# Phison Electronics Corp.

**Nonconsolidated Financial Statements for the Nine Months Ended September 30, 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 September 30, 2009 and 2008, and the related nonconsolidated statements of income and nonconsolidated cash flows for the nine months then ended. These nonconsolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

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

As stated in Note 9 to the nonconsolidated financial statements, the investments accounted for by the equity method as of September 30, 2009 and 2008 amounted to NT$356,904 thousand and NT$401,013 thousand, respectively, and the investment gain and loss for the nine months ended September 30, 2009 and 2008 were loss NT$5,802 thousand and gain NT$2,435 thousand, respectively. These investments amounts and the related information of the investees in the Note 24 to the nonconsolidated financial statements were based on unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been made had the financial statements of the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the nonconsolidated financial statements as of and for the nine months ended September 30, 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 disclosed in Note 3 to the nonconsolidated financial statements, in March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings.

We have also reviewed the consolidated financial statements of Phison Electronics Corp. and its subsidiary as of and for the nine months ended September 30, 2009 and 2008 and both have issued qualified review reports dated October 24, 2009 (not presented herewith).

October 24, 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 nonconsolidated financial statements are those generally accepted and applied in the Republic of China.*

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

## PHISON ELECTRONICS CORP.

**NONCONSOLIDATED BALANCE SHEETS**
**SEPTEMBER 30, 2009 AND 2008**
**(In Thousands of New Taiwan Dollars, Except Par Value)**
**(Reviewed, Not Audited)**

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash (Note 4) | $ 3,261,950 | 28 | $ 1,264,991 | 17 |
| Financial assets at fair value through profit or loss - current (Notes 2 and 5) | 461,367 | 4 | - | - |
| Notes and accounts receivable | | | | |
| Third parties, net (Notes 2 and 6) | 2,773,079 | 23 | 1,968,579 | 26 |
| Related parties (Notes 20) | 129,495 | 1 | 193,049 | 3 |
| Other financial assets (Notes 9 and 20) | 63,972 | - | 128,402 | 2 |
| Inventories, net (Notes 2, 3 and 7) | 2,208,162 | 19 | 1,509,692 | 20 |
| Prepayments (Note 12) | 1,180,722 | 10 | 873,470 | 12 |
| Deferred income tax assets - current (Notes 2 and 15) | 125,363 | 1 | 76,496 | 1 |
| Restricted assets (Note 21) | 5,193 | - | 10,139 | - |
| Other | 119,089 | 1 | 47,421 | 1 |
| Total current assets | 10,328,392 | 87 | 6,072,239 | 82 |
| LONG-TERM INVESTMENTS | | | | |
| Investments accounted for by the equity method (Notes 2 and 9) | 377,341 | 3 | 421,414 | 6 |
| Financial assets carried at cost - noncurrent (Notes 2 and 8) | 34,553 | 1 | 46,348 | - |
| Total long-term investments | 411,894 | 4 | 467,762 | 6 |
| PROPERTIES (Notes 2, 10, 20 and 21) | | | | |
| Cost | | | | |
| Land | 364,478 | 3 | 278,000 | 4 |
| Buildings | 285,840 | 3 | 391,153 | 5 |
| Testing equipment | 109,141 | 1 | 95,912 | 2 |
| Office equipment | 14,629 | - | 15,314 | - |
| Other equipment | 1,846 | - | 1,887 | - |
| Total cost | 775,934 | 7 | 782,266 | 11 |
| Less: Accumulated depreciation | 88,959 | 1 | 58,818 | 1 |
| | 686,975 | 6 | 723,448 | 10 |
| Construction in progress | 9,600 | - | - | - |
| Prepayments for land and equipment | 7,723 | - | 65,000 | 1 |
| Net properties | 704,298 | 6 | 788,448 | 11 |
| INTANGIBLE ASSETS (Notes 2, 11, 20 and 22) | 38,159 | - | 60,510 | 1 |
| OTHER ASSETS | | | | |
| Guarantee deposits paid (Note 21) | 1,827 | - | 3,964 | - |
| Long-term prepayments (Note 12) | 321,650 | 3 | - | - |
| Deferred income tax assets - noncurrent (Notes 2 and 15) | 2,296 | - | 1,757 | - |
| Miscellaneous (Notes 2 and 14) | 3,807 | - | 4,160 | - |
| Total other assets | 329,580 | 3 | 9,881 | - |
| TOTAL | $ 11,812,323 | 100 | $ 7,398,840 | 100 |

