

**VIA Technologies, Inc.**

**Financial Statements for the  
Years Ended December 31, 2008 and 2007 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
VIA Technologies, Inc.

We have audited the accompanying balance sheets of VIA Technologies, Inc. as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VIA Technologies, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of VIA Technologies, Inc. and its subsidiaries as of and for the years ended December 31, 2008 and 2007, and our report dated March 26, 2009 (not presented herewith) has expressed unqualified opinion on those financial statements.

March 26, 2009

### Notice to Readers

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

*For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# VIA TECHNOLOGIES, INC.

## BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 2,221,579	20	\$ 4,567,788	27	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	\$ 1,124	-	\$ -	-
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	1,472,075	13	2,054,573	12	Notes payable	64,802	1	26	-
Available-for-sale financial assets, current (Notes 2 and 6)	34,512	-	2,491	-	Accounts payable	750,092	7	1,972,623	12
Notes receivable, net (Note 2)	3,709	-	2,586	-	Notes and accounts payable to related parties (Note 27)	70,582	1	55,695	-
Accounts receivable, net (Notes 2 and 7)	313,949	3	299,531	2	Income tax payable (Notes 2 and 25)	450,629	4	864,603	5
Notes and accounts receivable from related parties, net (Notes 2, 8 and 27)	237,620	2	197,709	1	Accrued expenses (Notes 17, 27 and 29)	451,769	4	798,578	5
Other receivables (Notes 2, 9 and 27)	736,655	6	744,869	4	Current portion of long-term liabilities (Note 19)	1,175,000	10	362,500	2
Inventories (Notes 2 and 10)	1,031,487	9	2,603,079	16	Other current liabilities (Notes 18 and 27)	291,449	2	488,557	3
Deferred income tax asset, current (Notes 2 and 25)	345,982	3	603,779	4					
Other current assets (Note 11)	58,030	1	136,755	1	Total current liabilities	3,255,447	29	4,542,582	27
Total current assets	6,455,598	57	11,213,160	67	<b>LONG-TERM LIABILITIES</b>				
<b>LONG-TERM INVESTMENTS</b>					Corporate bonds payable (Notes 2 and 19)	-	-	1,175,000	7
Financial assets carried at cost (Notes 2 and 12)	76,321	1	86,234	1	Long-term bank loans (Notes 2 and 20)	1,400,000	12	500,000	3
Investment accounted for using equity method (Notes 2, 13, 23 and 27)	2,233,415	19	2,720,078	16	Total long-term liabilities	1,400,000	12	1,675,000	10
Total long-term investments	2,309,736	20	2,806,312	17	<b>OTHER LIABILITIES (Notes 2, 13, 21 and 27)</b>	851,206	7	747,190	4
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 27)</b>					Total liabilities	5,506,653	48	6,964,772	41
Land	983,643	9	1,074,878	6	<b>STOCKHOLDERS' EQUITY</b>				
Buildings and improvements	618,079	5	705,639	4	Common stock (Note 22)	12,915,172	114	13,092,369	78
Machinery and equipment	82,387	1	72,418	1	Capital surplus	-	-	2,845,335	17
Computer equipment	109,402	1	151,586	1	Additional paid-in capital	-	-	219,026	1
Instrument equipment	354,239	3	422,370	3	Long-term equity investments (Note 13)	240,113	2	-	-
Transportation equipment	-	-	3,368	-	Retained earnings (Note 22)	(7,909,297)	(70)	(5,274,506)	(31)
Furniture and fixtures	5,349	-	7,534	-	Accumulated deficit	626,006	6	554,542	4
Leasehold improvements	11,097	-	20,633	-	Cumulative translation adjustments (Note 2)	-	-	-	-
	2,164,196	19	2,458,426	15	Unrealized (losses) gains on financial instruments (Notes 2, 3, 6 and 13)	(1,272)	-	48,506	-
Less accumulated depreciation	(555,510)	(5)	(604,722)	(4)	Treasury stock (Notes 2 and 23)	-	-	(1,641,241)	(10)
Prepayments for business facilities	18,000	-	23,719	-	Total stockholders' equity	5,870,722	52	9,844,031	59
Property, plant and equipment, net	1,626,686	14	1,877,423	11					
<b>INTANGIBLE ASSETS (Notes 2 and 15)</b>									
Patents	39,625	1	41,530	-					
<b>OTHER ASSETS</b>									
Leased-out assets (Notes 2, 16 and 27)	195,793	2	197,272	1					
Refundable deposits	8,438	-	12,243	-					
Deferred bonds issuance costs (Note 2)	748	-	2,059	-					
Deferred charges (Note 2)	155,407	1	260,947	2					
Deferred income tax assets, noncurrent (Notes 2 and 25)	585,344	5	397,857	2					
Total other assets	945,730	8	870,378	5					
<b>TOTAL</b>	<b>\$ 11,377,375</b>	<b>100</b>	<b>\$ 16,808,803</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 11,377,375</b>	<b>100</b>	<b>\$ 16,808,803</b>	<b>100</b>

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

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)				
Sales	\$ 8,345,416	105	\$ 16,602,110	113
Less sales returns	(56,628)	(1)	(74,797)	-
Less sales allowance	(367,771)	(4)	(1,859,433)	(13)
Net sales (Note 27)	<u>7,921,017</u>	<u>100</u>	<u>14,667,880</u>	<u>100</u>
Other operating revenues (Note 27)	<u>5,915</u>	<u>-</u>	<u>6,323</u>	<u>-</u>
Total operating revenues	7,926,932	100	14,674,203	100
COST OF OPERATING REVENUES (Notes 24 and 27)	<u>5,069,629</u>	<u>64</u>	<u>11,219,734</u>	<u>76</u>
GROSS PROFIT	2,857,303	36	3,454,469	24
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS (Notes 2 and 18)	(4,752)	-	(24,677)	-
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	<u>24,677</u>	<u>-</u>	<u>20,919</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>2,877,228</u>	<u>36</u>	<u>3,450,711</u>	<u>24</u>
OPERATING EXPENSES (Notes 24 and 27)				
General and administrative expenses	1,181,576	15	2,017,640	14
Research and development expenses	<u>1,639,638</u>	<u>20</u>	<u>2,262,957</u>	<u>15</u>
Total operating expenses	<u>2,821,214</u>	<u>35</u>	<u>4,280,597</u>	<u>29</u>
INCOME (LOSS) FROM OPERATIONS	<u>56,014</u>	<u>1</u>	<u>(829,886)</u>	<u>(5)</u>
NON-OPERATING INCOME				
Interest income (Note 27)	62,691	1	118,176	1
Dividend income	114,257	1	69,797	1
Gain on disposal of property, plant and equipment (Note 27)	65,339	1	3,600	-
Gain on sale of investments, net (Notes 5, 6 and 13)	1,427	-	4,958	-
Gain on physical inventory	-	-	59	-
Foreign currency exchange gain, net (Note 2)	44,605	1	17,098	-
Rental income (Note 27)	13,250	-	15,108	-
Reversal of provision for bad debts	-	-	4,745	-
Valuation gain on financial assets, net (Notes 2 and 5)	-	-	347,058	2
Others (Note 27)	<u>243,702</u>	<u>3</u>	<u>333,380</u>	<u>2</u>
Total non-operating income	<u>545,271</u>	<u>7</u>	<u>913,979</u>	<u>6</u>

(Continued)

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2008		2007	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES</b>				
Interest expense	\$ 63,709	1	\$ 67,252	1
Investment loss under equity method (Notes 2 and 13)	3,136,320	40	3,273,306	22
Loss on disposal of property, plant and equipment	51	-	82	-
Loss on physical inventory	6,858	-	-	-
Loss on inventory devaluation	631,771	8	1,010,329	7
Impairment loss (Notes 2 and 12)	59,546	1	-	-
Valuation loss on financial assets, net (Notes 2 and 5)	584,639	7	-	-
Valuation loss on financial liabilities, net (Notes 2 and 5)	1,124	-	-	-
Others	63,114	1	26,775	-
Total non-operating expenses	<u>4,547,132</u>	<u>58</u>	<u>4,377,744</u>	<u>30</u>
LOSS BEFORE INCOME TAX	(3,945,847)	(50)	(4,293,651)	(29)
INCOME TAX EXPENSE (Notes 2 and 25)	<u>(70,235)</u>	<u>(1)</u>	<u>(644,018)</u>	<u>(5)</u>
NET LOSS	<u>\$ (4,016,082)</u>	<u>(51)</u>	<u>\$ (4,937,669)</u>	<u>(34)</u>
	<b>2008</b>		<b>2007</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
BASIC LOSS PER SHARE (Note 26)	<u>\$ (3.06)</u>	<u>\$ (3.11)</u>	<u>\$ (3.33)</u>	<u>\$ (3.82)</u>

If the Company's stock held by subsidiaries is not considered as treasury stock:

NET LOSS	<u>\$ (4,016,082)</u>	<u>\$ (4,937,669)</u>
BASIC LOSS PER SHARE	<u>\$ (3.11)</u>	<u>\$ (3.77)</u>

(Concluded)

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

## VIA TECHNOLOGIES, INC.

### STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	Capital Surplus			Retained Earnings	Cumulative Translation Adjustments	Unrealized (Losses) Gains on Financial Instruments	Treasury Stock	Total
	Capital Stock	Additional Paid-in Capital	Long-Term Equity Investments	Accumulated Deficit				
BALANCE, JANUARY 1, 2007	\$ 13,253,893	\$ 4,309,941	\$ 218,465	\$ (1,430,409)	\$ 489,449	\$ (4,041)	\$ (2,175,383)	\$ 14,661,915
Additional Paid-in capital transfer to make up for accumulated deficit	-	(1,430,409)	-	1,430,409	-	-	-	-
Transfer of treasury stock to employees - 1,251,000 shares	-	-	-	(15,061)	-	-	38,263	23,202
Retirement of treasury stock - 16,215,000 shares	(162,150)	(35,229)	-	(298,500)	-	-	495,879	-
Effect of changes of ownership interest in equity method investees and unrealized losses on financial instruments under equity method	-	-	561	(23,276)	-	52,511	-	29,796
Issuance of stock from exercising stock option - 62,550 shares	626	1,032	-	-	-	-	-	1,658
Unrealized gains on financial instruments	-	-	-	-	-	36	-	36
Translation adjustments on long-term investments	-	-	-	-	65,093	-	-	65,093
Net loss for 2007	-	-	-	(4,937,669)	-	-	-	(4,937,669)
BALANCE, DECEMBER 31, 2007	13,092,369	2,845,335	219,026	(5,274,506)	554,542	48,506	(1,641,241)	9,844,031
Additional Paid-in capital transfer to make up for accumulated deficit	-	(2,845,335)	-	2,845,335	-	-	-	-
Retirement of treasury stock - 17,720 shares	(177,197)	-	-	(1,464,044)	-	-	1,641,241	-
Effect of changes of ownership interest in equity method investees and unrealized losses on financial instruments under equity method	-	-	21,087	-	-	(54,213)	-	(33,126)
Unrealized gains on financial instruments	-	-	-	-	-	4,435	-	4,435
Translation adjustments on long-term investments	-	-	-	-	71,464	-	-	71,464
Net loss for 2008	-	-	-	(4,016,082)	-	-	-	(4,016,082)
BALANCE, DECEMBER 31, 2008	\$ 12,915,172	\$ -	\$ 240,113	\$ (7,909,297)	\$ 626,006	\$ (1,272)	\$ -	\$ 5,870,722

