054	Note 4
	Common stock							
	Lian Xu Dong Investment Corp.	Subsidiary	Investments accounted for by the equity method	2,000	20,443	100.00	20,443	Note 3
	Aptos Technology	Investment by the equity method	Investments accounted for by the equity method	19,513	326,174	20.81	326,174	Note 2
	Flexmedia Electronics Corp.	Investment by the equity method	Investments accounted for by the equity method	6,000	46,675	30.00	46,675	Note 2
	Microtops Design Corp.	Investment by the equity method	Investments accounted for by the equity method	2,264	22,073	49.00	22,073	Note 3
	Trison Technology Corporation	-	Financial assets carried at cost - noncurrent	2,000	10,600	11.76	10,549	Note 2

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2009				Note
				Shares or Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Metison Technologies Corporation	-	Financial assets carried at cost - noncurrent	570	$ 3,500	19.00	$ 3,494	Note 2
	Hycon Technologies Corporation	-	Financial assets carried at cost - noncurrent	700	4,000	6.19	4,390	Note 2
	<u>Foreign beneficiary certificate</u>							
	Jafco Asia Technology Fund IV L.P.	-	Financial assets carried at cost - noncurrent	450	13,156	0.50	13,123	Note 4
Lian Xu Dong Investment Corp.	<u>Common stock</u>							
	Jim-Dandy Technologies Corporation	-	Financial assets carried at cost - noncurrent	1,113	10,000	19.23	12,843	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 March 31, 2009, which had not been reviewed.

Note 3: The calculation of the net asset value was based on the investee's financial statements as of March 31, 2009, which had been reviewed.

Note 4: The calculation of the market value was based on their net assets value as of March 31, 2009.

(Concluded)

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
THREE MONTHS ENDED MARCH 31, 2009
(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 (Note)
Phison Electronics Corp.	Beneficiary certificate													
	The RSIT Enhanced Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	$ -	10,532	$ 120,000	-	$ -	$ -	$ -	10,532	$ 120,212
	The Forever Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	8,071	120,000	-	-	-	-	8,071	120,195
	Polaris De-Li Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	7,711	120,000	-	-	-	-	7,711	120,118
	Polaris De-Bao Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	10,476	120,000	-	-	-	-	10,476	120,115
	UPAMC James Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,273	100,000	-	-	-	-	6,273	100,133
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	7,258	100,000	-	-	-	-	7,258	100,103
	ING Taiwan Inome Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,113	100,000	-	-	-	-	6,113	100,098
	Yua Ta Wan Tai Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	6,927	100,000	-	-	-	-	6,927	100,094

Note: The ending balance includes the revaluation adjustment on financial assets.

PHISON ELECTRONICS CORP.

DISPOSAL OF INDIVIDUAL REAL ESTATE PROPERTIES AT PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2009
(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	$125,971 (Note 2)	$170,040	Payment is in three installments; with a first payment of $34,000 thousand completed as of March 31, 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 turnover 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.

TABLE 4

PHISON ELECTRONICS CORP.

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2009
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phison Electronics Corp.	Toshiba Electronics Taiwan Corp.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 2,104,153	51	Net 30 days after monthly closing	None	None	$ (1,232,878)	(54)	-
	Toshiba Corporation, Japan	A corporate member of the Corporation's board of directors	Sale	(110,065)	(3)	Net 30 days after monthly closing	None	None	50,211	3	-

PHISON ELECTRONICS CORP.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2009
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2009			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				March 31, 2009	December 31, 2008	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	$ 20,443	$ 4 (Note 2)	$ 4	Subsidiary
	Aptos Technology	Miaoli, Taiwan	Memory card assembly and test flash application	245,947	245,947	19,513	20.81	326,174	419 (Note 1)	87	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	46,675	(7,510) (Note 1)	(2,253)	Investment by the equity method
	Microtops Design Corp.	Miaoli, Taiwan	Flash memory controllers and peripheral system applications and design TI DSP system	22,638	22,638	2,264	49.00	22,073	(826) (Note 2)	404	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.