| | 2009 | | 2008 | |
|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Notes 13 and 21) | $ 894,187 | 7 | $ - | - |
| Notes and accounts payable | | | | |
| Third parties | 1,347,794 | 12 | 1,214,600 | 16 |
| Related parties (Note 20) | 1,457,805 | 12 | 644,853 | 9 |
| Income tax payable (Notes 2 and 15) | 88,646 | 1 | - | - |
| Accrued expenses (Note 17) | 699,113 | 6 | 370,934 | 5 |
| Other | 89,982 | 1 | 67,846 | 1 |
| Total current liabilities | 4,577,527 | 39 | 2,298,233 | 31 |
| OTHER LIABILITIES | | | | |
| Guarantee deposits received | 66 | - | 353 | - |
| Deferred credits (Notes 2 and 20) | 17,115 | - | 11,373 | - |
| Total other liabilities | 17,181 | - | 11,726 | - |
| Total liabilities | 4,594,708 | 39 | 2,309,959 | 31 |
| SHAREHOLDERS' EQUITY (Notes 2, 3 and 17) | | | | |
| Capital stock - NT$10.00 par value | | | | |
| Authorized - 180,000 thousand shares | | | | |
| Issued and outstanding - 146,727 thousand shares in 2009 and 126,766 thousand shares in 2008 | 1,467,273 | 12 | 1,267,662 | 17 |
| Capital surplus | | | | |
| Additional paid-in capital | 3,016,552 | 26 | 2,235,062 | 30 |
| Long-term investment | 21,037 | - | 21,088 | 1 |
| Employee stock options | 30,854 | - | - | - |
| Total capital surplus | 3,068,443 | 26 | 2,256,150 | 31 |
| Retained earnings | | | | |
| Legal reserve | 429,879 | 4 | 374,481 | 5 |
| Unappropriated retained earnings | 2,252,020 | 19 | 1,318,233 | 18 |
| Total retained earnings | 2,681,899 | 23 | 1,692,714 | 23 |
| Other equity | | | | |
| Treasury stock - 750 thousand shares | - | - | (127,645) | (2) |
| Total shareholders' equity | 7,217,615 | 61 | 5,088,881 | 69 |
| TOTAL | $ 11,812,323 | 100 | $ 7,398,840 | 100 |

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

(With Deloitte & Touche review report dated October 24, 2009)

## PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF INCOME**
**NINE MONTHS ENDED SEPTEMBER 30, 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 | $ 16,689,196 | 101 | $ 14,594,894 | 100 |
| Less: Sales returns and allowances | 142,006 | 1 | 75,248 | - |
| Net sales | 16,547,190 | 100 | 14,519,646 | 100 |
| Service revenue | 15,223 | - | 9,093 | - |
| Total operating revenue | 16,562,413 | 100 | 14,528,739 | 100 |
| OPERATING COSTS (Notes 3, 7, 16 and 20) | 14,039,704 | 85 | 13,497,834 | 93 |
| GROSS PROFIT | 2,522,709 | 15 | 1,030,905 | 7 |
| OPERATING EXPENSES (Note 16) | | | | |
| Marketing | 202,197 | 1 | 162,355 | 1 |
| General and administrative | 175,450 | 1 | 188,942 | 1 |
| Research and development | 676,898 | 4 | 319,233 | 2 |
| Total operating expenses | 1,054,545 | 6 | 670,530 | 4 |
| OPERATING INCOME | 1,468,164 | 9 | 360,375 | 3 |
| NONOPERATING INCOME AND GAINS | | | | |
| Gains on disposal of properties (Notes 2 and 20) | 39,109 | - | - | - |
| Interest income | 2,119 | - | 21,249 | - |
| Foreign exchange gains, net (Note 2) | - | - | 63,695 | - |
| Other (Notes 2, 5, 9 and 20) | 19,198 | - | 71,965 | 1 |
| Total nonoperating income and gains | 60,426 | - | 156,909 | 1 |
| NONOPERATING EXPENSES AND LOSSES | | | | |
| Foreign exchange loss, net (Note 2) | 30,942 | - | - | - |
| Equity in net loss of investees (Notes 2 and 9) | 5,804 | - | - | - |
| Impairment loss on financial assets carried at cost (Notes 2 and 8) | 4,100 | - | - | - |
| Other (Note 2) | 2,292 | - | 1,205 | - |
| Total nonoperating expenses and losses | 43,138 | - | 1,205 | - |
| INCOME BEFORE INCOME TAX | 1,485,452 | 9 | 516,079 | 4 |
| INCOME TAX EXPENSE (Notes 2 and 15) | 151,289 | 1 | 136,755 | 1 |
| NET INCOME | $ 1,334,163 | 8 | $ 379,324 | 3 |

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## PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF INCOME**
**NINE MONTHS ENDED SEPTEMBER 30, 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 | $ 10.39 | $ 9.33 | $ 3.83 | $ 2.81 |
| Diluted | $ 10.09 | $ 9.06 | $ 3.79 | $ 2.79 |

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

(With Deloitte & Touche review report dated October 24, 2009) (Concluded)

## PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF CASH FLOWS**
**NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 1,334,163 | $ 379,324 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Deferred income tax | 23,987 | 91,867 |
| Amortization | 41,129 | 41,273 |
| (Gain) loss on disposal and retirement of properties, net (including realized deferred credits) | (39,103) | 190 |
| Compensation cost of employee stock options | 37,891 | - |
| Depreciation | 31,312 | 30,104 |
| Allowance for sales returns and discounts | 17,792 | - |
| Equity in net loss (gain) of investees | 5,804 | (2,504) |
| Impairment loss on financial assets carried at cost | 4,100 | - |
| Gain on disposal of intangible assets (including realized deferred credits) | (3,348) | (37,697) |
| Allowance (reversal of) for doubtful accounts | 1,303 | (18,277) |
| Losses on inventory valuation and obsolescence | - | 24,036 |
| Net changes in operating assets and liabilities | | |
| Financial assets at fair value through profit or loss - current | (461,367) | - |
| Notes and accounts receivable | (1,371,725) | (290,142) |
| Other financial assets | 1,861 | (127,161) |
| Inventories | (1,078,167) | 249,370 |
| Other current assets | (839,450) | (652,561) |
| Notes and accounts payable | 1,123,877 | (566,611) |
| Income tax payable | 88,646 | (111,670) |
| Accrued expenses | 452,271 | 130,214 |
| Other current liabilities | 42,369 | 42,487 |
| Accrued pension cost | 525 | (457) |
| Net cash used in operating activities | (586,130) | (818,215) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds of the disposal of properties | 170,841 | 2,134 |
| Acquisition of properties | (27,671) | (289,429) |
| Increase in intangible assets | (24,697) | (27,261) |
| Increase in financial assets carried at cost - noncurrent | (3,297) | (7,048) |
| Decrease in guarantee deposits paid | 2,401 | 2,748 |
| (Increase) decrease in restricted assets | (93) | 114 |
| Increase in investments accounted for by the equity method | - | (135,137) |
| Proceeds of the disposal of intangible assets | - | 50,000 |
| Net cash provided by (used in) investing activities | 117,484 | (403,879) |

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## PHISON ELECTRONICS CORP.

