



COMPANY UPDATE
Phison Electronics (8299.TWO)

Sell

Below expectations; maintain Sell on deteriorating outlook

What's changed

Phison reported 3Q sales and gross profit of NT\$ 5,171mn and NT\$165mn, respectively, lower than our forecasts by 5% and 60%. Biggest surprise was the sharp decline of 3Q GM as a result of the severe NAND price correction, which dropped to 3.2% from 10.2% in 2Q, and compared with our 7.5% estimate. On a positive note, the company reported a forex gain of NT\$124mn from significant NTD depreciation, which helped it report a net profit of NT\$71mn, even after the operating loss of NT\$52mn. But reported EPS of NT\$0.58 still fell 60% short of our original estimate at NT\$1.44.

Implications

Despite the significant share price correction (down 46% since the end of August, vs. -35% for the TSE), we continue to retain our bearish view on Phison because we expect (1) continued NAND price weakness heading into year-end with lackluster Christmas demand, (2) a potential prolonged NAND oversupply into 2009 and (3) macro-driven end-demand slowdown, particularly on consumer-centered NAND applications. As we expect the industry and macroeconomic deterioration to accelerate, we reduce our 2008E-10E sales forecasts by 6%-11% and EPS estimates by 30%-59% to factor in both worsening margins and weaker revenue trends.

Valuation

We reduce our 12-m TP to NT\$52 (from NT\$100) based on 15X (trough-cycle multiple) 12m-forward EPS; we maintain our Sell rating.

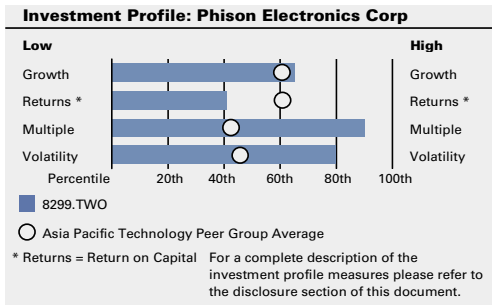
Key risks

Stronger-than-expected consumer demand, easing the NAND oversupply situation in the market.

INVESTMENT LIST MEMBERSHIP
 Asia Pacific Sell List

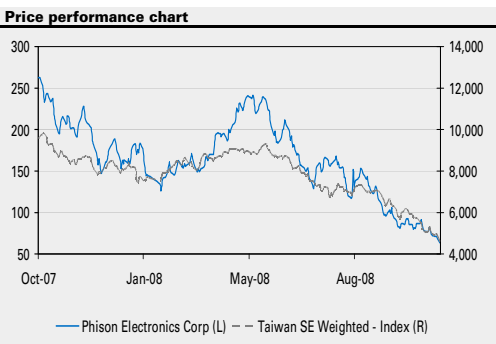
Coverage View: Neutral
 Taiwan:
 Semiconductors

Joey Cheng
 +886(2)2730-4186 | joey.cheng@gs.com Goldman Sachs (Asia) L.L.C., Taipei Branch
Jeffrey W. Chen
 +886(2)2730-4190 | jeffrey.w.chen@gs.com Goldman Sachs (Asia) L.L.C., Taipei Branch



Key data	Current
Price (NT\$)	63.90
12 month price target (NT\$)	52.00
Market cap (NT\$ mn / US\$ mn)	7,856.8 / 235.8
Foreign ownership (%)	30.3

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	12.05	4.17	3.45	4.01
EPS revision (%)	0.0	(29.7)	(58.0)	(59.2)
EPS growth (%)	19.7	(65.4)	(17.3)	16.4
EPS (dil) (NT\$) New	12.05	4.17	3.45	4.01
P/E (X)	5.3	15.3	18.5	15.9
P/B (X)	1.5	1.5	1.4	1.2
EV/EBITDA (X)	16.2	12.4	17.0	14.9
Dividend yield (%)	3.9	4.4	1.6	1.3
ROE (%)	35.6	9.9	7.6	8.0



Share price performance (%)	3 month	6 month	12 month
Absolute	(60.3)	(71.4)	(76.2)
Rel. to Taiwan SE Weighted Index	(36.1)	(43.8)	(50.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/24/2008 close.