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

# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (4,016,082)	\$ (4,937,669)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation (including depreciation of leased-out assets) and amortization	347,932	439,772
Investment loss under equity-method	3,136,320	3,273,306
Cash dividends under equity-method	-	213,000
Loss on disposal of property, plant and equipment	51	82
Gain on disposal of property, plant and equipment	(65,339)	(3,600)
Transfer of cost of property, plant and equipment to expense	-	533
Impairment loss	59,546	-
Gain on sale of investments	(1,427)	(2,456)
Amortization of bond issuance costs	1,311	1,926
Accrued pension cost	(88,379)	(56,847)
Deferred income tax assets	70,310	127,690
Valuation income on financial instruments, net	-	(152)
Net changes in operating assets and liabilities		
Financial assets held for trading	586,120	(2,014,940)
Financial liabilities held for trading	1,124	(29)
Notes receivable, net	(1,123)	5,953
Accounts receivable, net	(14,418)	801,710
Notes and accounts receivable from related parties, net	(39,911)	170,069
Other receivables	189,274	35,023
Inventories	1,571,592	1,592,863
Other current assets	81,462	69,913
Notes payable	64,776	(3,943)
Accounts payable	(1,222,531)	(1,480,592)
Notes and accounts payable to related parties	14,887	17,024
Income tax payable	(413,974)	515,961
Accrued expenses	(348,312)	(295,258)
Other current liabilities	<u>(107,470)</u>	<u>75,695</u>
Net cash used in operating activities	<u>(194,261)</u>	<u>(1,454,966)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in financial assets at fair value through profit or loss	(230,000)	(40,000)
Proceeds from sale of financial assets designated as at fair value through profit or loss	271,256	-
Payment for available-for-sale financial assets	(1,116,000)	(522,800)
Proceeds from sale of available-for-sale financial assets	1,116,931	531,596
Increase in other receivables from related parties, net	(90,100)	(439,900)
Payment for long-term investments (including prepayment for long-term investment)	(2,619,937)	(1,356,970)

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# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
Proceeds from sale of long-term investments (including proceeds from capital reduction)	\$ 5,201	\$ 2,419,362
Acquisition of property, plant and equipment	(82,349)	(359,472)
Proceeds from disposal of property, plant and equipment	218,817	100,540
Decrease in refundable deposits	3,805	6,082
Increase in deferred charges	(178,725)	(186,153)
Increase in financial assets carried at cost	-	(8,250)
Cash and cash equivalents from dissolved company	<u>11,169</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(2,689,932)</u>	<u>144,035</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in long-term bank loans	900,000	33,333
Redemption of bonds	(362,500)	(362,500)
Proceeds from transfer of treasury stock to employees	-	23,202
Issuance of stock from exercising stock options	-	1,658
Increase (decrease) in guarantee deposits received	<u>484</u>	<u>(41)</u>
Net cash provided by (used in) financing activities	<u>537,984</u>	<u>(304,348)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,346,209)	(1,615,279)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,567,788</u>	<u>6,183,067</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,221,579</u>	<u>\$ 4,567,788</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Cash paid during the year		
Interest	<u>\$ 66,382</u>	<u>\$ 68,856</u>
Income tax	<u>\$ 420,752</u>	<u>\$ 8,907</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 1,175,000</u>	<u>\$ 362,500</u>
Transfer of deferred credits to gain on disposal of property, plant and equipment	<u>\$ 18,989</u>	<u>\$ 216</u>
Transfer of long-term investment under equity method to other liabilities	<u>\$ (45,825)</u>	<u>\$ (15,916)</u>
<b>PURCHASE OF FINANCIAL ASSETS FOR TRADING</b>		
Net (increase) decrease in financial assets held for trading	\$ (542,346)	\$ 346,906
Decrease in other payable	<u>-</u>	<u>1,668,034</u>
Cash payment	<u>\$ (542,346)</u>	<u>\$ 2,014,940</u>

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# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

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	2008	2007
PROCEEDS FROM SALE OF LONG-TERM INVESTMENT UNDER EQUITY METHOD (INCLUDING PROCEEDS FROM CAPITAL REDUCTION)		
Proceeds from sale of long-term investment under equity method	\$ 5,201	\$ -
Proceeds from capital reduction	-	107,000
Proceeds from prepayment for long-term investment	-	254,201
Decrease in other receivables	<u>-</u>	<u>2,058,161</u>
Cash received	<u>\$ 5,201</u>	<u>\$ 2,419,362</u>
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT		
Increase in property, plant and equipment	\$ 62,527	\$ 305,505
Decrease in payable due to acquisition of property, plant and equipment	<u>19,822</u>	<u>53,967</u>
Cash payment	<u>\$ 82,349</u>	<u>\$ 359,472</u>
PURCHASE OF DEFERRED CHARGES		
Increase in deferred charges	\$ 98,262	\$ 150,550
Decrease in payable for deferred charges	<u>80,463</u>	<u>35,603</u>
Cash payment	<u>\$ 178,725</u>	<u>\$ 186,153</u>

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# VIA TECHNOLOGIES, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

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The summary of assets and liabilities from the dissolved company - VIA-Cyrix Technologies Inc.:

### 2008

Cash and cash equivalents	\$	6,269
Financial assets at fair value through profit or loss - current		43,774
Available-for-sale financial assets - current		27,606
Other receivables		20,960
Other current assets		1,924
Financial assets carried at cost		16,678
Investments accounted for by the equity method		41,361
Accrued expense		(466)
Other current liabilities		(9,785)
Other liabilities		(150,093)

The summary of assets and liabilities from the dissolved company - Way-Hao International Corp.:

### 2008

Cash and cash equivalents	\$	4,900
Other receivables		70,000
Other current assets		813
Financial assets carried at cost		32,955
Investments accounted for by the equity method		5,929
Accrued expense		(1,037)
Other current liabilities		(862)
Other liabilities		(168,331)

(Concluded)

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

# VIA TECHNOLOGIES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

VIA Technologies, Inc. (the “Company”) was incorporated in September 1992 under the Company Law of the Republic of China to engage in the programming, designing, manufacturing and selling of semiconductors and PC chipsets. In March 1999, the Company’s common stock was officially listed on the Taiwan Stock Exchange.

There are 1,097 and 1,386 employees in the Company at December 31, 2008 and 2007 respectively.

In order to integrate the group and enhance operating efficiency, the board of directors of the Company proposed on October 31, 2008 to merge its subsidiaries, VIA-Cyrix Technologies Inc. and Way-Hao International Corp. The effective merger date was November 30, 2008.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The accompanying financial statements have been prepared 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 (“ROC”). In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, pension cost and accrued litigation loss. Actual results could differ from these estimates.

For the convenience of readers, the accompanying 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 financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the “Securities and Futures Commission” before July 1, 2004) for their oversight purposes.

The Company’s significant accounting policies are summarized as follows:

#### **Current/Noncurrent Assets and Liabilities**

Current assets are cash, cash equivalents, assets held for trading and other assets expected to be converted to cash, sold, or consumed (prepaid items) within one year of the balance sheet date. Current liabilities are obligations expected to be paid or settled within one year of the balance sheet date. All other assets or liabilities are classified as noncurrent.

## **Cash Equivalents**

Cash equivalents consist primarily of bankers' acceptance and commercial paper which are highly liquid investments with a maturity of three months or less at the date of acquisition. The carrying amount approximates fair value.

## **Financial Assets and Liabilities at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss ("FVTPL") include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. The Company recognizes a financial asset or a financial liability in the balance sheet when the Company becomes a party to a financial instrument contract. A financial asset is derecognized when the Company loses its contractual rights to the financial asset. A financial liability is derecognized when the relevant contract ends or is discharged or canceled.

Financial instruments at FVTPL are initially measured at fair value with transaction costs recognized as expense for the year. After the initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value at the balance sheet date, with changes in fair value recognized as current gains or losses. Cash dividends received are recognized as income for the year. On the derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received or receivable or consideration paid or payable is recognized as gain or loss.

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are subsequently remeasured at fair value, with the changes in fair value recognized as current income. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

## **Available-for-Sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When the assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized as investment income upon the declaration by the investee's stockholders under a resolution but are accounted for as a reduction of the original cost of investment if these dividends are declared on the earnings of the investee attributable to periods before the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares held after the stock dividends are received.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

## **Revenue Recognition, Trade Receivables and Allowance for Doubtful Accounts**

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. Allowances for sales returns and others are generally recorded in the year the related revenue is recognized on the basis of past experience, management's judgment, and relevant factors.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

## **Inventories**

Inventories are stated at the lower of cost or market ("LCM"). Cost is determined using the moving average method. Market value is based on replacement cost. The LCM method is applied to each inventory category.

## **Financial Assets Carried at Cost**

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

## **Investments Accounted for by the Equity Method**

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Prior to January 1, 2006, the difference between the acquisition cost and the Company's proportionate share in the investee's equity was amortized by the straight-line method over five years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the Company's share of the fair value of the identifiable net assets acquired is recognized as goodwill. Such goodwill is not amortized. The excess of the Company's share of the fair value of the net identifiable assets acquired over the cost of acquisition is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium

arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Company's share in losses of an equity-method investee equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Company's share in losses of an investee over which the Company has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Company to the extent of the excess losses previously borne by the Company.