**NONCONSOLIDATED STATEMENTS OF CASH FLOWS**
**NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008**
**(In Thousands of New Taiwan Dollars)**
**(Reviewed, Not Audited)**

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | $ 894,187 | $ - |
| Proceeds of the issuance of capital stock | 748,100 | 500,100 |
| Cash dividends paid | (380,000) | (602,582) |
| Transfer of treasury stock to employee | 100,650 | - |
| (Decrease) increase in guarantee deposit received | (287) | 353 |
| Cash paid for acquisition of treasury stock | - | (127,645) |
| Bonus to employees and remuneration to directors and supervisors | - | (40,784) |
| Net cash provided by (used in) financing activities | 1,362,650 | (270,558) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 894,004 | (1,492,652) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 2,367,946 | 2,757,643 |
| CASH, END OF PERIOD | $ 3,261,950 | $ 1,264,991 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid | $ 1,712 | $ 755 |
| Income tax paid | $ 38,656 | $ 171,734 |
| INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS | | |
| Increase in properties | $ 27,241 | $ 285,729 |
| Decrease in payables to contractors and equipment suppliers (included in other current liabilities) | 430 | 3,700 |
| Acquisition of properties | $ 27,671 | $ 289,429 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Bonus to employees | | $ 32,512 |
| Remuneration to directors and supervisors | | $ 188 |

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

(With Deloitte & Touche review report dated October 24, 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 September 30, 2009 and 2008, the Corporation had 430 and 374 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, laws 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 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.

**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: buildings, 20 years; testing equipment, 3 to 6 years; office equipment, 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 nine months ended September 30, 2008 have been reclassified to be consistent with the presentation of nonconsolidated financial statements as of and for the nine months ended September 30, 2009.

## 3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

**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 $93,648 thousand in net income and of $0.69 in basic earnings per share after income tax for the nine months ended September 30, 2008.

**Accounting for Employee Stock Options**

On January 1, 2008, the Corporation adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. This accounting change had no effect in net income for the nine months ended September 30, 2008.

**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 had no material effect in net income for the nine months ended September 30, 2009. For comparison purposes, the Corporation also classified nonoperating losses of $24,036 thousand to cost of goods sold for the nine months ended September 30, 2008.

## 4. CASH

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Cash on hand | $ 132 | $ 367 |
| Savings accounts | 2,777,783 | 174,300 |
| Certificates of deposits | 281,900 | 587,121 |
| Foreign savings accounts | 202,034 | 503,193 |
| Checking accounts | 101 | 10 |
| | $ 3,261,950 | $ 1,264,991 |

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

Financial instruments classified as held for trading were as follows:

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Financial assets held for trading | | |
| Beneficiary certificates - open-end funds | $ 461,367 | $ - |

The Corporation entered into forward exchange contracts to hedge exposures due to exchange rate fluctuations. The purpose of the hedge strategy was to reduce most of the risks arising from changes in market prices and cash flows. All of the forward exchange contracts had matured as of September 30, 2009 and 2008.

On the financial instruments held for trading in the nine months ended September 30, 2009 and 2008, net gains on financial assets were $2,233 thousand and $2,760 thousand, respectively, and net gain on financial liabilities in the nine months ended on September 30, 2009 and 2008 were $2,833 thousand and $1,193 thousand, respectively.

## 6. NOTES AND ACCOUNTS RECEIVABLE - THIRD PARTIES

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Notes receivable | $ 9,113 | $ 1,196 |
| Accounts receivable | 2,791,923 | 1,976,400 |
| | 2,801,036 | 1,977,596 |
| Less: Allowance for sales returns and discounts | 17,792 | - |
| Allowance for doubtful accounts | 10,165 | 9,017 |
| | $ 2,773,079 | $ 1,968,579 |

The factored accounts receivable were as follows:

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

The limit above is used on a revolving basis.

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

## 7. INVENTORIES, NET

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Merchandise | $ 523 | $ - |
| Finished goods | 17,021 | 9,418 |
| Semifinished goods | 518,626 | 222,513 |
| Work in process | 483,698 | 234,743 |
| Raw materials | 1,188,294 | 1,043,018 |
| | $ 2,208,162 | $ 1,509,692 |

Allowances for inventory valuation and obsolescence losses as of September 30, 2009 and 2008 were $188,495 thousand and $231,494 thousand, respectively.

The costs of inventories recognized as cost of goods sold in the nine months ended September 30, 2009 and 2008 were $14,039,704 thousand and $13,497,834 thousand, respectively, which included $0 and $24,036 thousand, respectively, due to write-downs of inventories.