The Goldman Sachs Group, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification, see the end of the text. Other important disclosures follow the Reg AC certification, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Phison Electronics: Summary financials

Profit model (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (NT\$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	20,258.2	19,570.0	20,527.1	23,483.9	Cash & equivalents	2,757.6	1,391.5	420.9	77.9
Cost of goods sold	(17,956.8)	(18,209.0)	(19,194.7)	(22,002.9)	Accounts receivable	1,838.1	2,104.5	2,653.0	3,261.5
SG&A	(326.4)	(448.5)	(411.2)	(426.0)	Inventory	1,783.1	3,102.5	3,827.7	4,627.2
R&D	(390.3)	(441.3)	(484.5)	(513.4)	Other current assets	449.7	1,011.7	1,217.5	1,333.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	6,828.6	7,610.3	8,119.0	9,299.6
ESO expense	--	--	--	--	Net PP&E	535.1	925.3	1,453.7	2,011.1
EBITDA	1,652.7	519.5	436.7	541.7	Net intangibles	86.1	77.1	83.1	91.7
Depreciation & amortization	(68.0)	(48.2)	0.0	0.0	Total investments	306.5	449.0	483.8	518.8
EBIT	1,584.7	471.3	436.7	541.7	Other long-term assets	0.0	0.0	0.0	0.0
Interest income	24.3	24.3	9.9	5.3	Total assets	7,756.3	9,061.7	10,139.5	11,921.3
Interest expense	0.1	0.0	0.0	(4.5)	Accounts payable	2,411.0	3,112.2	3,587.5	4,372.4
Income/(loss) from uncons. subs.	45.5	11.0	34.8	35.0	Short-term debt	0.0	0.0	0.0	300.0
Others	(124.1)	157.9	0.0	0.0	Other current liabilities	348.7	633.6	722.5	782.1
Pretax profits	1,530.5	664.5	481.4	577.5	Total current liabilities	2,759.7	3,745.8	4,310.0	5,454.5
Income tax	(136.0)	(152.3)	(57.8)	(84.3)	Long-term debt	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	0.0	13.1	15.7	18.4
Net income pre-preferred dividends	1,394.6	512.1	423.6	493.2	Total long-term liabilities	0.0	13.1	15.7	18.4
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	2,759.7	3,758.9	4,325.7	5,473.0
Net income (pre-exceptionals)	1,394.6	512.1	423.6	493.2	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Total common equity	4,996.6	5,302.7	5,813.7	6,448.3
Net income	1,394.6	512.1	423.6	493.2	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-except) (NT\$)	12.05	4.17	3.45	4.01	Total liabilities & equity	7,756.3	9,061.7	10,139.5	11,921.3
EPS (basic, post-except) (NT\$)	12.05	4.17	3.45	4.01	BVPS (NT\$)	43.18	43.13	47.28	52.44
EPS (diluted, post-except) (NT\$)	12.05	4.17	3.45	4.01					
EPS excl. ESO expense (basic) (NT\$)	12.05	4.17	3.45	4.01					
EPS excl. ESO expense (dil.) (NT\$)	12.05	4.17	3.45	4.01					
DPS (NT\$)	2.51	2.84	1.04	0.86					
Dividend payout ratio (%)	20.8	68.1	30.2	21.5					
Free cash flow yield (%)	3.0	(18.0)	(3.8)	0.3					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	62.7	(3.4)	4.9	14.4	ROE (%)	35.6	9.9	7.6	8.0
EBITDA growth	38.6	(68.6)	(15.9)	24.0	ROA (%)	20.6	6.1	4.4	4.5
EBIT growth	37.5	(70.3)	(7.3)	24.0	ROACE (%)	75.2	16.0	8.9	8.2
Net income growth	30.2	(63.3)	(17.3)	16.4	Inventory days	33.4	49.0	65.9	70.1
EPS growth	19.7	(65.4)	(17.3)	16.4	Receivables days	36.1	36.8	42.3	46.0
Gross margin	11.4	7.0	6.5	6.3	Payable days	51.4	55.4	63.7	66.0
EBITDA margin	8.2	2.7	2.1	2.3	Net debt/equity (%)	(55.2)	(26.2)	(7.2)	3.4
EBIT margin	7.8	2.4	2.1	2.3	Interest cover - EBIT (X)	NM	NM	NM	NM
					Valuation	12/07	12/08E	12/09E	12/10E
Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E	P/E (analyst) (X)	5.3	15.3	18.5	15.9
Net income pre-preferred dividends	1,394.6	512.1	423.6	493.2	P/B (X)	1.5	1.5	1.4	1.2
D&A add-back	68.0	48.2	0.0	0.0	EV/EBITDA (X)	16.2	12.4	17.0	14.9
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	3.9	4.4	1.6	1.3
Net (inc)/dec working capital	(196.4)	(884.6)	(798.3)	(623.2)					
Other operating cash flow	79.2	(601.1)	592.1	713.8					
Cash flow from operations	1,345.4	(925.4)	217.4	583.8					
Capital expenditures	(482.1)	(505.0)	(528.3)	(557.5)					
Acquisitions	(180.7)	(142.5)	(34.8)	(35.0)					
Divestitures	0.0	0.0	0.0	0.0					
Others	(114.1)	(128.9)	(499.6)	(531.0)					
Cash flow from investments	(777.0)	(776.3)	(1,062.7)	(1,123.5)					
Dividends paid (common & pref)	(290.3)	0.0	(128.0)	(105.9)					
Inc/(dec) in debt	0.0	0.0	0.0	300.0					
Common stock issuance (repurchase)	239.0	335.3	0.0	0.0					
Other financing cash flows	804.4	13.4	5.2	5.4					
Cash flow from financing	753.1	335.6	(125.4)	196.8					
Total cash flow	1,321.6	(1,366.1)	(970.7)	(342.9)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