### **Mergers**

The Company's acquisition was accounted for in accordance with SFAS No. 25, "Business Combinations - Accounting Treatment under the Purchase Method," and measured at the fair value of the business acquired. The net assets and net liabilities of the acquired entity were accounted for in the balance sheet as an increase in additional paid-in capital from merger (credit) and as a decrease in retained earnings (debit), respectively.

### **Property, Plant and Equipment and Leased-out Assets**

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred. Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited to or charged against income.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets as prescribed in the tax regulations, plus one additional year for salvage value.

Fixed assets rented out, the related costs and accumulated depreciation, are classified as other assets - leased-out assets.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

### **Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives.

Effective January 1, 2007, the Company adopted the newly released SFAS No. 37, "Accounting for Intangible Assets". Expenditure on research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over estimated useful lives if the recognition criteria for intangible assets have been met; otherwise, the development expenditure is recognized as an expense when incurred.

### **Deferred Charges**

Deferred charges which consist of telephone installation charges, computer software installations and deferred authorization charges are amortized on a straight-line basis over three to five years or authorization period.

### **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

### **Pension Cost**

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

### **Stock-based Compensation**

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 (“ARDF”). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

### **Treasury Stock**

The Company adopted the provisions of SFAS No. 30, “Accounting for Treasury Stock” to account for the Company’s reacquisition of its outstanding shares. Under the provisions of SFAS No. 30, the cost of shares purchased or fair value of shares donated by outside parties is charged to the treasury stock account. If numerous acquisitions of blocks of treasury shares are made at different prices, the average costing method is used to identify the cost of the treasury shares at the date of reissuance.

Upon reissuance, the discrepancy between the cost of the treasury shares and the price received is reflected in stockholders’ equity accounts. If the treasury shares are reissued to settle stock warrants, the price received is the sum of the issuance price and the exercise price of the stock warrants.

### **Income Tax**

The Company applies intra-year and inter-year allocations for its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

### **Foreign Currencies**

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Stockholders’ equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of stockholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

### **Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

## **3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES**

### **Accounting for Bonuses to Employees, Directors and Supervisors**

In March 2007, the ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of the interpretation did not have significant impact for the year ended December 31, 2008.

### **Accounting for Employee Stock Options**

On January 1, 2008, the Company adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption of SFAS No. 39 did not have significant impact for the year ended December 31, 2008.

### Accounting for Intangible Assets

On January 1, 2007, the Company adopted the newly released SFAS No. 37, "Accounting for Intangible Assets" and reassessed the useful lives of and the amortization method for its recognized intangible assets as of the same date. The adoption of SFAS No. 37 did not have significant impact for the year ended December 31, 2007.

### Accounting for Noncurrent Assets Held for Sale and Discontinued Operations

On January 1, 2007, the Company adopted the newly released SFAS No. 38, "Accounting for Noncurrent Assets Held for Sale and Discontinued Operations". The adoption of SFAS No. 38 did not have significant impact for the year ended December 31, 2007.

## 4. CASH AND CASH EQUIVALENTS

	2008	2007
Cash on hand	\$ 375	\$ 430
Checking accounts	682	1,025
Demand deposits	323,547	698,181
Time deposits	1,611,983	3,362,527
Cash equivalents - repurchase agreement collateralized by bonds	<u>284,992</u>	<u>505,625</u>
	<u>\$2,221,579</u>	<u>\$4,567,788</u>

At December 31, 2008 and 2007, interest rates on time deposits ranged from 0.900% to 2.410% and 1.645% to 2.350%, respectively. At December 31, 2008 and 2007, interest rates on cash equivalents ranged from 0.51% to 0.58% and 1.87% to 1.90%, respectively.

## 5. FINANCIAL INSTRUMENTS AT FVTPL

	2008	2007
<u>Financial assets at FVTPL</u>		
Financial assets held for trading - marketable equity securities	\$ 1,472,075	\$ 2,012,940
Derivatives - financial assets - forward exchange contracts	<u>-</u>	<u>1,481</u>
	<u>\$1,472,075</u>	<u>\$2,014,421</u>
<u>Financial liabilities at FVTPL</u>		
Derivatives - financial liabilities - forward exchange contracts	<u>\$ 1,124</u>	<u>\$ -</u>

The Company held derivative financial instruments in 2008 and 2007 for trading purpose and earned profit from foreign exchange fluctuation. (Please refer to Note 31 for more information on Derivatives financial assets and liabilities.)

Outstanding forward contracts as of December 31, 2008 and 2007:

	2008			Contract Amount
	Buy/Sell	Currency	Expiry Date	
Forward exchange contracts	Sell	USD/TWD	2009.01.05~ 2009.01.21	US\$12,050
	2007			Contract Amount
	Buy/Sell	Currency	Expiry Date	
Forward exchange contracts	Sell	USD/TWD	2008.02.19~ 2008.02.20	US\$25,000

Net gain from derivative financial instruments for the years ended December 31, 2008 and 2007 amounted to \$21,038 thousand and \$330 thousand, and was recognized in exchange gain or loss, net. Net (loss) and gain on valuation of derivative financial instruments for the years ended December 31, 2008 and 2007 amounted to \$(585,763) thousand and \$346,906 thousand, and were recognized as valuation (loss) gain on financial assets and as valuation loss on financial liabilities.

Financial instruments designated as at FVTPL were as follows:

	December 31	
	2008	2007
Credit linked deposit - Unsecured convertible bonds of Qualipory Chemical Corp. and Nanya Technology Corporation	\$ -	\$ 40,152

Net gain from credit linked deposit for the years ended December 31, 2008 and 2007 amounted to \$1,104 thousand and \$2,502 thousand, and was recognized as gain on disposal of investments. Net gain on valuation of financial instruments designated as at FVTPL for the year ended December 31, 2007 amounted to \$152 thousand, and was recognized as valuation gain on financial assets.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008	2007
Domestic quoted stocks	\$ 31,947	\$ 17
Mutual funds	<u>2,565</u>	<u>2,474</u>
	<u>\$ 34,512</u>	<u>\$ 2,491</u>

Net gain from available-for-sale financial assets for the years ended December 31, 2008 and 2007 amounted to \$911 thousand and \$2,452 thousand, respectively, and was recognized as gain on sale of investment, net.

Unrealized gains on financial instruments for the years ended December 31, 2008 and 2007 amounted to \$4,435 thousand and \$36 thousand, respectively, and were recognized as unrealized gains on financial instruments in stockholders' equity.

## 7. ACCOUNTS RECEIVABLE

	2008	2007
Notes receivable	\$ 3,709	\$ 2,586
Accounts receivable	430,518	612,225
Less allowance for doubtful accounts	(11,068)	(19,888)
Less allowance for sales returns and discounts	<u>(105,501)</u>	<u>(292,806)</u>
Accounts receivable, net	<u>\$ 317,658</u>	<u>\$ 302,117</u>

Counter Parties	Amounts of Receivables Sold	Amounts Collected	Advances Received at Year End	Interest Rates (%)	Credit Line
Taishin Bank	\$ 3,349 (US\$ 100)	\$ 3,349 (US\$ 100)	\$ -	-	\$ 98,400 (US\$ 3,000)

The Company entered a factoring contract with Taishin Bank and the credit line amounted to US\$3,000 thousand. Pursuant to the factoring contract, losses from commercial disputes shall be borne by the Company, while losses from credit risk shall be borne by the bank.

## 8. NOTES AND ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	2008	2007
Accounts receivable	\$310,921	\$218,703
Less allowance for doubtful accounts	(8,671)	-
Less allowance for sales returns and discounts	<u>(64,630)</u>	<u>(20,994)</u>
Notes and accounts receivable from related parties, net	<u>\$237,620</u>	<u>\$197,709</u>

## 9. OTHER RECEIVABLES

	2008	2007
Value-added tax refunds receivable	\$ 11,585	\$ 42,030
Income tax refunds receivable	22,042	18,214
Interests receivable	1,770	21,030
Other receivables from related parties - others	700,597	656,576
Others	<u>661</u>	<u>7,019</u>
	<u>\$ 736,655</u>	<u>\$ 744,869</u>

Other receivables from related parties are described in Note 27.

## 10. INVENTORIES

	2008	2007
Resale merchandise	\$ 8,600	\$ 10,694
Finished goods	1,080,990	1,868,534
Work-in-process	954,374	2,080,186
Raw materials	<u>393,443</u>	<u>697,685</u>
	2,437,407	4,657,099
Less valuation allowance	<u>(1,405,920)</u>	<u>(2,054,020)</u>
	<u>\$ 1,031,487</u>	<u>\$ 2,603,079</u>

## 11. OTHER CURRENT ASSETS

	2008	2007
Prepaid expenses	\$ 52,321	\$ 109,514
Excess business tax paid	28	18,922
Temporary debits	<u>5,681</u>	<u>8,319</u>
	<u>\$ 58,030</u>	<u>\$ 136,755</u>

On December 31, 2008 and 2007, prepaid expenses were primarily prepayments for advertisement expense, software cost and insurance premiums.

## 12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2008 and 2007 were as follows:

	2008	2007
Non-publicly traded stocks - Domestic	\$ 32,564	\$ 74,276
Non-publicly traded stocks - International	<u>43,757</u>	<u>11,958</u>
	<u>\$ 76,321</u>	<u>\$ 86,234</u>

The above investments are measured at cost because of lack of active market and reliable fair value. On December 31, 2008, due to the deficit of the investees, the Company recognized impairment loss of \$59,546 thousand.