## 8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Common stock - unlisted stocks | $ 18,100 | $ 35,200 |
| Foreign beneficiary certificate | 16,453 | 11,148 |
| | $ 34,553 | $ 46,348 |

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

An investment impairment loss was recognized for the nine months ended September 30, 2009 after an evaluation of the net asset value of common stocks and foreign beneficiary certificate, summarized as follows:

| | Nine Months Ended September 30, 2009 | As of September 30, 2009, Accumulated Investment Impairment Loss |
|---|---|---|
| Trison Technology Corporation | $ 2,500 | $ 9,400 |
| Hycon Technologies Corporation | - | 3,000 |
| Metison Technologies Corporation | 300 | 2,200 |
| Jafco Asia Technology Fund IV L.P. | 1,300 | 1,300 |
| | $ 4,100 | $ 15,900 |

## 9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

| | September 30 | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Carrying Amount | % of Owner-ship | Carrying Amount | % of Owner-ship |
| Unlisted stocks | | | | |
| Aptos Technology | $ 326,219 | 21 | $ 326,823 | 21 |
| Micro Tops Electronics Corporation | 23,558 | 49 | 22,591 | 49 |
| Lian Xu Dong Investment Corporation | 20,437 | 100 | 20,401 | 100 |
| Flexmedia Electronics Corporation | 7,127 | 30 | 51,599 | 30 |
| | $ 377,341 | | $ 421,414 | |

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 ("Flexmedia"), which researches, develops, produces and sells high-tech multimedia products. On September 23, 2009, Flexmedia's shareholders approved to reduce its capital to reduce its loss and return some capital to investors. Flexmedia set September 30, 2009 as the capital reduction date, and the Corporation expected to receive $33,927 thousand (included in other receivables) based on its equity in Flexmedia.

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

The investment gain and loss recognized by the equity-method in the nine months ended September 30, 2009 and 2008 were summarized as follows:

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Reviewed | | |
| Lian Xu Dong Investment Corporation | $ (2) | $ 69 |
| Unreviewed | | |
| Aptos Technology | 182 | 10,840 |
| Flexmedia Electronics Corporation | (7,873) | (8,358) |
| Micro Tops Electronics Corporation | 1,889 | (47) |
| | (5,802) | 2,435 |
| | $ (5,804) | $ 2,504 |

## 10. PROPERTIES

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Accumulated depreciation | | |
| Buildings | $ 23,962 | $ 13,732 |
| Testing equipment | 55,249 | 38,276 |
| Office equipment | 8,528 | 5,822 |
| Other equipment | 1,220 | 988 |
| | $ 88,959 | $ 58,818 |

## 11. INTANGIBLE ASSETS

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Computer software | $ 28,828 | $ 39,676 |
| Royalty | 8,564 | 18,267 |
| Patents | 767 | 1,997 |
| Technology license fees | - | 570 |
| | $ 38,159 | $ 60,510 |

## 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, US$20,000 thousand in March 2009 and US$20,000 thousand in June 2009. As of September 30, 2009, the prepayments (included in current assets) and long-term prepayments were $1,134,027 thousand and $321,650 thousand, respectively.

## 13. SHORT-TERM LOANS

| | Interest Rate (%) | Maturity Date | Amount |
|---|---|---|---|
| September 30, 2009 | | | |
| Credit loan | 0.76%-0.85% | 2009.10.31 | $ 733,362 |
| Secured loan | 0.8351% | 2009.10.31 | 160,825 |
| | | | $ 894,187 |

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, to the employees' individual pension accounts is at 6% of monthly salaries and wages. The Corporation recognized defined contribution pension cost of $9,165 thousand and $7,883 thousand in the nine months ended September 30, 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.

Defined benefit pension plan is summarized as follows:

a. Net pension costs in the nine months ended September 30, 2009 and 2008 were $1,552 thousand and $760 thousand, respectively.

b. Changes in the pension fund

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Balance, beginning of period | $ 11,848 | $ 9,892 |
| Contributions | 1,027 | 1,217 |
| Interest earned | 250 | 315 |
| Balance, end of period | $ 13,125 | $ 11,424 |

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

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Balance, beginning of period | $ (4,332) | $ (3,703) |
| Net pension cost | 1,552 | 760 |
| Contributions | (1,027) | (1,217) |
| Balance, end of period | $ (3,807) | $ (4,160) |

## 15. INCOME TAX

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

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Income tax on pretax income at statutory rate (25%) | $ 371,353 | $ 129,010 |
| Add (deduct) tax effects of | | |
| Permanent difference | 1,318 | (1,840) |
| Temporary difference | 27,943 | (33,675) |
| Tax-exempt income | (128,826) | (28,324) |
| Investment tax credits | (144,486) | (50,405) |
| Additional 10% tax on unappropriated earnings | - | 35,639 |
| Current income tax payable | $ 127,302 | $ 50,405 |

b. Income tax expense consisted of:

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Current income tax payable | $ 127,302 | $ 50,405 |
| Deferred income tax | 23,987 | 91,867 |
| Adjustment to prior year's taxes | - | (5,517) |
| Income tax expense | $ 151,289 | $ 136,755 |

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

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Current, net | | |
| Investment tax credits | $ 61,335 | $ 28,367 |
| Allowance for inventory valuation and obsolescence losses | 47,123 | 57,873 |
| Foreign exchange loss (gain) | 11,614 | (11,012) |
| Allowance for sales returns and discounts | 4,448 | - |
| Deferred credits | 988 | 1,116 |
| Other | (145) | 152 |
| | 125,363 | 76,496 |
| Less: Valuation allowance | - | - |
| | $ 125,363 | $ 76,496 |
| Noncurrent, net | | |
| Deferred credits | $ 2,296 | $ 1,727 |
| Other | - | 30 |
| | 2,296 | 1,757 |
| Less: Valuation allowance | - | - |
| | $ 2,296 | $ 1,757 |