Joey Cheng

joey.cheng@gs.com

Jeffrey W. Chen

jeffrey.w.chen@gs.com

Exhibit 1: Disappointing results from Phison

Phison Electronics (8299.TWO) Summary P&L (NT\$m)	3Q2008 (GAAP)			3Q2008 (Non-GAAP)			2Q2008 (GAAP QoQ)		3Q2007 (GAAP YoY)	
	Actual	GS est.	Diff.	Actual	GS est.	Diff.	Actual	%	Actual	%
Revenues	5,171	5,458	-5%	5,171	5,458	-5%	4,902	5%	5,941	-13%
Gross profits	165	410	-60%	165	410	-60%	500	-67%	802	-79%
Operating profits	(52)	186	-128%	(33)	243	-114%	212	-125%	508	-110%
Non-operating income	128	11	1085%	128	11	1085%	12	931%	(35)	-465%
Pretax earnings	75	197	-62%	94	254	-63%	224	-66%	473	-84%
Net earnings	71	177	-60%	89	228	-61%	106	-33%	413	-83%
EPS (NT\$)	0.58	1.44	-60%	0.72	1.86	-61%	0.86	-33%	3.57	-84%
Ratio analysis										
Gross margin (%)	3.2%	7.5%		3.2%	7.5%		10.2%		13.5%	
EBIT margin (%)	-1.0%	3.4%		-0.6%	4.4%		4.3%		8.5%	
Tax expense (as % of EBT)	5.9%	10.0%		5.9%	10.0%		52.6%		12.5%	
Net margin (%)	1.4%	3.2%		1.7%	4.2%		2.2%		7.0%	
Return analysis										
ROA (% , annualized)	3.0%	4.2%		3.7%	8.5%		5.2%		21.8%	
ROE (% , annualized)	4.5%	6.9%		5.6%	14.7%		8.5%		38.5%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 2: We reduce our 2008E-10E sales forecasts by 6%-11% and EPS estimates by 30%-59% to factor in both worsening margins and weaker revenue trends

