C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2008

For the convenience of readers and for information purpose only, 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of
C -Media Electronics Inc.

We have audited the accompanying consolidated balance sheet of C-Media Electronics Inc. (the "Company") and its subsidiaries as of December 31, 2008, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended, expressed in thousands of New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of C-Media Electronics Inc. and its subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

March 18, 2009
PWCR08000403

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

	2008 AMOUNT	%
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 1,022,273	56
Financial assets at fair value through profit or loss - current (Note 4(2))	30,104	2
Notes receivable, net	4,685	-
Accounts receivable (Note 4(3))	44,016	2
Accounts receivable, net - related parties (Note 5)	53,029	3
Other receivables	8,168	-
Inventories, net (Note 4(4))	54,604	3
Prepayments	9,042	1
Deferred income tax assets - current (Note 4(15))	5,304	-
Total current assets	1,231,225	67
Funds and Investments		
Financial assets carried at cost - non-current (Note 4(5))	186,313	10
Long-term equity investments accounted for under the equity method	-	-
Total funds and investments	186,313	10
Property, Plant and Equipment, Net (Notes 4(6) and 6)		
Cost		
Land	121,039	7
Buildings	61,332	3
Machinery and equipment	65,748	4
Office equipment	7,082	-
Cost and revaluation increments	255,201	14
Less: Accumulated depreciation	(85,807)	(5)
Total property, plant and equipment, net	169,394	9
Intangible Assets		
Other intangible assets - other	7,446	1
Other Assets		
Assets leased to others (Notes 4(7) and 5)	210,454	11
Refundable deposits	1,313	-
Deferred expenses	14,615	1
Deferred income tax assets - non-current (Note 4(15))	14,659	1
Total other assets	241,041	13
TOTAL ASSETS	$ 1,835,419	100

	2008 AMOUNT	%
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Financial liabilities at fair value through profit or loss - current (Note 4(8))	$ 12,046	1
Notes payable	11,515	1
Accounts payable	2,534	-
Accounts payable - related parties (Note 5)	8,172	1
Income tax payable (Note 4(15))	25,253	1
Accrued expenses (Note 5)	61,614	3
Other payables	35	-
Receipts in advance	2,010	-
Other current liabilities	1,113	-
Total current liabilities	124,292	7
Long-term Liabilities		
Bonds payable (Note 4(8))	567,489	31
Other Liabilities		
Accrued pension liabilities (Note 4(9))	1,760	-
Guarantee deposits received	1,005	-
Total other liabilities	2,765	-
Total liabilities	694,546	38
Stockholders' Equity		
Capital (Note 4(10))		
Common stock	627,109	34
Capital Reserves (Notes 4(8)(10)(11))		
Paid-in capital in excess of par value of common stock	4,397	-
Additional paid-in capital - treasury stock transactions	27,498	1
Capital reserve from employee stock warrants	11,617	1
Capital reserve from stock warrants	121,339	7
Retained Earnings (Note 4(12))		
Legal reserve	214,844	12
Special reserve	-	-
Undistributed earnings	202,407	11
Cumulative Translation Adjustments	5,751	-
Treasury Stock (Note 4(13))	(74,089)	(4)
Total stockholders' equity	1,140,873	62
Significant Commitments And Contingent Liabilities (Note 7)		
Significant Subsequent Event (Note 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,835,419	100

The accompanying notes are an integral part of these consolidated financial statements.

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

	2008	
	AMOUNT	%
Operating Revenues (Note 5)		
Sales	$ 386,172	55
Sales returns	(165)	-
Sales discounts	(19)	-
Net Sales	385,988	55
Other service income	318,717	45
Net Operating Revenues	704,705	100
Operating Costs		
Cost of goods sold (Notes 4(17) and 5)	(139,085)	(19)
Gross profit, net	565,620	81
Operating Expenses (Notes 4(17) and 5)		
Sales and marketing expenses	(95,002)	(13)
General and administrative expenses	(53,822)	(8)
Research and development expenses	(160,415)	(23)
Total Operating Expenses	(309,239)	(44)
Operating income	256,381	37
Non-operating Income and Gains		
Interest income	20,036	3
Gain on valuation of financial liabilities (Notes 4(8) and 10)	10,442	1
Gain on disposal of investments	3,812	1
Foreign exchange gain, net	3,316	-
Rental income (Note 5)	5,473	1
Other non-operating income	1,236	-
Non-operating Income and Gains	44,315	6
Non-operating Expenses and Losses		
Interest expense	(27,437)	(4)
Loss on valuation of financial assets (Note 4(2))	(990)	-
Loss on disposal of property, plant and equipment	(398)	-
Provision for loss on inventory obsolescence and market price declines	(9,113)	(1)
Impairment loss (Note 4(5))	(99,000)	(14)
Other non-operating losses (Note 4(8))	(19,299)	(3)
Non-operating Expenses and Losses	(156,237)	(22)
Income from continuing operations before income tax	144,459	21
Income tax expense (Note 4(15))	(46,634)	(7)
Consolidated net income	$ 97,825	14
Attributable to:		
Equity holders of the Company	$ 97,825	14

	Before Tax	After Tax
Basic earnings per share (Note 4(16))	$ 2.33	$ 1.58
Diluted earnings per share (Note 4(16))	$ 2.32	$ 1.57

The accompanying notes are an integral part of these consolidated financial statements.