The effective tax rate used for computing deferred income tax assets on September 30, 2009 and 2008 was 25%. In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

d. As of September 30, 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 | $ 124,355 | $ 32,693 | 2013 |
| | Investment in an undeveloped area | $ 54,993 | $ 28,642 | 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:

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Balance of imputation credit account (ICA) | $ 93,878 | $ 108,364 |

The actual creditable ratios for the 2008 and 2007 earnings appropriation were 10.02% and 11.71%, respectively.

g. As of September 30, 2009, there were no unappropriated earnings generated before January 1, 1998.

h. Income tax returns through 2007 had been examined by the tax authorities.

## 16. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

| | Nine Months Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Classified as Operating Cost | Classified as Operating Expense | Total | Classified as Operating Cost | Classified as Operating Expense | Total |
| Labor cost | | | | | | |
| Salary | $ 44,431 | $ 689,002 | $ 733,433 | $ 34,347 | $ 222,640 | $ 256,987 |
| Labor and health insurance | 3,495 | 11,878 | 15,373 | 2,847 | 9,827 | 12,674 |
| Pension cost | 2,452 | 8,265 | 10,717 | 2,003 | 6,640 | 8,643 |
| Other | 6,284 | 16,916 | 23,200 | 7,646 | 19,993 | 27,639 |
| | $ 56,662 | $ 726,061 | $ 782,723 | $ 46,843 | $ 259,100 | $ 305,943 |
| Depreciation | $ 10,555 | $ 20,757 | $ 31,312 | $ 9,892 | $ 20,212 | $ 30,104 |
| Amortization | 1,630 | 39,499 | 41,129 | 306 | 40,967 | 41,273 |

## 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.

In their meeting on May 8, 2009, the Corporation's shareholders decided to issue up to 32,000 thousand common shares by private place, on May 8, 2009, the board of directors resolved to issue 5,600 thousand common shares at $10.00 par value and set May 15, 2009 as the fund raising deadline, with $117.5 as the offering price. This common share issuance was approved by and registered with the government authorities on May 22, 2009. The difference in price between par value and offering price was $602,000 thousand, recognized as additional paid-in capital. As of September 30, 2009, there were 26,400 thousand common shares had not been privately placed.

b. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the issue of shares in excess of par value, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the paid-in capital. Capital surplus on long-term equity investments should not be used for any purpose.

c. Appropriation of earnings and dividend policy

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

1) 1%, as remuneration to directors and supervisors;

2) 22% to 32%, as bonus to employees; and

3) The remainder, as dividends.

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

The Corporation's dividend appropriation is based on its profitability. In addition, since the Corporation is expanding fast, dividends will be appropriated considering the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, balance between cash and stock dividends, and the Corporation's long-term financial plans. The board of directors prepares the proposal on annual earnings distribution for the shareholders' approval. Profits may be distributed as cash or stock dividend; however, cash dividends should be at least 10% of total distribution.

For the nine months ended September 30, 2009 and 2008, the bonus to employees were $343,776 thousand and $119,435 thousand, respectively, and the remuneration to directors and supervisors were $15,626 thousand and $5,429 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 22% and 1%, respectively, of net income (net of the bonus and remuneration). 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 a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Corporation's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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 May 8, 2009 and June 13, 2008, the shareholders approved the Board of Directors' proposal on the appropriation and dividends per share of the 2008 and 2007 earnings, 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 | $2.83442 | $5.80912 |
| Stock dividends | 120,000 | 200,860 | $0.89508 | $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 | | |

The bonus to employees of $143,000 thousand and the remuneration to directors and supervisors of $6,495 thousand for 2008 were approved in the shareholders' meeting on May 8, 2009. The bonus to employees included a cash bonus of $30,000 thousand and a share bonus of $113,000 thousand. The number of shares of 661 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of $140,003 thousand and $6,364 thousand, respectively, reflected in the financial statements for the year ended December 31, 2008, and the differences of $2,997 thousand and $131 thousand, respectively, resulted from a provision in the Corporation's Articles of Incorporation to give incentives to employees, and had been adjusted in profit and loss for the nine months ended September 30, 2009.

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 2008 earnings had been approved by the Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan. The Board of Directors resolved that July 10, 2009 should be the ex-dividend date.

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 nine months ended September 30, 2009 and 2008 were as follows:

| | **Nine Months Ended September 30** | | | |
|---|---|---|---|---|
| | **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 | $93.98 | 1,000 | $123.10 |
| Options granted | 3,157 | 67.36 | - | |
| Options exercised | - | | - | |
| Balance, end of period | 4,657 | | 1,000 | |
| Options exercisable, end of period | - | | - | |
| Weighted-average fair value of options granted (NT$) | $ 31.64 | | $ - | |

The information about outstanding options as of September 30, 2009 and 2008 were as follows:

| | September 30 | | | |
|---|---|---|---|---|
| | 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 | $123.10 | 1.04 | $123.10 | 1.88 |
| The fourth plan | 35.73 | 1.81 | | |
| The fifth plan | 67.36 | 2.50-2.92 | | |

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$) | $176 |
| Exercise price (NT$) | $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 nine months ended September 30, 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:

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Net income | $ 1,280,314 | $ 355,676 |
| After income tax basic earnings per share (NT$) | $ 8.95 | $ 2.64 |

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 | $74 |
| Exercise price (NT$) | $39.10 | $74 |
| 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 recognized for employee stock options was $30,533 thousand for the nine months ended September 30, 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 |
|---|---|---|---|---|
| Nine months ended September 30, 2009 | | | | |
| For transfer to employees | 750 | - | 750 | - |
| Nine months ended September 30, 2008 | | | | |
| For transfer to employees | - | 750 | - | 750 |

In the nine months ended September 30, 2009, the Corporation transferred to its employees 750 thousand shares bought back from the market at NT$134.2 per share, resulting in a reduction of $19,637 thousand in retained earnings. Compensation cost recognized for treasury stock was $7,358 thousand for the nine months ended September 30, 2009.