### 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD AND PREPAID LONG-TERM INVESTMENT

	2008			2007	
	Original Cost	Carrying Value	Ownership %	Carrying Value	Ownership %
Publicly traded stock					
Vate Technology Co., Ltd.	\$ 493,031	\$ 539,424	66.28	\$ 463,104	66.28
Non-publicly traded stock					
Viabase Co., Ltd.	7,183,155	1,024,435	100.00	1,307,596	100.00
Viatech Co., Ltd.	3,154,391	145,110	100.00	451,623	100.00
VIA Technologies GmbH	1,433	8,759	100.00	7,860	100.00
Linkage Technology Co., Ltd.	120,017	88,694	100.00	87,049	100.00
Tungbase Technologies Ltd.	385,400	21,318	100.00	-	-
VIA Communications, Inc.	10,000	10,366	100.00	10,266	100.00
VIA Telecom, Inc.	-	-	-	5,205	100.00
VIA -Cyrix Technologies, Inc.	-	-	-	387,375	100.00
Way-Hao International Corp.	-	-	-	(55,545)	100.00
VIA Labs, Inc.	200,000	195,108	100.00	-	-
Wonder Media Technologies, Inc.	200,000	191,855	100.00	-	-
VIA Optical Solution, Inc.	1,472,566	(790,640)	89.68	(524,195)	57.10
Powernews Multimedia Co., Ltd.	76,000	5,649	24.36	-	-
VIA Embedded, Inc.	2,600	2,697	100.00	-	-
iDOT Computer Inc.	55,000	-	45.83	-	-
	<u>13,353,593</u>	<u>1,442,775</u>		<u>2,140,338</u>	
Transfer of long-term investments to other liabilities		<u>790,640</u>		<u>579,740</u>	
		<u>\$ 2,233,415</u>		<u>\$ 2,720,078</u>	

In order to integrate the group and enhance operating efficiency, the board of directors of the Company proposed on October 31, 2008 to merge VIA-Cyrix Technologies Inc. and Way-Hao International Corp. The effective merger date was November 30, 2008, and the Company was the surviving company. The Company took all of the rights and liabilities belonging to VIA-Cyrix Technologies Inc. and Way-Hao International Corp.

In 2007, the Company invested \$1,356,970 thousand in Viabase Co., Ltd.

In 2007, VIA-Cyrix Technologies, Inc. had decreased its capital and refunded \$107,000 thousand to the Company. In addition, VIA-Cyrix Technologies Inc. declared and paid cash dividends of \$213,000 thousand to the Company. Furthermore, in September 2007, VIA Optical Solution, Inc. had not completed the procedures for the issuance of securities and returned prepayment for long-term investment of \$254,201 thousand to the Company.

In 2008, the Company invested a total of \$2,619,937 thousand in Viabase Co., Ltd., Viatech Co., Ltd., VIA Labs Inc., Wonder Media Technologies Inc., and VIA Embedded, Inc. In addition, due to the merger of Way-Hao International Corp. and VIA-Cyrix Technologies, Inc., the carrying value of \$(271,134) thousand in Powernews Multimedia Co., Ltd., VIA Embedded, Inc., Tungbase Technologies Ltd., and VIA Optical Solution, Inc., was transferred to the Company.

In 2007, due to the changes in capital surplus, retained earnings and unrealized valuation gain on available-for-sale financial assets of Viabase Co., Ltd., Way-Hao International Corp., Vate Technology Co., Ltd. and VIA-Cyrix Technologies, Inc., the Company proportionately increased its capital surplus by \$561 thousand, decreased retained earnings by \$23,276 thousand and increased unrealized gains on financial instruments by \$52,511 thousand.

In 2008, due to the changes in capital surplus and unrealized valuation gain on available-for-sale financial assets of Viabase Co., Ltd. and VIA-Cyrix Technologies, Inc., the Company proportionately increased its capital surplus by \$21, 087 thousand, and decreased unrealized gains on financial instruments by \$54,213 thousand.

In April 2008, the Company sold all of its investment in VIA Telecom Inc. to VIA Telecom Co., Ltd. for \$5,201 thousand, and recognized \$588 thousand as loss on sale of such long-term investment (see Note 27).

In 2007, Vate Technology Co., Ltd. had decreased its capital by \$743,750 thousand to make up for the accumulated deficit. The company proportionately recognized realized investment loss of \$492,939 thousand.

For the years ended December 31, 2008 and 2007, the amounts of publicly traded stocks were \$483,171 thousand and \$690,244 thousand based on the closing price at December 31, 2008 and 2007, respectively.

In accordance with SFAS No. 7 and the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, the Company prepared consolidated financial statements which included all subsidiaries of the Company.

Except for VIA Technologies GmbH and VIA Communications, Inc., the financial statements of equity method investees were audited by independent auditors. In addition, the equities of VIA Optional Solution, Inc., iDOT Computer Inc. and Way-Hao International Corp. (merged by the Company on November 30, 2008) were negative on December 31, 2008. Thus, the Company recognized investment losses proportionately and recorded as other liabilities due to continuous financial support to the investees, except for iDOT Computer Inc. Equity in net losses amounted to \$3,136,320 thousand and \$3,273,306 thousand in 2008 and 2007, respectively which consisted of the following:

	<b>2008</b>	<b>2007</b>
Viotech Co., Ltd.	\$(1,158,140)	\$ (809,482)
Viabase Co., Ltd.	(1,745,268)	(2,118,172)
VIA Technologies GmbH	1,159	(771)
Linkage Technology Co., Ltd.	627	(5,743)
Tungbase Technologies Ltd.	37,714	-
VIA-Cyrix Technologies, Inc.	(326,697)	(416,232)
Way-Hao International Corp.	(88)	(5,317)
VIA Labs Inc.	(4,892)	-
WonderMedia Technologies, Inc.	(8,145)	-
VIA Optical Solution, Inc.	(9,720)	20,700
VIA Communications, Inc.	100	83
VIA Telecom, Inc.	584	65
Powernews Multimedia Co., Ltd.	(280)	-
VIA Embedded, Inc.	406	-
Vate Technology, Co., Ltd.	76,320	61,563
	<u>\$ (3,136,320)</u>	<u>\$ (3,273,306)</u>

#### 14. PROPERTY, PLANT AND EQUIPMENT

	2008			2007
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 983,643	\$ -	\$ 983,643	\$ 1,074,878
Buildings and improvements	618,079	(138,148)	479,931	536,867
Machinery and equipment	82,387	(50,832)	31,555	27,832
Computer equipment	109,402	(75,613)	33,789	55,497
Instrument equipment	354,239	(280,922)	73,317	149,767
Furniture and fixtures	5,349	(4,300)	1,049	1,605
Leasehold improvements	11,097	(5,695)	5,402	7,258
Prepayments for business facilities	18,000	-	18,000	23,719
	<u>\$ 2,182,196</u>	<u>\$ (555,510)</u>	<u>\$ 1,626,686</u>	<u>\$ 1,877,423</u>

The Company rented out parts of its land, buildings and improvements to other companies and the carrying value of the related assets had been transferred to leased-out assets (see Note 16).

The Company had no interest capitalization as of December 31, 2008 and 2007.

#### 15. INTANGIBLE ASSETS

	2008			2007
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Patents	<u>\$ 93,605</u>	<u>\$ 53,980</u>	<u>\$ 39,625</u>	<u>\$ 41,530</u>

#### 16. LEASED-OUT ASSETS

	2008			2007
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 132,708	\$ -	\$ 132,708	\$ 132,708
Buildings and improvements	<u>75,406</u>	<u>(12,321)</u>	<u>63,085</u>	<u>64,564</u>
	<u>\$ 208,114</u>	<u>\$ (12,321)</u>	<u>\$ 195,793</u>	<u>\$ 197,272</u>

The above land and buildings and improvements were rented out to the related parties, Xander International Corp., Chander Electronics Corp., High Tech Computer Corp. and Vate Technology Co., Ltd. and so on. However, the leasing contracts with Vate Technologies Co., Ltd were terminated in 2007, and the leasing contracts with Xander International Corp. were terminated in 2008.

## 17. ACCRUED EXPENSES

	2008	2007
Salaries & bonuses	\$ 197,588	\$ 375,358
Advertisement	71,703	177,144
Professional fees	39,272	54,799
Royalties (Notes 27 and 29)	19,151	6,690
Research and development	17,803	32,280
Interest	14,066	16,740
Pension	10,845	14,897
Insurance	8,425	15,000
Commission	8,199	8,821
Marketing subsidies	-	34,231
Others	64,717	62,618
	<u>\$ 451,769</u>	<u>\$ 798,578</u>

## 18. OTHER CURRENT LIABILITIES

	2008	2007
Advance receipts	\$ 17,945	\$ 90,625
Payable - machinery and equipment	461	20,283
Compensation of directors and supervisors	72,400	72,196
Bonus to employees	9,581	-
Temporary receipts	17,688	39,195
Receipts under custody	19,245	33,058
Deferred credits - profit from intercompany transactions	4,752	24,677
Other payables	149,377	208,523
	<u>\$ 291,449</u>	<u>\$ 488,557</u>

Other payables were primarily for purchase of deferred charges and for sales discounts payables.

Deferred credits - profit from intercompany transactions - were the unrealized profit from intercompany transactions between the Company and its subsidiaries.

## 19. CORPORATE BONDS PAYABLE

	2008	2007
On July 27, 2004 the Company issued secured corporate bonds of \$1,900,000 thousand. The interest rates ranged from 2.40% to 2.50% and the bonds will mature on July 27, 2009. The payments of principal can be separated into two parts. First part, principal payments due on third, fourth and fifth years to pay 25%, 25% and 50%, respectively, and second part, principal payment due on maturity. Interest is paid every half year.	\$ 1,175,000	\$ 1,537,500
Less current portion of convertible bonds	<u>(1,175,000)</u>	<u>(362,500)</u>
	<u>\$ -</u>	<u>\$ 1,175,000</u>

## 20. LONG-TERM LIABILITIES

	Contracts	2008	2007
Chinatrust Commercial Bank and China Development Industrial Bank are leading banks, with two participating banks – Syndicated loan \$3,000,000 thousand	Credit line: 3,000,000 thousand Amount: \$900,000 thousand Period: May 15, 2007 ~ September 10, 2012 Interest: 2.5032% Payment: The unliquidated loans had to be fully repaid on their maturity dates, and it may be used on a revolving basis.	\$ 900,000	\$ -
Taiwan Cooperative Bank Unsecured loan	Amount: \$500,000 thousand Period: August 13, 2007 ~ August 13, 2012 Interest: 2.83% Payment: Six-month installment starting February 13, 2010 from first to fifth payments \$80,000 thousand each, sixth pay \$100,000 thousand	500,000	500,000
		1,400,000	500,000
Less current portion of long-term liabilities		-	-
		<u>\$ 1,400,000</u>	<u>\$ 500,000</u>

In 2007, the Company signed a syndicated credit contract for \$3,000,000 thousand. The primary contents are the following:

For the purpose of paying for loans and convertible bonds to financial organizations, and raising operating working capital, the Company appointed Chinatrust Commercial Bank and China Development Industrial Bank, to organize a syndicated credit team. The Company had applied to the team for \$3,000,000 thousand as a loan line. The loan period is from May 15, 2007 to September 10, 2012. Up to December 31, 2008, the Company had borrowed \$900,000 thousand at the interest rate 2.5032% and paid interest expenses by the 10<sup>th</sup> of each month. In addition, the loans had to be fully repaid on their maturity dates, and it may be used on a revolving basis.