Phison Electronics (8299.TWO)									
Summary P&L (non-GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	19,570	20,919	-6%	20,527	23,124	-11%	23,484	26,307	-11%
Gross profits	1,361	1,814	-25%	1,332	2,123	-37%	1,481	2,470	-40%
Operating profits	613	1,099	-44%	572	1,425	-60%	698	1,754	-60%
Non-operating income	193	25	668%	45	44	2%	36	47	-24%
Pretax earnings	806	1,124	-28%	617	1,469	-58%	734	1,801	-59%
Net earnings	617	899	-31%	543	1,292	-58%	627	1,539	-59%
EPS (NT\$)	5.01	7.31	-31%	4.42	10.51	-58%	5.10	12.51	-59%
Ratio analysis									
Gross margin (%)	7.0%	8.7%		6.5%	9.2%		6.3%	9.4%	
EBIT margin (%)	3.1%	5.3%		2.8%	6.2%		3.0%	6.7%	
Tax expense (as % of EBT)	23.5%	20.1%		12.0%	12.0%		14.6%	14.6%	
Net margin (%)	3.2%	4.3%		2.6%	5.6%		2.7%	5.8%	
Return analysis									
ROA (% , annualized)	6.1%	8.6%		4.4%	9.9%		4.5%	9.9%	
ROE (% , annualized)	9.9%	14.6%		7.6%	17.9%		8.0%	17.5%	

Phison Electronics (8299.TWO)									
Summary P&L (GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2009E New	2009E Old	Diff.
Revenues	19,570	20,919	-6%	20,527	23,124	-11%	23,484	26,307	-11%
Gross profits	1,361	1,814	-25%	1,332	2,123	-37%	1,481	2,470	-40%
Operating profits	471	884	-47%	437	1,102	-60%	542	1,369	-60%
Non-operating income	193	25	668%	45	44	2%	36	47	-24%
Pretax earnings	664	909	-27%	481	1,146	-58%	577	1,416	-59%
Net earnings	512	729	-30%	424	1,008	-58%	493	1,210	-59%
EPS (NT\$)	4.17	5.93	-30%	3.45	8.20	-58%	4.01	9.84	-59%
Ratio analysis									
Gross margin (%)	7.0%	8.7%		6.5%	9.2%		6.3%	9.4%	
EBIT margin (%)	2.4%	4.2%		2.1%	4.8%		2.3%	5.2%	
Tax expense (as % of EBT)	22.9%	19.9%		12.0%	12.0%		14.6%	14.6%	
Net margin (%)	2.6%	3.5%		2.1%	4.4%		2.1%	4.6%	
Return analysis									
ROA (% , annualized)	5.1%	7.0%		3.4%	7.7%		3.5%	7.8%	
ROE (% , annualized)	8.3%	11.8%		5.9%	14.0%		6.3%	13.8%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: Phison's quarterly profit model (parent; NT\$m)