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:

| | Amount (Numerator) | | Number of Shares (Denominator) (In Thousands) | EPS (NT$) | |
|---|---|---|---|---|---|
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| Nine months ended September 30, 2009 | | | | | |
| Basic EPS | | | | | |
| Income available to common shareholders | $ 1,485,452 | $ 1,334,163 | 142,993 | $ 10.39 | $ 9.33 |
| Effect of dilutive potential common stock | | | | | |
| Employee stock options | - | - | 2,622 | | |
| Bonus to employees | - | - | 1,657 | | |
| Diluted EPS | | | | | |
| Income available to common shareholders (including effect of dilutive potential common stock) | $ 1,485,452 | $ 1,334,163 | 147,272 | $ 10.09 | $ 9.06 |
| Nine months ended September 30, 2008 | | | | | |
| Basic EPS | | | | | |
| Income available to common shareholders | $ 516,079 | $ 379,324 | 134,846 | $ 3.83 | $ 2.81 |
| Effect of dilutive potential common stock | | | | | |
| Employee stock options | - | - | 52 | | |
| Bonus to employees | - | - | 1,133 | | |
| Diluted EPS | | | | | |
| Income available to common shareholders (including effect of dilutive potential common stock) | $ 516,079 | $ 379,324 | 136,031 | $ 3.79 | $ 2.79 |

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 nine months ended September 30, 2008 to decrease from NT$3.06 to NT$2.81 and from NT$3.04 to NT$2.79, respectively.

## 19. FINANCIAL INSTRUMENTS

a. Fair value

| | September 30 | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Nonderivative financial instruments | | | | |
| Assets | | | | |
| Cash | $ 3,261,950 | $ 3,261,950 | $ 1,264,991 | $ 1,264,991 |
| Financial assets at fair value through profit or loss - current | 461,367 | 461,367 | - | - |
| Notes and accounts receivable | 2,902,574 | 2,902,574 | 2,161,628 | 2,161,628 |
| Other financial assets | 63,972 | 63,972 | 128,402 | 128,402 |
| Restricted assets | 5,193 | 5,193 | 10,139 | 10,139 |
| Financial assets carried at cost - noncurrent | 34,553 | | 46,348 | |
| Guarantee deposits paid | 1,827 | 1,827 | 3,964 | 3,964 |
| Liabilities | | | | |
| Short-term loans | 894,187 | 894,187 | - | - |
| Notes and accounts payable | 2,805,599 | 2,805,599 | 1,859,453 | 1,859,453 |
| Accrued expenses | 699,113 | 699,113 | 370,934 | 370,934 |
| Guarantee deposits received | 66 | 66 | 353 | 353 |

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

4) 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 $1,367 thousand and $0 for fair value changes based on of using valuation methods for the nine months ended September 30, 2009 and 2008, respectively.

e. The financial assets exposed to fair value interest rate risk amounted to $287,093 thousand and $599,260 thousand as of September 30, 2009 and 2008, respectively. The financial assets exposed to cash flow interest rate risk amounted to $2,979,817 thousand and $677,493 thousand as of September 30, 2009 and 2008, respectively. The financial liabilities exposed to cash flow interest rate risk amounted to $894,187 thousand as of September 30, 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 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 the contracts. Other factors that affect financial assets include credit risk concentration, components of financial instruments, contract amount and other receivables. The maximum credit risk exposure of each financial instrument is the same as its carrying value.

3) Liquidity risk

The Corporation has no cash flow risks because it has sufficient operating capital to meet cash needs and had no forward exchange contracts outstanding as of September 30, 2009 and 2008, respectively. However, as of September 30, 2009, the Corporation had equity instruments without any active market; thus, it expects to have significant liquidity risk.

4) Cash flow interest rate risk.

Due to market interest rate fluctuations, assets and liabilities with floating interest rate will affect cash flows. The Corporation expects, however, that fluctuations will have no significant effect on future cash flows.