After revising this long-term loan contract two times, the latest restrictions are the following:

The Company should maintain the following financial ratio and restrictions at the duration of the contract. The ratio should be calculated on the basis of the consolidated annual financial statements that had been audited or the consolidated semi-annual financial statements that had been reviewed.

- Current Ratio: Current assets divided by current liabilities; not less than 100%
- Liability Ratio: Total liabilities divided by net tangible assets; not higher than 100% at the end of 2009.
- Net Tangible Assets: Not less than \$7,000,000 thousand at the end of 2009; not less than \$8,000,000 thousand in 2010, and not less than \$10,000,000 thousand in beginning 2011.

When the Company violates the foregoing restrictions and financial ratios, the administration bank will host a conference to decide whether that is a breach of the contract. If the banks decided that there was a breach of the contract, all of the debts become due and the Company should liquidate all the debts upon receiving the notification from the administration bank.

On December 31, 2008, the details of the loan consisted of the following:

	<b>Amount</b>
Chinatrust Commercial Bank	\$ 300,000
China Development Industrial Bank	300,000
Taishin International Bank	150,000
Land Bank of Taiwan	<u>150,000</u>
	<u>\$ 900,000</u>

## 21. EMPLOYEE PENSION PLAN

The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were \$49,687 thousand and \$65,073 thousand for the years ended December 31, 2008 and 2007, respectively.

Based on the defined benefit plan under the Labor Standards Law (LSL), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity) in the committee's name. The Company recognized pension costs of \$75,133 thousand and \$37,819 thousand for the years ended December 31, 2008 and 2007, respectively.

Information about the defined benefit plan was as follows:

### a. Components of net periodic pension cost

	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
Service cost	\$ 11,801	\$ 12,697
Interest cost on projected benefit obligation	8,569	9,357
Amortization on unrecognized net obligation	(10)	(10)
Expected return on plan assets	(5,184)	(4,519)
Curtailment gain	<u>(90,309)</u>	<u>(55,344)</u>
Net periodic pension cost	<u>\$ (75,133)</u>	<u>\$ (37,819)</u>

b. Reconciliation of funded status of the plan and accrued pension cost

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Benefit obligation		
Vested benefit obligation	\$ -	\$ -
Nonvested benefits	<u>(115,479)</u>	<u>(159,843)</u>
Accumulated benefit obligation	(115,479)	(159,843)
Additional benefits based on future salaries	<u>(103,929)</u>	<u>(151,763)</u>
Projected benefit obligation	(219,408)	(311,606)
Fair value of plan assets	<u>199,980</u>	<u>180,136</u>
Funded status	(19,428)	(131,470)
Prior unrecognized net assets not yet recognized in net periodic pension cost	(87)	(129)
Unrecognized gain of pension, net	<u>(31,818)</u>	<u>(8,113)</u>
Accrued pension cost	<u>\$ (51,333)</u>	<u>\$(139,712)</u>
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

c. Actuarial assumptions

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Discount rate used in determining present values	2.75%	2.75%
Future salary increase rate	3.75%	3.75%
Expected rate of return on plan assets	2.75%	2.75%
	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
d. Contributions to the fund	<u>\$ 13,246</u>	<u>\$ 19,027</u>
e. Payments from the fund	<u>\$ -</u>	<u>\$ -</u>

## 22. STOCKHOLDERS' EQUITY

### Capital Stock

The Company's outstanding common stock at January 1, 2007 amounted to \$13,253,893 thousand divided into 1,325,389 thousand shares with a par value of \$10 each.

The Company canceled treasury stock of \$162,150 thousand to decrease capital stock in September 2007. In addition, the employees exercised stock option for common stock equal to 63 thousand shares at exercise price of \$26.50 per share, and the difference between exercised price and par value was recognized as capital surplus from issuance of common stock. As a result, the Company's outstanding capital stock at December 31, 2007 was \$13,092,369 thousand divided into 1,309,237 thousand common stocks with a par value of \$10 each.

The Company canceled treasury stock of \$2,637 thousand and \$174,560 thousand to decrease capital stock in May and November 2008, respectively. As a result, the Company's outstanding capital stock at December 31, 2008 was \$12,915,172 thousand, divided into 1,291,517 thousand common stocks with a par value of \$10 each.

The Company was approved by SFB to issue employee stock options in accordance with Securities and Exchange Law Article 28.3 within the quantity of 200 thousand in 2001, 20,000 thousand in 2003, 8,000 thousand and 25,000 thousand option units in 2004, with each unit representing 100 shares, one share, one share and one share of common stock, respectively. The Company will issue new common stock for employee stock option exercised by granted employees. For the year ended December 31, 2007, a total of 73,000 thousand option units had been issued to employees and the Company transferred retained earnings and capital surplus to capital stock during 2004 and 2003. Option units became 76,762 thousand after considering the effect of that transfer. The option holders can exercise the right up to 50% of the granted option units no earlier than two years from the granted date. After three years from the granted date the holders can exercise the right up to 75% of the granted option units. After four years from the granted date, the option holders are eligible to exercise all the option units owned. The option holders should exercise the right within seven years. Other information on stock option rights plan is as follows:

	<b>Year Ended December 31, 2008</b>	
	<b>Number of Outstanding Stock Option Right (Thousand)</b>	<b>Weighted-Average Exercise Price (NT\$/Per Share)</b>
Beginning balance	76,695	\$ 35.05
Option granted	-	
Option exercised	-	
Option cancelled	-	
Option expired	-	
Ending balance	<u>76,699</u>	35.05
Option exercisable, end of year	<u>70,499</u>	

As of December 31, 2008 the information about the outstanding stock options is as follows:

Exercise Price	Number Outstanding (Thousand)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Share)	Weighted Average Exercise Price (Per Share)
\$42.60	22,375	0.72	\$42.60	22,375	\$42.60
45.40	20,991	1.06	45.40	20,991	45.40
26.50	8,333	1.53	26.50	8,333	26.50
22.45	<u>25,000</u>	2.63	22.45	18,750	22.45
	<u>76,699</u>				

The Company uses the intrinsic value method to evaluate compensation cost for employee stock options granted on or after January 1, 2004. The compensation cost recognized for the year ended December 31, 2005 was zero since the stock options were granted at an exercise price equal to the closing price of the Company's common shares on the measurement dates. Had the Company applied the fair value based method to evaluate compensation cost for employee stock options granted, the assumptions and pro forma results of the Company for the year ended December 31, 2008 would have been as follows:

<b>Method</b>	<b>Black-Scholes Model</b>
Assumptions	
Risk free interest rate	1.98%~2.28%
Expected life (in years)	6 years
Expected stock price volatility	42.95%~48.25%
Expected dividend yield	5%
Net income	
Net loss as reported	\$(4,016,082)
Pro forma net loss	\$(4,034,058)
Earnings per share (EPS)	
Basic EPS as reported	\$ (3.11)
Pro forma basic EPS	\$ (3.12)

### **Capital Surplus**

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital and once a year. Also, the capital surplus from long-term investment may not be used for any purpose.

### **Appropriation of Retained Earnings**

According to the Company Law and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve until such reserve equals the amount of common stock. The remaining balance shall be appropriated no more than 1% as directors' remuneration and no less than 5% as bonuses to employees. The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders.

The Company engages in the programming, designing, manufacturing and selling of semiconductor and PC chipset and is in the development stage of industry cycle. Under the consideration of whole environment around the Company and the characteristics of industry development, and the intention of pursuing the long-term interests of stockholders, maintaining the operating efficiency, and meeting its capital expenditure budget and the financial goals, the Company would prefer to distribute unappropriated earnings by cash dividends rather than by stock dividends. The sum of stock dividends will not exceed 50% of total dividends.

Bonus to employees and remuneration to directors are estimated on the basis of past appropriation experience, not below 5% and 1% respectively, of the estimated appropriations from prior year's earnings. Because the Company has accumulated deficit, no bonus to employees and the remuneration to directors were recognized for 2008.

At the date of the accompanying independent auditors' report, the appropriation of the 2008 earnings (loss) had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the website of TSE.

The stockholders resolved the transfer of \$2,845,335 thousand of capital surplus to make up for 2007 accumulated deficit in the stockholders' meeting of the Company at June 13, 2008.

### 23. TREASURY STOCK

As of December 31, 2008, the Company's common stocks held by VIA-Cyrix Technologies, Inc. and Way-Hao International Corp. totaled to 17,456 thousand shares with book value of 1,633,176 thousand. On November 30, 2008, the foregoing subsidiaries were merged to the Company, and the treasury stocks were canceled according to the resolution of the Board of Directors.

On September 15, 2003, March 25, 2004, June 7, 2004 and September 21, 2004 the board of directors authorized the repurchase of 7,991 thousand shares, 8,336 thousand shares, 7,879 thousand shares and 12,651 thousand shares to transfer to employees, at a price ranging from \$33.60 to \$75.70 per share, \$25.20 to \$63.20 per share, \$21.49 to \$47.99 per share and \$13.30 to \$33.73 per share, during the period from September 16 to November 15, 2003, March 26 to May 25, 2004, June 8 to August 7, 2004 and September 22 to November 21, 2004, respectively. In addition, when the market price was lower than the minimum repurchase price, the Company allowed the repurchasing of common stock to continue.

In accordance with the Securities and Exchange Law, the common stock that a public company repurchased should not exceed 10% of its total outstanding shares. Additionally, the amount that a public company spent for common stock repurchase should not exceed its retained earnings plus additional paid-in capital and realized capital surplus. At December 31, 2008, the Company has repurchased 36,857 thousand shares at \$1,127,143 thousand, which meets the regulations of the Securities and Exchange Law. In addition, the Company transferred treasury stock through various tranches to employees totaling 12,387 thousand shares at \$229,712 thousand and canceled treasury stock of 7,991 thousand, 16,215 thousand and 264 thousand shares in September 2006, 2007 and May 2008, respectively.