Non-GAAP basis

Summary P&L (non-GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E
Net sales	5,941	5,840	4,455	4,902	5,171	5,041	4,190	4,604	20,258	19,570	20,527	23,484
Cost of good sold (COGS)	(5,139)	(5,394)	(4,066)	(4,402)	(5,006)	(4,735)	(3,918)	(4,314)	(17,957)	(18,209)	(19,195)	(22,003)
Gross profits	802	445	390	500	165	306	272	290	2,301	1,361	1,332	1,481
Operating expenses	(182)	(217)	(135)	(238)	(198)	(176)	(169)	(176)	(717)	(748)	(760)	(783)
SG&A	(71)	(129)	(83)	(147)	(107)	(91)	(87)	(91)	(326)	(427)	(391)	(402)
R&D	(111)	(88)	(52)	(92)	(91)	(86)	(82)	(86)	(390)	(321)	(369)	(380)
Operating profits	620	228	254	262	(33)	130	103	114	1,585	613	572	698
Non-operating income/(loss)	(35)	(71)	(8)	12	128	62	12	12	(54)	193	45	36
Earnings before tax (EBT)	585	157	246	274	94	191	115	126	1,531	806	617	734
Income tax credit/(expense)	(73)	47	(20)	(144)	(6)	(20)	(13)	(15)	(136)	(189)	(74)	(107)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings after tax (EAT)	512	205	227	130	89	171	102	111	1,395	617	543	627
EPS (NT\$)	4.42	1.77	1.84	1.06	0.72	1.39	0.83	0.91	12.05	5.01	4.42	5.10
EPS (fully diluted, NT\$)	4.42	1.77	1.84	1.06	0.72	1.39	0.83	0.91	12.05	5.01	4.42	5.10
Ratio analysis and assumptions												
As % of sales												
Gross margin	13.5%	7.6%	8.7%	10.2%	3.2%	6.1%	6.5%	6.3%	11.4%	7.0%	6.5%	6.3%
Operating expense ratio	-3.1%	-3.7%	-3.0%	-4.9%	-3.8%	-3.5%	-4.0%	-3.8%	-3.5%	-3.8%	-3.7%	-3.3%
Operating margin	10.4%	3.9%	5.7%	5.3%	-0.6%	2.6%	2.5%	2.5%	7.8%	3.1%	2.8%	3.0%
Pre-tax margin	9.9%	2.7%	5.5%	5.6%	1.8%	3.8%	2.7%	2.7%	7.6%	4.1%	3.0%	3.1%
Tax rate (as % of EBT)	12.5%	-30.1%	7.9%	52.6%	5.9%	10.5%	11.0%	11.6%	8.9%	23.5%	12.0%	14.6%
Net margin	8.6%	3.5%	5.1%	2.7%	1.7%	3.4%	2.4%	2.4%	6.9%	3.2%	2.6%	2.7%
Qoq growth (%)												
Sales	36.5%	-1.7%	-23.7%	10.0%	5.5%	-2.5%	-16.9%	9.9%				
Gross profits	23.1%	-44.5%	-12.5%	28.3%	-67.0%	85.6%	-11.1%	6.8%				
Operating profits	30.9%	-63.2%	11.5%	2.9%	NM	NM	-20.2%	10.6%				
Non-operating profits	NM	NM	NM	NM	931.3%	-51.8%	-80.9%	-0.9%				
Pre-tax profits	21.4%	-73.1%	56.4%	11.4%	-65.5%	102.4%	-39.7%	9.4%				
Net profits	27.3%	-60.0%	10.7%	-42.6%	-31.6%	92.5%	-40.1%	8.8%				
EPS (weighted averaged)	27.3%	-60.0%	4.1%	-42.6%	-31.6%	92.5%	-40.1%	8.8%				
YoY growth (%)												
Sales	93.1%	18.0%	8.1%	12.6%	-13.0%	-13.7%	-6.0%	-6.1%	62.7%	-3.4%	4.9%	14.4%
Gross profits	99.2%	-33.2%	-3.0%	-23.3%	-79.4%	-31.3%	-30.2%	-41.9%	34.9%	-40.9%	-2.1%	11.2%
Operating profits	151.3%	-53.0%	-3.1%	-44.7%	NM	-43.2%	-59.3%	-56.3%	37.5%	-61.3%	-6.6%	22.0%
Non-operating profits	NM	NM	NM	45.8%	NM	NM	NM	-5.7%	NM	NM	-76.9%	-19.9%
Pre-tax profits	91.3%	-64.2%	-19.5%	-43.2%	-83.9%	21.5%	-53.2%	-54.0%	38.7%	-47.3%	-23.4%	19.0%
Net profits	68.4%	-51.4%	-17.8%	-67.7%	-82.6%	-16.4%	-54.8%	-14.3%	30.2%	-55.8%	-11.9%	15.5%
EPS	54.9%	-55.3%	-22.6%	-69.6%	-83.7%	-21.4%	-54.8%	-14.3%	19.7%	-58.4%	-11.9%	15.5%
Dividend policies												
Cash dividends (NT\$ per share)									2.51	2.84	1.04	0.86
Payout ratio (%)									27.1%	25.0%	25.0%	25.0%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: Phison's quarterly profit model (parent; NT\$m)