## 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 | Board director |
| Toshiba Europe GmbH | Subsidiary of Toshiba |
| Toshiba International Procurement Hong Kong Ltd. | Subsidiary of Toshiba |
| Toshiba America Information | Subsidiary of Toshiba |
| Toshiba Personal Computer System Corporation | 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 |
| 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.

| | Nine Months Ended September 30 | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| 1) Net sales | | | | |
| Toshiba Corporation, Japan | $ 245,305 | 2 | $ 669,930 | 5 |
| Aptos Technology | 242,998 | 1 | 93,012 | - |
| Other | 43,571 | - | 30,856 | - |
| | $ 531,874 | 3 | $ 793,798 | 5 |
| 2) Purchase | | | | |
| Toshiba Electronics Taiwan Corp. | $ 5,832,309 | 42 | $ 4,563,500 | 39 |
| Other | 11,974 | - | 4,421 | - |
| | $ 5,844,283 | 42 | $ 4,567,921 | 39 |
| 3) Processing expenses (included in manufacture expenses) | | | | |
| Aptos Technology | $ 179,774 | 18 | $ 274,530 | 17 |

| | September 30 | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| 4) Notes and accounts receivable | | | | |
| Aptos Technology | $ 98,553 | 3 | $ - | - |
| Toshiba Corporation, Japan | 22,018 | 1 | 147,936 | 7 |
| Other | 8,924 | - | 45,113 | 2 |
| | $ 129,495 | 4 | $ 193,049 | 9 |

| | September 30 | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Amount | % | Amount | % |
| 5) Other receivables (included in other financial assets) | | | | |
| Aptos Technology | $ 1,585 | 3 | $ 1,586 | 2 |
| Microtops Design Corp. | 154 | - | - | - |
| Flexmedia Electronics Corp. | 60 | - | 21,181 | 16 |
| | $ 1,799 | 3 | $ 22,767 | 18 |
| 6) Notes and accounts payable | | | | |
| Toshiba Electronics Taiwan Corp. | $ 1,419,241 | 51 | $ 545,880 | 30 |
| Aptos Technology | 38,554 | 1 | 98,717 | 5 |
| Other | 10 | - | 256 | - |
| | $ 1,457,805 | 52 | $ 644,853 | 35 |

7) In January 2008, the Corporation sold its high-tech multimedia technology and the related patent to Flexmedia Electronics Corp. ("Flexmedia") for $50,000 thousand. The gain on this sale was $49,070 thousand, but of this amount, $14,721 thousand was deferred and recognized at the percentage of the Corporation's equity in Flexmedia. As of September 30, 2009, the realized deferred credits had accumulated to $7,812 thousand. The Corporation also sold to Flexmedia some testing equipment at their book value of $15 thousand and $2,134 thousand in the nine months ended September 30, 2009 and 2008, respectively.

8) In August 2009, the Corporation sold a part of its 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 selling price was $170,811 thousand, and the gain on this sale was $49,309 thousand, but of this amount, $10,221 thousand was deferred and recognized at the percentage of the Corporation's equity in Aptos. As of September 30, 2009, the realized deferred credits had accumulated to $15 thousand. For its production, the Corporation also bought from Aptos testing equipment for $5,823 thousand in the nine months ended September 30, 2009.

## 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:

| | September 30 | |
|---|---|---|
| | 2009 | 2008 |
| Building, net | $ 261,878 | $ - |
| Land | 74,318 | - |
| Refundable deposits for the Customs Duty Bureau - certificates of deposits | 5,193 | 10,139 |
| Guarantee deposits paid - certificates of deposits | - | 2,000 |
| | $ 341,389 | $ 12,139 |

## 22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of September 30, 2009 were as follows:

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

   As of September 30, 2009, future remaining lease payments were as follows:

| Period/Year | Amount |
|---|---|
| 2009 (from October to December) | $ 430 |
| 2010 | 1,049 |
| | $ 1,479 |

b. Unused letters of credit amounted to $915,000 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. 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. In October 24, 2009, the ITC had completed the investigation of the last patent, the final determination was no infringement and has terminated the investigation.

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

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

   The Corporation has authorized the U.S. law firm Fish & Richardson P.C. and Whyte Hirschboeck Dudek S.C. to handle these lawsuits. 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.

e. 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.

f. 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. In July 2009, the Hsinchu District Court ruled against the Corporation. The Corporation had appealled against the judgment to the Taiwan High Court in August 2009. The Corporation believes this case would not have a material effect on the Corporation's financial statements.

## 23. SUBSEQUENT EVENT

On October 1, 2009, the Corporation and Gieseke & Devrient GmbH signed a joint venture agreement to form a company, Giesecke & Devrient Secure Flash Solution GmbH, to develop and market hardware-based high level security solutions for mobile end devices.

## 24. 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: Table 5 (attached)

i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (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**
**SEPTEMBER 30, 2009**
**(In Thousands of New Taiwan Dollars)**

| Holding Company Name | Marketable Securities Type/Name and Issuer | Relationship with the Holding Company | Financial Statement Account | September 30, 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 | $ 120,402 | - | $ 120,402 | Note 4 |
| | The Forever Bond Fund | - | Financial assets at fair value through profit or loss - current | 8,071 | 120,360 | - | 120,360 | Note 4 |
| | Maga Diamond Bond Fund | - | Financial assets at fair value through profit or loss - current | 5,047 | 60,181 | - | 60,181 | Note 4 |
| | NITC Bond Fund | - | Financial assets at fair value through profit or loss - current | 353 | 60,165 | - | 60,165 | Note 4 |
| | NITC Taiwan Bond Fund | - | Financial assets at fair value through profit or loss - current | 4,122 | 60,154 | - | 60,154 | Note 4 |
| | PCA Well Pool Fund | - | Financial assets at fair value through profit or loss - current | 3,090 | 40,105 | - | 40,105 | Note 4 |
| | Common stock | | | | | | | |
| | Lian Xu Dong Investment Corp. | Subsidiary | Investments accounted for by the equity method | 2,000 | 20,437 | 100.00 | 20,437 | Note 3 |
| | Aptos Technology | Investment by the equity method | Investments accounted for by the equity method | 20,340 | 326,219 | 20.73 | 326,219 | Note 2 |
| | Flexmedia Electronics Corp. | Investment by the equity method | Investments accounted for by the equity method | 1,500 | 7,127 | 30.00 | 7,127 | Note 2 |
| | Microtops Design Corp. | Investment by the equity method | Investments accounted for by the equity method | 2,264 | 23,558 | 49.00 | 23,558 | Note 2 |
| | Trison Technology Corporation | - | Financial assets carried at cost - noncurrent | 2,000 | 10,600 | 7.41 | 10,208 | Note 2 |
| | Metison Technologies Corporation | - | Financial assets carried at cost - noncurrent | 570 | 3,500 | 19.00 | 3,102 | Note 2 |
| | Hycon Technologies Corporation | - | Financial assets carried at cost - noncurrent | 700 | 4,000 | 6.19 | 5,175 | Note 2 |
| | Foreign beneficiary certificate | | | | | | | |
| | Jafco Asia Technology Fund IV L.P. | - | Financial assets carried at cost - noncurrent | 550 | 16,453 | 0.50 | 15,037 | Note 4 |
| Lian Xu Dong Investment Corp. | Common stock | | | | | | | |
| | Jim-Dandy Technologies Corporation | - | Financial assets carried at cost - noncurrent | 1,113 | 10,000 | 19.23 | 10,855 | Note 2 |