### 24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expenses	Year	2008			2007		
		Cost of Revenues	Operating Expenses	Total	Cost of Revenues	Operating Expenses	Total
Personnel expense		\$ 59,826	\$1,261,055	\$1,320,881	\$ 85,244	\$1,739,707	\$1,824,951
Salary		54,697	1,177,574	1,232,271	74,061	1,575,280	1,649,341
Insurance		3,803	70,642	74,445	4,893	89,539	94,432
Pension cost		(993)	(24,453)	(25,446)	1,429	25,825	27,254
Others		2,319	37,292	39,611	4,861	49,063	53,924
Depreciation		6,082	145,659	151,741	7,552	174,012	181,564
Amortization		99	194,613	194,712	-	256,730	256,730

## 25. INCOME TAX

Income tax payable at December 31, 2008 and 2007 was computed as follows:

	2008	2007
Loss before income tax	\$(3,945,847)	\$(4,293,651)
Add (less)		
Investment losses under equity-method	3,136,320	3,273,306
Provision for inventory devaluation	(648,100)	411,536
Unrealized sales allowance	188,810	313,800
Dividends income	(114,257)	(69,797)
Unrealized sales allowance, beginning of year	(313,800)	(1,000,795)
Realized loss on long-term investments	-	(492,939)
Expense capitalized	(5,549)	(23,310)
Realized pension cost	(88,379)	(56,847)
Valuation loss (gain) of financial instruments	585,763	(347,058)
Gain on disposal of Lands	(20,336)	-
Impairment loss	59,546	-
Others	<u>1,064</u>	<u>(6,884)</u>
Estimated taxable income	<u>(1,164,765)</u>	<u>(2,292,639)</u>
Estimated income tax provision (×25%-10)	-	-
Alternative minimum tax	-	45
Unappropriated earnings additional 10% income tax	<u>-</u>	<u>-</u>
Current income tax expense	-	45
Less prepaid and withheld income tax	<u>(6,853)</u>	<u>(8,583)</u>
Income tax refunds receivable	<u>\$ (6,853)</u>	<u>\$ (8,538)</u>

At December 31 2008 and 2007, income tax payable was the provision accrued for income tax return in 2001 and 2000 (see Note 28).

The tax effects of deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2008 and 2007 consisted of the following:

	2008	2007
Deferred tax asset		
Unrealized provision for inventory devaluation	\$ 351,480	\$ 513,505
Unrealized sales allowance	47,202	78,450
Unrealized pension cost	12,833	34,928
Unrealized impairment loss	14,887	-
Loss carryforward	2,516,996	2,527,375
Investment tax credits	1,971,586	2,188,588
Others	<u>17,881</u>	<u>14,132</u>
Total deferred income tax assets	4,932,865	5,356,978
Less allowance for deferred income tax assets	<u>(4,001,539)</u>	<u>(4,355,342)</u>
Deferred income tax assets, net	931,326	1,001,636
Deferred income tax assets, current	<u>(345,982)</u>	<u>(603,779)</u>
Deferred income tax assets, noncurrent	<u>\$ 585,344</u>	<u>\$ 397,857</u>

The income tax expense for the years ended December 31, 2008 and 2007 consists of the following:

	<b>2008</b>	<b>2007</b>
Current income tax expense	\$ -	\$ 45
Decrease in deferred income tax assets	70,310	127,690
(Over) under estimation of prior year's income tax	<u>(75)</u>	<u>516,283</u>
Income tax expense	<u>\$ 70,235</u>	<u>\$ 644,018</u>

As of December 31, 2008, profits attributable to the following expansion and construction projects were exempted from income tax for five-year period.

<b>Expansion Year</b>	<b>Expansion / Construction Project</b>	<b>Tax-Exemption Year</b>
2002	Business of advanced integrated circuit design	January 1, 2007 to December 31, 2011

The amounts of investment tax credit and loss carryforward as of December 31, 2008 were as follows:

<b>Expiration Year</b>	<b>Investment Tax Credits</b>	<b>Loss Carryforward</b>
2008	\$ -	\$ -
2009	-	485,511
2010	-	513,227
2011	-	615,740
2012	-	357,108
2013	2,779,111	-
2015	1,483,162	-
2016	2,927,905	-
2017	1,713,040	-
2018	<u>1,164,765</u>	<u>-</u>
	<u>\$ 10,067,983</u>	<u>\$ 1,971,586</u>

The details of investment tax credit were as follows:

<b>Expiry Year</b>	<b>Tax Credit Item</b>	<b>Total Creditable Amount</b>	<b>Remaining Creditable Amount</b>	<b>Laws and Statutes</b>
2009	Research and development	\$ 482,821	\$ 482,821	Statute for Upgrading Industries
	Personnel training	2,265	2,265	Statute for Upgrading Industries
	Investments in equity stock	425	425	Statute for Upgrading Industries
2010	Research and development	511,545	511,545	Statute for Upgrading Industries
	Personnel training	1,682	1,682	Statute for Upgrading Industries

Expiry Year	Tax Credit Item	Total Creditable Amount	Remaining Creditable Amount	Laws and Statutes
2011	Research and development	611,435	611,435	Statute for Upgrading Industries
	Personnel training	1,878	1,878	Statute for Upgrading Industries
	Investment in equity stock	2,427	2,427	Statute for Upgrading Industries
2012	Research and development	355,562	355,562	Statute for Upgrading Industries
	Personnel training	1,546	1,546	Statute for Upgrading Industries
		<u>\$ 1,971,586</u>		

The income tax returns for the years through 2006 have been examined and approved by the tax authority. In addition, the tax authorities had examined the income tax returns of the Company in 2001 and 2000, and adjusted the amounts of tax-exempt income. The Company believed it was not reasonable and requested the tax authorities to reexamine. The Company still disagreed with the decision on the reexamination rendered by the tax collection authorities and has filed an administrative appeal (see Note 28)

The related information for the integrated income tax system as of December 31, 2008 and 2007 is disclosed as follows:

	2008	2007
Balance of imputation credit account	\$ 849,997	\$ 399,644
Unappropriated earnings attributed to years before 1998	-	-
Unappropriated earnings attributed to 1998 and years after	(7,907,297)	(5,274,506)
Expected creditable ratio	-	-

## 26. EARNINGS PER SHARE (“EPS”)

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

	Amounts (Numerator)		Shares Denominator (Thousands)	Earnings Per Share (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>For the year ended December 31, 2008</u>					
Basic EPS					
Loss for the year attributable to common stockholders	<u>\$ (3,945,847)</u>	<u>\$ (4,016,082)</u>	<u>1,291,517</u>	<u>\$ (3.06)</u>	<u>\$ (3.11)</u>
<u>For the year ended December 31, 2007</u>					
Basic EPS					
Loss for the year attributable to common stockholders	<u>\$ (4,293,651)</u>	<u>\$ (4,937,669)</u>	<u>1,291,239</u>	<u>\$ (3.33)</u>	<u>\$ (3.82)</u>

Because of net loss in 2008 and 2007, the employee stock options have no dilution effect to the earnings per share and, therefore, only disclosed the Basic EPS.

## 27. SIGNIFICANT RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

<b>Related Party</b>	<b>Relationship with the Company</b>
First International Company, Inc. (“FIC Inc.”)	Chairman of the Board of Directors is one of the immediate family members of the Company’s Chairman of the Board of Directors
VIA Technologies GmbH	A subsidiary of the Company
Viatech Co., Ltd.	A subsidiary of the Company
Linkage Technology Co., Ltd.	A subsidiary of the Company
VIA-Cyrix Technologies, Inc.	A subsidiary of the Company
Way-Hao International Corp.	A subsidiary of the Company
VIA Optical Solution Inc.	A subsidiary of the Company
Tungbase Technologies Ltd.	A subsidiary of the Company
Vate Technology Co., Ltd.	A subsidiary of the Company
VIA Communication, Inc.	A subsidiary of the Company
VIA Telecom Co., Ltd.	A subsidiary of the Company
Viabase Co., Ltd.	A subsidiary of the Company
VIA Labs, Inc.	A subsidiary of the Company
Wondermedia Technologies, Inc.	A subsidiary of the Company
VIA Technologies, Inc. (USA)	An indirect subsidiary of the Company
VIA-Cyrix, Inc.	An indirect subsidiary of the Company
VIA Communication, Inc. (USA)	An indirect subsidiary of the Company
Centaur Technology, Inc.	An indirect subsidiary of the Company
VIA Technologies (HK) Inc. Ltd.	An indirect subsidiary of the Company
VIA Technologies (China) Ltd.	An indirect subsidiary of the Company
VIA Technologies Japan K.K.	An indirect subsidiary of the Company
VIA Embedded, Inc.	An indirect subsidiary of the Company
S3 Graphics Co., Ltd.	An investee under the equity method of Viabase Co., Ltd.
VIA On Demand, Inc.	An investee under the equity method of Viabase Co., Ltd.
S3 Graphics, Inc.	An investee under the equity method of S3 Graphics Co., Ltd.
VIA Telecom Co., Ltd.	An investee under the equity method of Viabase Co., Ltd.
VIA Telecom, Inc.	An investee under the equity method of VIA Telecom Co., Ltd.
High Tech Computer Corp.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
Chander Electronics Corp.	Chairman of the board of directors is the Company’s chairman of the Board of directors.
iDOT Computers, Inc.	Chairman of the board of directors is the Company’s chairman of the Board of directors.

<b>Related Party</b>	<b>Relationship with the Company</b>
QDC Technologies, Inc.	Chairman of the board of directors is the Company's chairman of the Board of directors.
Hung-Mao Investment Co.	Chairman of the board of directors is the Company's chairman of the Board of directors.
Xander International Corp.	Chairman of the board of directors is the Company's president.
Xander International (HK) Corp.	The director is the Company's chairman of the board of directors

VIA-Cyrix Technologies Inc. and Way-Hao International Corp. were merged into the Company on November 30, 2008.

Major transactions with related parties are summarized below:

### Sales

<b>Related Party</b>	<b>Years Ended December 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>% of Total Net Sales</b>	<b>Amount</b>	<b>% of Total Net Sales</b>
Chander Electronics Corp.	\$ 602,153	8	\$ 942,695	6
VIA Technologies, Inc. (USA)	564,124	7	589,071	4
FIC Inc.	196,748	2	537,803	4
iDOT Computers, Inc.	159,150	2	141,370	1
WonderMedia Technologies, Inc.	5,165	-	-	-
Xander International (HK) Corp.	1,625	-	75,347	1
Others	1,689	-	12,967	-
	<u>\$ 1,530,654</u>	<u>19</u>	<u>\$ 2,299,253</u>	<u>16</u>

Selling prices to related parties are similar with other regular sales except for some kinds of merchandise that have no comparison and VIA Technologies, Inc. (USA) and Chander Electronics Corp. whose prices are less than normal. Terms of payment for both related and unrelated parties are similar and about one to two months, except for iDOT Computer, Inc. and VIA Technologies, Inc. which adopted the offset of credits and debits of property.