GAAP basis

Summary P&L (GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E
Net sales	5,941	5,840	4,455	4,902	5,171	5,041	4,190	4,604	20,258	19,570	20,527	23,484
Cost of good sold (COGS)	(5,139)	(5,394)	(4,066)	(4,402)	(5,006)	(4,735)	(3,918)	(4,314)	(17,957)	(18,209)	(19,195)	(22,003)
Gross profits	802	445	390	500	165	306	272	290	2,301	1,361	1,332	1,481
Operating expenses	(295)	(262)	(165)	(288)	(217)	(219)	(194)	(204)	(1,023)	(890)	(896)	(939)
SG&A	(87)	(136)	(87)	(154)	(110)	(97)	(91)	(95)	(372)	(448)	(411)	(426)
R&D	(207)	(126)	(77)	(134)	(107)	(122)	(104)	(109)	(651)	(441)	(485)	(513)
Operating profits	508	183	225	212	(52)	87	78	87	1,278	471	437	542
Non-operating income/(loss)	(35)	(71)	(8)	12	128	62	12	12	(54)	193	45	36
Earnings before tax (EBT)	473	112	217	224	75	148	90	98	1,224	664	481	577
Income tax credit/(expense)	(59)	34	(14)	(118)	(4)	(16)	(10)	(11)	(115)	(152)	(58)	(84)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
Earnings after tax (EAT)	413	146	202	106	71	133	80	87	1,109	512	424	493
EPS (pro forma, NT\$)	3.57	1.26	1.64	0.86	0.58	1.08	0.65	0.71	9.58	4.17	3.45	4.01
EPS (pro forma, fully diluted, NT\$)	3.57	1.26	1.64	0.86	0.58	1.08	0.65	0.71	9.58	4.17	3.45	4.01
Ratio analysis and assumptions												
As % of sales												
Gross margin	13.5%	7.6%	8.7%	10.2%	3.2%	6.1%	6.5%	6.3%	11.4%	7.0%	6.5%	6.3%
Operating expense ratio	-5.0%	-4.5%	-3.7%	-5.9%	-4.2%	-4.3%	-4.6%	-4.4%	-5.1%	-4.5%	-4.4%	-4.0%
Operating margin	8.5%	3.1%	5.0%	4.3%	-1.0%	1.7%	1.9%	1.9%	6.3%	2.4%	2.1%	2.3%
Pre-tax margin	8.0%	1.9%	4.9%	4.6%	1.5%	2.9%	2.1%	2.1%	6.0%	3.4%	2.3%	2.5%
Tax rate (as % of EBT)	12.5%	-30.1%	6.7%	52.6%	5.9%	10.5%	11.0%	11.6%	9.4%	22.9%	12.0%	14.6%
Net margin	7.0%	2.5%	4.5%	2.2%	1.4%	2.6%	1.9%	1.9%	5.5%	2.6%	2.1%	2.1%
QoQ growth (%)												
Sales	36.5%	-1.7%	-23.7%	10.0%	5.5%	-2.5%	-16.9%	9.9%				
Gross profits	23.1%	-44.5%	-12.5%	28.3%	-67.0%	85.6%	-11.1%	6.8%				
Operating profits	31.8%	-64.0%	22.9%	-5.8%	NM	NM	-10.5%	11.2%				
Non-operating profits	NM	NM	NM	NM	931.3%	-51.8%	-80.9%	-0.9%				
Pre-tax profits	20.0%	-76.2%	92.9%	3.5%	-66.4%	97.1%	-39.6%	9.6%				
Net profits	25.9%	-64.7%	38.3%	-47.4%	-33.3%	87.4%	-40.0%	8.9%				
EPS (weighted averaged)	25.9%	-64.7%	30.2%	-47.4%	-33.3%	87.4%	-40.0%	8.9%				
Yoy growth (%)												
Sales	93.1%	18.0%	8.1%	12.6%	-13.0%	-13.7%	-6.0%	-6.1%	62.7%	-3.4%	4.9%	14.4%
Gross profits	101.9%	-32.4%	-3.0%	-23.3%	-79.4%	-31.3%	-30.2%	-41.9%	36.4%	-40.9%	-2.1%	11.2%
Operating profits	NM	68.0%	11.4%	-45.0%	NM	-52.5%	-65.4%	-59.1%	554.6%	-63.1%	-7.3%	24.0%
Non-operating profits	NM	NM	NM	45.8%	NM	NM	NM	-5.7%	NM	NM	-76.9%	-19.9%
Pre-tax profits	1274.1%	77.2%	-11.6%	-43.1%	-84.1%	32.1%	-58.7%	-56.2%	736.5%	-45.7%	-27.5%	20.0%
Net profits	1110.1%	140.7%	-8.5%	-67.6%	-82.9%	-9.1%	-60.6%	-18.3%	683.4%	-53.8%	-17.3%	16.4%
EPS	1013.0%	121.4%	-13.9%	-69.5%	-83.9%	-14.5%	-60.6%	-18.3%	620.5%	-56.5%	-17.3%	16.4%
Dividend policies												
Cash dividends (NT\$ per share)									2.51	2.84	1.04	0.86
Payout ratio (%)									27.1%	25.0%	25.0%	25.0%

Source: Company data, Goldman Sachs Research estimates.