Note 1: The Corporation held marketable securities that had not been guaranteed, pledged or mortgaged as collaterals or restricted by other commitments.
Note 2: The calculation of the net asset value was based on the investee's financial statements as of September 30, 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 September 30, 2009, which had been reviewed.
Note 4: The calculation of the market value was based on their net assets value as of September 30, 2009.

TABLE 2

## PHISON ELECTRONICS CORP.

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**NINE MONTHS ENDED SEPTEMBER 30, 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 | $ 120,402 |
| | The Forever Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 8,071 | 120,000 | - | - | - | - | 8,071 | 120,360 |
| | Polaris De-Li Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 7,711 | 120,000 | 7,711 | 120,138 | 120,000 | 138 | - | - |
| | Polaris De-Bao Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 10,476 | 120,000 | 10,476 | 120,135 | 120,000 | 135 | - | - |
| | UPAMC James Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 6,273 | 100,000 | 6,273 | 100,159 | 100,000 | 159 | - | - |
| | Fuh-Hwa Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 7,258 | 100,000 | 7,258 | 100,121 | 100,000 | 121 | - | - |
| | ING Taiwan Income Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 6,113 | 100,000 | 6,113 | 100,120 | 100,000 | 120 | - | - |
| | Yua Ta Wan Tai Bond Fund | Financial assets at fair value through profit or loss - current | - | - | - | - | 6,927 | 100,000 | 6,927 | 100,114 | 100,000 | 114 | - | - |

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

**TABLE 3**

## PHISON ELECTRONICS CORP.

**DISPOSAL OF INDIVIDUAL REAL ESTATE PROPERTIES AT PRICES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**NINE MONTHS ENDED SEPTEMBER 30, 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 26, 2009 | Land: January 15, 2007<br>Buildings: April 1, 2008 | $ 23,522<br>97,980 | $ 28,271<br>142,540 | Received in full<br>Received in full | $ 4,749<br>44,560 | Aptos Technology | Investment by the equity method | Providing the growing need for Aptos. | Valuation report | - |

## PHISON ELECTRONICS CORP.

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**NINE MONTHS ENDED SEPTEMBER 30, 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 | $ 5,832,309 | 42 | Net 30 days after monthly closing | None | None | $ (1,419,241) | (51) | - |
| | Toshiba Corporation, Japan | A corporate member of the Corporation's board of directors | Sale | (245,305) | (2) | Net 30 days after monthly closing | None | None | 22,018 | 1 | - |
| | Aptos Technology | Investment by the equity method | Sale | (242,998) | (1) | Net 30 days after monthly closing | None | None | 98,553 | 3 | - |

**TABLE 5**

## PHISON ELECTRONICS CORP.

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**NINE MONTHS ENDED SEPTEMBER 30, 2009**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Nature of Relationship | Ending Balance | | Turnover Rate | Overdue | | Amount Received in Subsequent Period | Allowance for Bad Debts |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Amount | Action Taken | | |
| Phison Electronics Corp. | Aptos Technology | Investment by the equity method | Accounts receivable | $ 98,553 | 4.11 | $ - | - | $ - | $ - |
| | | | Other receivable | $ 1,585 | - | - | - | - | - |

## PHISON ELECTRONICS CORP.

**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**
**NINE MONTHS ENDED SEPTEMBER 30, 2009**
**(In Thousands of New Taiwan Dollars)**

| Investor | Investee | Location | Main Businesses and Products | Investment Amount | | Balance as of September 30, 2009 | | | Net (Loss) Income of the Investee | Investment (Loss) Income | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | September 30, 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 | $ 20,437 | $ (2) (Note 2) | $ (2) | Subsidiary |
| | Aptos Technology | Miaoli, Taiwan | Memory card assembly and test flash application | 245,947 | 245,947 | 20,340 | 20.73 | 326,219 | 877 (Note 1) | 182 | Investment by the equity method |
| | Flexmedia Electronics Corp. | Hsinchu, Taiwan | High-tech Multi-Media production R&D, sales and product | 15,000 | 60,000 | 1,500 | 30.00 | 7,127 | (26,242) (Note 1) | (7,873) | 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 | 23,558 | 3,856 (Note 1) | 1,889 | 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.