### Other Operating Revenue

<b>Related Party</b>	<b>Years Ended December 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>% of Total Other Operating Revenue</b>	<b>Amount</b>	<b>% of Total Other Operating Revenue</b>
Vate Technology Co., Ltd.	\$ 5,270	89	\$ -	-
VIA Technologies, Inc. (USA)	40	1	276	4
VIA Optical Solution Inc.	-	-	5,103	81
Others	-	-	154	2
	<u>\$ 5,310</u>	<u>90</u>	<u>\$ 5,533</u>	<u>87</u>

The Company and VIA Optical Solution, Inc. have entered into a technical support and supervision agreement of chipset products effective in September 2002. The technical support revenue accounted for based on the agreement was recognized as other operating revenue.

The Company and Vate Technology Co., Ltd. have entered into a technical support and supervision agreement in March 2008. The first payment was recognized as other operating revenue.

#### Leasing - Lessor

Related Party	Years Ended December 31			
	2008		2007	
	Amount	% of Total Rental Income	Amount	% of Total Rental Income
Chander Electronics Corp.	\$ 5,472	41	\$ 5,472	36
High Tech Computer Crop.	3,528	27	-	-
Xander International Corp.	1,939	15	5,424	36
iDOT Computers, Inc.	877	7	1,113	7
VIA Embedded, Inc.	-	-	887	6
Vate Technology Co., Ltd.	-	-	866	6
Others	729	5	368	3
	<u>\$ 12,545</u>	<u>95</u>	<u>\$ 14,130</u>	<u>94</u>

The Company rented out part of its land and building and improvements to the related parties. Rental prices were determined based on the prevailing rates in the surrounding area.

#### Other Income

Related Party	Years Ended December 31			
	2008		2007	
	Amount	% of Total Other Income	Amount	% of Total Other Income
VIA Telecom Co., Ltd.	\$ 39,845	16	\$ 22,532	7
S3 Graphics Co., Ltd.	8,206	3	2,446	1
VIA Technologies, Inc.(USA)	2,963	1	-	-
VIA On Demand, Inc.	-	-	15,287	5
High Tech Computer Corp.	-	-	1,600	-
Others	212	-	3,613	1
	<u>\$ 51,226</u>	<u>20</u>	<u>\$ 45,478</u>	<u>14</u>

The Company, VIA On Demand, Inc., and VIA Telecom Co., Ltd., have entered into a management support and supervision agreement. The support revenue accounted for based on the agreement was recognized as other income.

## Purchases

Related Party	Years Ended December 31			
	2008		2007	
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases
S3 Graphics Co., Ltd.	\$ 41,449	2	\$ 24,248	-
Chander Electronics Corp.	2,585	-	5,862	-
VIA Embedded, Inc.	1,019	-	24,874	-
iDOT Computers, Inc.	-	-	70,897	2
Others	150	-	687	-
	<u>\$ 45,203</u>	<u>2</u>	<u>\$ 126,568</u>	<u>2</u>

Terms of payment for both related and unrelated parties are similar.

## Technical Support and Supervision Agreement

### *VIA Technologies, Inc. (USA)*

The Company and VIA Technologies, Inc. (USA) have entered into a technical support and supervision agreement for chipset products effective on April 1, 1998, under which the Company and VIA Technologies, Inc. (USA) will jointly develop certain chipset products.

The Company and VIA Technologies Inc. (USA) amended the above technical support and supervision agreement for chipset products on April 1, 2003. The major provisions of the amendment are as follows:

**Technical Service Fees:** Under this agreement the Company shall pay VIA Technologies, Inc. (USA) the technical service fees based on the set of chipset sold. The Company will pay US\$0.5 for the first 40,000,000 sets sold and US\$0.3 for every chipset sold thereafter. All the service fees shall be due and payable yearly within 60 to 90 days. The amount of the service fee to be paid shall be limited to US\$11,000 per annum.

**Term:** This agreement became effective on April 1, 2003 and shall be terminated on March 31, 2008.

The technical service fees the Company shall pay to VIA Technologies, Inc. (USA) were \$46,788 thousand and \$249,145 thousand in 2008 and 2007, respectively. As of December 31, 2007, \$4,104 thousand are still unpaid.

## Patent Agreement

### *S3 Graphics Co., Ltd.*

The Company and S3 Graphics Co., Ltd. have entered into a patent agreement for graphics chipset products effective on May 1, 2003. The major provisions of the agreement are as follows:

**Royalty fees:** Under this agreement the Company shall pay the amount computed from quantity of products sold of the Company within 60 days following the end of each calendar quarter.

Term: This agreement became effective on May 1, 2003 and shall be terminated on April 30, 2008. However, it shall be automatically renewed for another calendar year unless terminated by 30 days prior written notice.

The royalty fees the Company shall pay to S3 Graphics Co., Ltd. were \$7,014 thousand and \$11,359 thousand in 2008 and 2007, respectively. As of December 31, 2008 and 2007, \$3,348 thousand and \$3,585 thousand are still unpaid, respectively.

#### Packaging and Testing Expenses

	Years Ended December 31			
	2008		2007	
Related Party	Amount	% of Total Testing Expenses	Amount	% of Total Testing Expenses
Vate Technology Co., Ltd.	\$ 230,727	15	\$ 239,782	5

#### Subcontractor-OH

	Years Ended December 31			
	2008		2007	
Related Party	Amount	% of Total Subcontract Expenses	Amount	% of Total Subcontract Expenses
QDC Technologies, Inc.	\$ -	-	\$ 10,907	2

#### Marketing Support Expenses

	Years Ended December 31			
	2008		2007	
Related Party	Amount	% of Total Marketing Expenses	Amount	% of Total Marketing Expenses
iDOT Computer, Inc.	\$ -	-	\$ 98,282	14
First International Company, Inc.	-	-	11,064	1
	\$ -	-	\$ 109,346	15

#### Research and Development Expenses

	Years Ended December 31			
	2008		2007	
Related Party	Amount	% of Total Research and Development Expenses	Amount	% of Total Research and Development Expenses
Vate Technology Co., Ltd.	\$ 19,556	1	\$ 12,067	1
VIA Technologies, Inc.(USA)	1,105	-	2,007	-
VIA Technologies (HK) Inc., Ltd.	742	-	1,009	-
Xander International Corp.	191	-	431	-
Others	533	-	899	-
	\$ 22,127	1	\$ 16,413	1

## Receivables / Payables

Related Party	December 31			
	2008		2007	
	Amount	% of Total Receivables / Payables	Amount	% of Total Receivables / Payables
Notes and accounts receivable from related parties				
iDOT Computer Inc.	\$ 103,693	14	\$ -	-
Chander Electronics Corp.	84,580	12	111,160	13
VIA Technologies, Inc. (USA)	75,120	10	-	-
FIC Inc.	24,021	3	63,955	8
Xander International (HK) Corp.	14,872	2	34,648	4
WonderMedia Technologies, Inc.	5,423	1	-	-
VIA Embedded, Inc.	2,326	-	3,313	-
Others	886	-	5,627	1
	<u>\$ 310,921</u>	<u>42</u>	<u>\$ 218,703</u>	<u>26</u>
Notes and accounts payable to related parties				
Vate Technology Inc.	\$ 58,588	7	\$ 44,559	2
S3 Graphics Co., Ltd.	11,994	1	8,765	1
QDC Technologies, Inc.	-	-	1,764	-
Others	-	-	607	-
	<u>\$ 70,582</u>	<u>8</u>	<u>\$ 55,695</u>	<u>3</u>
Accrued expenses				
Vate Technology Co., Ltd.	\$ 7,310	2	\$ 18,296	2
S3 Graphics Co, Ltd.	3,348	1	3,585	-
S3 Graphics, Inc.	3,046	1	3,024	-
VIA Technologies Inc.	725	-	4,880	1
VIA Technologies (HK) Inc.	311	-	165	-
iDOT Computer Inc.	-	-	34,231	4
VIA Optical Solution Inc.	-	-	13,354	2
Others	1,655	-	4,745	1
	<u>\$ 16,395</u>	<u>4</u>	<u>\$ 82,280</u>	<u>10</u>
Other receivables				
VIA Optical Solution Inc.	\$ 690,549	94	\$ 600,530	81
VIA Telecom Co., Ltd.	7,956	1	12,375	2
VIA Telecom, Inc.	43	-	3,855	-
Hung-Mao Investment Co.	-	-	28,563	4
S3 Graphics, Inc.	-	-	3,888	-
QDC Technologies Inc.	-	-	521	-
S3 Graphics Co, Ltd.	-	-	317	-
Others	2,049	-	6,527	1
	<u>\$ 700,597</u>	<u>95</u>	<u>\$ 656,576</u>	<u>88</u>

Other receivables from VIA Optical Solution Inc. on December 31, 2008 and 2007 were

mainly financing. Others are expenses on behalf of related parties, technical service fees, rental income and others, etc.

Related Party	December 31			
	2008		2007	
	Amount	% of Total Guarantee deposits received	Amount	% of Total Guarantee deposits received
Guarantee deposits received				
High Tech Computer Corp.	\$ 1,193	35	\$ -	-
Chander Electronics Corp.	1,050	30	1,050	35
Vate Technology Co., Ltd.	-	-	484	16
Others	45	1	442	16
	<u>\$ 2,288</u>	<u>66</u>	<u>\$ 1,976</u>	<u>67</u>

Related Party	December 31			
	2008		2007	
	Amount	% of Total Advance Receipts	Amount	% of Total Advance Receipts
Sales revenue received in advance				
S3 Graphics Inc.	\$ 564	3	\$ -	-
Vate Technology Co., Ltd.	97	1	-	-
VIA Technologies, Inc.	-	-	50,844	56
VIA Communication, Inc.	-	-	2,948	3
Others	56	-	258	-
	<u>\$ 717</u>	<u>4</u>	<u>\$ 54,050</u>	<u>59</u>

### Property Transactions

The Company sold partial land and building to Xander International Corp. in June 2008 which amounted to \$29,140 thousand and recognized \$24,038 thousand as gain on disposal of assets.