Reg AC

I, Joey Cheng, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Joey Cheng: Asia Pacific Technology.

Asia Pacific Technology: AAC Acoustic, Acer, ASUSTeK Computer, Atheros Communications, Inc., AU Optronics, Catcher Technology, Cheng Uei Precision (Foxlink), Chi Mei Optoelectronics, Compal Electronics, D-Link Corp., Epistar, Everlight Electronics, Foxconn Technology, Gemtek Technology, Giga-Byte Technology, Global Mixed-mode Technology, Hon Hai Precision, HTC Corp., Innolux Display Corp., Inventec Appliances, ITEQ, Kinsus Interconnect Technology, Largan Precision, Mediatek, Merry Electronics, MiTAC International, Nanya PCB, Phison Electronics, Phoenix Precision Technology, Quanta Computer, Realtek Semiconductor, Richtek Technology, Silitech Technology, Sunplus Technology, Sunplus Technology (GDR), TPV Technology, Tripod, TXC Corp, Unimicron, VIA Technologies, Wistron, Wistron NeWeb, ZyXEL Communications Corp..

Company-specific regulatory disclosures

The following disclosures relate to relationships between The Goldman Sachs Group, Inc. (with its affiliates, "Goldman Sachs") and companies covered by the Global Investment Research Division of Goldman Sachs and referred to in this research.

There are no company-specific disclosures for: Phison Electronics (NT\$63.90)

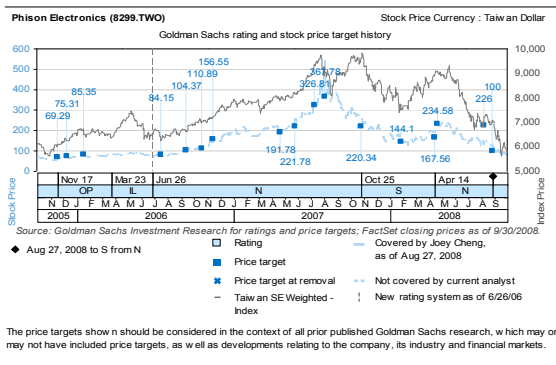
Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	26%	57%	17%	52%	47%	37%

As of October 1, 2008, Goldman Sachs Global Investment Research had investment ratings on 3,165 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)



Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts. **Distribution of ratings:** See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>. Goldman, Sachs & Co. is a member of SIPC(<http://www.sipc.org>).

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Canada:** Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in Russian law, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian Law on Appraisal. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at http://www.gs.com/client_services/global_investment_research/europeanpolicy.html

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer under the Financial Instrument and Exchange Law, registered with the Kanto Financial Bureau (Registration No. 69), and is a member of Japan Securities Dealers Association (JSDA) and Financial Futures Association of Japan (FFJAJ). Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price, if any, have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Ratings, coverage views and related definitions prior to June 26, 2006

Our rating system requires that analysts rank order the stocks in their coverage groups and assign one of three investment ratings (see definitions below) within a ratings distribution guideline of no more than 25% of the stocks should be rated Outperform and no fewer than 10% rated Underperform. The analyst assigns one of three coverage views (see definitions below), which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and valuation. Each coverage group, listing all stocks covered in that group, is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>.

Definitions

Outperform (OP). We expect this stock to outperform the median total return for the analyst's coverage universe over the next 12 months. **In-Line (IL).** We expect this stock to perform in line with the median total return for the analyst's coverage universe over the next 12 months. **Underperform (U).** We expect this stock to underperform the median total return for the analyst's coverage universe over the next 12 months.

Coverage views: Attractive (A). The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Current Investment List (CIL). We expect stocks on this list to provide an absolute total return of approximately 15%-20% over the next 12 months. We only assign this designation to stocks rated Outperform. We require a 12-month price target for stocks with this designation. Each stock on the CIL will **automatically** come off the list after 90 days unless renewed by the covering analyst and the relevant Regional Investment Review Committee.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also be distributing research in Germany.

General disclosures in addition to specific disclosures required by certain jurisdictions

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/publications/risks/riskchap1.jsp>. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, One New York Plaza, New York, NY 10004.

Copyright 2008 The Goldman Sachs Group, Inc.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.