The Company sold computer equipment, unamortized expenses, and patent rights to VIA Telecom, Inc., Vate Technology Co., Ltd and VIA Telecom Co., Ltd., respectively, in 2008 which amounted to \$17,906 thousand, \$609 thousand and \$16,538 thousand, respectively, and recognized \$10,743 thousand, \$609 thousand, and \$5,400 thousand as gain on disposal of assets. The above-mentioned transactions were by nature downstream transactions with subsidiaries under equity method. The Company therefore booked unrealized gains of \$10,743 thousand, \$609 thousand, and \$2,609 thousand, respectively in accordance with shares held in each subsidiary. The Company will only recognize profit when the subsidiaries begin to amortize the purchased assets in the future. Additionally, the Company sold all of its shares in VIA Telecom, Inc. to VIA Telecom Co., Ltd. in April 2008, which amounted to \$5,201 thousand, and recognized \$588 thousand as loss on sale of investment, whereby unrealized profit decreased by \$5,222 thousand. For the year ended December 31, 2008, the unrecognized gain on disposal amounted to \$3,570 thousand, \$473 thousand and \$1,740 thousand, respectively.

The Company acquired certain office spaces from VIA Optical Solution Inc. in December, 2008 which amounted to \$35,652 thousand. As of December 31, 2008, the transfer of asset ownership has not yet been completed. Payment of \$18,000 thousand out of the total

transaction consideration has been made to the seller, and is listed under the prepayment account.

The Company sold partial land and building to Hung-Mao Investment Co. in 2007, which amounted to \$29,140 thousand and recognized \$3,191 as gain on disposal of assets.

The Company also acquired certain machinery equipment from VIA Technologies, Inc. (USA) in 2007 which amounted to \$300 thousand.

### Financing

		<b>2008</b>			
<b>Account</b>		<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Range of Interest rate</b>	<b>Interest Income</b>
VIA Optical Solution, Inc.	Other receivable	<u>\$ 690,000</u>	<u>\$ 690,000</u>	0.51~3.00	<u>\$ 12,175</u>
		<b>2007</b>			
<b>Account</b>		<b>Maximum Balance</b>	<b>Ending Balance</b>	<b>Range of Interest rate</b>	<b>Interest Income</b>
VIA Optical Solution, Inc.	Other receivable	<u>\$ 599,900</u>	<u>\$ 599,900</u>	2.885	<u>\$ 12,671</u>

### Compensation of Directors, Supervisors and Management Personnel

	<b>2008</b>	<b>2007</b>
Salaries and bonus	\$ 48,726	\$ 45,655
Special compensation	<u>108</u>	<u>113</u>
	<u>\$ 48,834</u>	<u>\$ 45,768</u>

The Company's disclosure of the compensation of directors, supervisors and management personnel for the years ended December 31, 2007 and 2008 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

## 28. COMMITMENTS AND CONTINGENCIES

An indirect subsidiary of the Company, VIA Technologies, Inc. (USA) is a defendant in a case filed by OPTi in the East US TEXAS court. In July 2007, OPTi accused the subsidiary of the Company and the other seven semiconductor companies of infringement of its two American patents. The Company had already engaged attorneys to file a defense. The attorneys do not believe the outcome is likely to bring any significant operational and financial impact to the Company and its subsidiary. Therefore, the Company and its subsidiary do not accrue any provision in advance.

As of December 31, 2008, the Company requested banks to guarantee for its outstanding corporate bonds amounted to \$1,189,325.

The tax authorities had examined the income tax returns for 2000 and 2001 of the Company, and adjusted the amounts of tax-exempt income. The Company believed it was not

reasonable and requested the tax authorities to reexamine. According to the decisions of these reexaminations on April 9 and 10, 2008, the Company should recognize the supplementary tax that amounted to \$864,603 thousand. The Company disagreed with these decisions on the reexamination rendered by the tax authorities and had filed administrative appeals in May, but the appeals were rejected by the Ministry of Finance in August. The Company had initiated administrative litigations to high administrative court in October. At balance sheet date, the litigation for income tax return of the Company for 2000 was still in progress but the litigation for income tax return for 2001 had been finished. The Company had estimated and recognized the probable amount of supplementary tax as current tax expense for conservatism.

In order to boost working capital level, reduce interest expenses, as well as enhance self-owned capital ratio and strengthen overall financial structure, the Board of Directors approved, on March 26, 2009, a capital-increase proposal via cash injection by private placement offers of no more than 300,000 thousand ordinary Company shares; the shares are temporarily priced between \$9~12 and will be offered in various rounds within 1 year from the date of shareholders' meeting decision.

## 29. SIGNIFICANT CONTRACTS

Contractor	Item	Contract Period	Description
Intel	Patent agreement	April 8, 2003 to April 18, 2013	a. CPU and chipsets patent agreement. b. The Company shall pay the fee according to the agreement signed between two parties.

## 30. DISCLOSURES FOR FINANCIAL INSTRUMENTS

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Non-derivative Financial Instruments</b>				
Assets				
Cash and cash equivalents	\$ 2,221,579	\$ 2,221,579	\$ 4,567,788	\$ 4,567,788
Financial assets at fair value through profit or loss	1,472,075	1,472,075	2,053,092	2,053,092
Available-for-sale financial assets current	34,512	34,512	2,491	2,491
Notes and accounts receivable, net	555,278	555,278	499,826	499,826
Other financial assets, current	703,028	703,028	684,624	684,624
Financial assets carried at cost	76,321	76,321	86,234	86,234
Long-term investments under equity method	2,233,415	2,177,162	2,720,078	2,947,218
Other financial assets, noncurrent	8,438	8,328	12,243	12,062
Liabilities				
Notes and accounts payable	885,476	885,476	2,028,344	2,028,344
Accrued expenses	451,769	451,769	798,578	798,578
Other financial assets, current	251,064	251,064	334,060	334,060

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Non-derivative Financial Instruments</b>				
Long-term loans (include current portion)	1,400,000	1,400,000	500,000	500,000
Corporate bonds payable	1,175,000	1,175,000	1,537,500	1,537,500
Other financial liabilities	3,450	3,404	2,966	2,922

**Derivative Financial Instruments**

Assets

Forward exchange contract	\$ -	\$ -	\$ 1,481	\$ 1,481
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Liabilities

Forward exchange contract	1,124	1,124	-	-
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The Company adopted SFAS No. 34 - "Accounting for Financial Instruments" effective for accounting period beginning on January 1, 2006. The cumulative effect of changes in accounting principles is described in Note 3.

- (a) The carrying amount approximated the fair value because of the short maturities of such instruments, including cash and cash equivalents, notes and accounts receivable, notes and accounts receivable from related parties, other current financial assets, notes and accounts payable, notes and accounts payable due to related parties, accrued expenses, and other current financial liabilities.
- (b) The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these instruments.
- (c) Financial assets carried at cost and long-term investments under equity method are unlisted securities. Their fair value can not be estimated because they do not have active market.
- (d) The fair value of other financial assets and liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.
- (e) The fair value of long-term loans, including current portion, and corporate bonds payable are estimated based on rates that the Company obtained which are comparable to rates offered by the banks to other borrowers for long-term debts with same terms and maturities.

There was no loss or gain recognized in 2008 and 2007 on the fair value changes of derivatives estimated using valuation techniques.

As of December 31, 2008 and 2007, financial assets exposed to cash flow interest rate risk amounted to \$1,896,975 thousand and \$3,868,152 thousand, respectively, and financial liabilities exposed to cash flow interest rate risk amounted to \$1,175,000 thousand and \$1,537,500 thousand, respectively. Financial assets exposed to fair value interest rate risk amounted to \$0 thousand and \$40,152, respectively. Financial liabilities exposed to fair value interest rate risk amounted to \$1,400,000 thousand and \$500,000 thousand, respectively.

The Company's interest income from financial assets and liabilities not categorized as at fair value through profit or loss amounted to \$62,691 thousand and \$118,176 thousand, respectively, and interest expense amounted to \$63,709 thousand and \$63,515 thousand respectively. The Company recognized unrealized gain of \$4,435 thousand and \$36 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2008 and 2007, respectively.

## **Financial Risks**

### ***Market Risk***

The Company's foreign exchange instruments are for trading purpose. Thus, such instruments are measured at balance sheet date using the market rate. As the market interest rate increase 1%, the market price of financial assets will decrease \$18,782 thousand. The gain or loss from forward contracts held at December 31, 2008 was calculated according to the quoted market price at balance sheet date. Market risk is low.

The Company engages in forward contract. In addition, when the exchange rate of NT dollar against the U.S. dollar increases one dollar, the fair value of outstanding forward contracts will decrease \$12,050 thousand.

### ***Credit Risk***

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes its exposure to default by those parties is low.

### ***Liquidity Risk***

The Company has sufficient working capital to settle derivative contract. The Company engages in forward contract in fixed-exchange-rate and cash flows are not expected to fluctuate significantly due to changes in market exchange rates.

### ***Cash Flow Interest Rate Risk***

The Company is exposed to cash flow interest rate risk on its long-term bank loan with variable interest rate. As the market rate increases 1%, the Company expects to have \$14,000 thousand cash outflow within 1 year.

## **31. SEGMENT INFORMATION**

### **Industry Segment**

Manufacturing and sales of PC chipset and semiconductor accounted for over 90% of the Company's total revenues; therefore, the disclosure for industry segment is not applicable.

### **Foreign Operations**

Currently, the Company does not have any foreign operations.

## Export Sales

Export sales for the years ended December 31, 2008 and 2007 were as follows:

Areas	2008	2007
Hong Kong	\$ 2,462,515	\$ 7,115,008
Singapore	1,267,706	431,456
Japan	101,200	194,161
USA	565,680	559,743
Europe	694,233	855,967
Others	<u>174,183</u>	<u>421,354</u>
	<u>\$ 5,265,517</u>	<u>\$ 9,577,689</u>

## Dominant Customers Information

Sales to major customers for the years ended December 31, 2008 and 2007 were as follows:

Customer	2008		2007	
	Amount	% of Total Sales	Amount	% of Total Sales
A	<u>\$ 1,161,384</u>	<u>15</u>	<u>\$ 328,432</u>	<u>2</u>