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

		Capital Reserves				Retained Earnings					
	Common stock	Paid-in capital in excess of par value of common stock	Additional paid-in capital - treasury stock transactions	Capital reserve from employee stock warrants	Capital reserve from stock warrants	Legal reserve	Special reserve	Undistributed earnings	Cumulative translation adjustments	Treasury stock	Total
Balance at January 1, 2008	$ 584,767	$ 18,868	$ -	$ 11,617	$ 132,850	$ 180,697	$ -	$ 444,150	$ -	($ 60,640)	$1,312,309
Appropriations of 2007 income:											
Legal reserve	-	-	-	-	-	34,147	-	(34,147)	-	-	-
Employee bonuses	13,400	-	-	-	-	-	-	(27,400)	-	-	(14,000)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(3,073)	-	-	(3,073)
Distribution of cash dividends	-	-	-	-	-	-	-	(260,477)	-	-	(260,477)
Distribution of stock dividends	14,471	-	-	-	-	-	-	(14,471)	-	-	-
Capital reserve converted to capital stock	14,471	(14,471)	-	-	-	-	-	-	-	-	-
Redemption of convertible bonds	-	-	27,498	-	(27,498)	-	-	-	-	-	-
Reset of conversion price	-	-	-	-	15,987	-	-	-	-	-	15,987
Cumulative translation adjustments	-	-	-	-	-	-	-	-	5,751	-	5,751
Acquisition of treasury stocks	-	-	-	-	-	-	-	-	-	(13,449)	(13,449)
Consolidated net income for 2008	-	-	-	-	-	-	-	97,825	-	-	97,825
Balance at December 31, 2008	$ 627,109	$ 4,397	$ 27,498	$ 11,617	$ 121,339	$ 214,844	$ -	$ 202,407	$ 5,751	($ 74,089)	$1,140,873

The accompanying notes are an integral part of these consolidatedfinancial statements.

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

		2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$	97,825
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Provision for bad debts		4,756
Loss on disposal of fixed assets		398
Depreciation (including rental and idle assets)		7,756
Amortization		10,954
Reversal of provision for bad debts	(	977)
Gain on valuation of financial liabilities	(	10,442)
Provision for inventory obsolescence and market price decline		9,113
Impairment loss on financial assets carried at cost		99,000
Amortization of discount of cost of convertible bonds		27,425
Loss on redeem of convertible bonds		4,354
Changes in assets and liabilities		
Financial assets at fair value through profit or loss - current		200,990
Notes receivable		31
Accounts receivable		34,915
Accounts receivable, net -related party	(	4,727)
Other receivables	(	11,207)
Inventories	(	4,953)
Prepaid expenses		4,743
Deferred income tax assets	(	16,233)
Notes payable	(	42)
Accounts payable	(	1,285)
Accounts payable - related parties	(	14,188)
Income tax payable	(	32,064)
Accrued expenses		27,467
Other payables	(	1,680)
Receipts in advance		1,988
Other current liabilities		427
Accrued pension liabilities	(	193)
Net cash provided by operating activities		434,151

(Continued)

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

	2008
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment (including rental assets)	($ 4,776)
Proceeds from disposal of property, plant and equipment	2
Increase in intangible assets	(7,282)
Increase in deferred assets	(12,122)
Decrease in refundable deposits	648
Net cash used in investing activities	(23,530)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in guarantee deposits received	1,005
Employees' bonuses	(14,000)
Remuneration to directors and supervisors	(3,073)
Cash dividends paid	(260,477)
Proceeds from redemption of convertible bonds	(136,568)
Acquisition of treasury stocks	(13,449)
Net cash used in financing activities	(426,562)
Adjustments of exchange rates	5,751
Decrease in cash and cash equivalents	(10,190)
Cash and cash equivalents at beginning of year	1,032,463
Cash and cash equivalents at end of year	$ 1,022,273
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid for income tax	$ 94,931

The accompanying notes are an integral part of these consolidated financial statements.

C-MEDIA ELECTRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY OF THE COMPANY

1) C-MEDIA ELECTRONICS INC. (the "Company")

a) The Company was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on December 5, 1991. The Company is engaged in the sale of high quality, high value-added PC peripheral and digital imaging ICs and the related application software.

b) The shares of the Company have been traded in the Gretai Securities Market in the Republic of China since April 21, 2003.

c) As of December 31, 2008, the Company had 109 employees.

2) Subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Main activities	% of shares held as of December 31, 2008	Description
C-Media Electronics Inc.	C-Media Investments Limited	Holding company	100.00%	Note 1
C-Media Investments Limited	C-Media (Shanghai) Ltd.	Vendor of electronics products, pc audio, MP3, and MP4.	100.00%	Note 2

Note 1: The subsidiary was established on July 24, 2008, and whose financial statements were audited by independent accountants.

Note 2: The subsidiary was established on November 4, 2008, and whose financial statements were audited by independent accountants.

3) Subsidiaries not included in the consolidated financial statements: None.

4) Difference in accounting period of the Company and the subsidiaries: None.

5) Special operating risk in foreign subsidiaries: None.

6) Nature and extent of the restrictions on remittance from subsidiaries to the parent company: None.

7) Information on subsidiaries holding the parent company's securities: None.

8) Information on subsidiaries which issued convertible bonds and stocks:

C-Media Investments Limited's issued capital stock of US$ 2,800,000 was totally acquired by the Company in 2008. For the information on C-Media (Shanghai) Ltd., please see Note 11.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China. The Group's significant accounting policies are summarized as follows:

1) Basis for preparation of consolidated financial statements

All majority-owned subsidiaries wherein the Group owns more than 50% ownership and controlled entities are included in the consolidated financial statements. The Group prepares consolidated financial statements on a quarterly basis. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Group gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Group loses control over the subsidiaries. Significant inter-company transactions, assets and liabilities arising from inter-company transactions are eliminated.

2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year's balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in "Cumulative translation adjustments" under stockholders' equity.

3) Foreign currency transactions

A. The accounts of the Company and its consolidated subsidiaries are maintained in New Taiwan dollars and their functional currencies, respectively. Transactions denominated in foreign currencies are translated into New Taiwan dollars and their functional currencies at the spot exchange rates prevailing at the transaction dates. Foreign currency translation gains or losses are included in the current year's results of operations.

B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

C. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Conversely, when a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the transaction date.

4) Standards of classifying current and non-current assets and liabilities

A. Assets are classified as current assets if any of the requirements listed below are met; otherwise the assets are classified as non-current assets:

A) Assets arising from operating activities and are expected to be sold or consumed within the operating cycle.

B) Held mainly for trading purposes.

C) Expected to be converted into cash within twelve months after balance sheet date.

D) Cash or cash equivalents, except those with limitations on their use.

B. Liab ilities are classified as current liabilities if any of the requirements listed below are met; otherwise, the liabilities are classified as non-current liabilities:

A) Liabilities arising from operating activities and are payable within the operating cycle.

B) Held mainly for trading purposes.

C) Expected to be paid within twelve months after balance sheet date.

D) Payments cannot be extended without any conditions twelve months after balance sheet date.

5) Financial assets and liabilities at fair value through profit or loss

A. Financial assets and financial liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and are recognized initially at fair value.

B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks and OTC stocks is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

C. For call options, put options and price resetting options, which are embedded in bonds payable, please refer to Note 2 (13).

6) Financial assets and liabilities carried at cost

A. Investment in unquoted equity instruments is recognized or derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset.

B. If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.

7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to the evaluation of the collectibility of the ending balances of notes, accounts and other receivables.

8) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. Cost is determined using the weighted-average method. At the end of year, inventories are evaluated at the lower of aggregate cost or market value. The market value is based on the replacement cost for raw materials and supplies and net realizable value for work in process, finished goods and merchandise. Allowance for obsolete and slow-moving inventories is provided when necessary. Loss for market price decline and obsolete and slow-moving inventories is recognized as incurred.

9) Property, plant and equipment / non-operating assets

A. Property, plant and equipment are stated at cost. Cost includes all expenditures incurred before the assets are placed in service. Maintenance and repairs are expensed as incurred. Major renewals and improvements are capitalized and depreciated accordingly.

B. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the current results of operations.

C. Depreciation is provided under the straight-line method based on the assets' estimated economic service lives. Fully depreciated assets still in use are depreciated based on residual value over the remaining useful lives. The service lives of the fixed assets are as follows: building – 50 years and other fixed assets – 3 to 5 years.

D. Property, plant and equipment that are idle or have no value in use are reclassified to "Other assets" at the lower of the fair value less costs to sell or book value. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

10) Intangible assets

Royalty fees are stated at cost and are amortized on the straight-line basis over their estimated useful lives of 2~15 years.

11) Deferred assets

Deferred assets, which consist of maintenance of the computer software, are stated at cost and are amortized over the estimated life of 1~3 years using the straight-line method.

12) Non-financial asset impairment

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. When the impairment no longer exists, the impairment loss shall be reversed to the extent of the loss previously recognized in profit and loss. However, impairment loss of goodwill is not recoverable.

13) Convertible bonds

A. For the bonds payable with conversion options, call options, put options and price resetting options issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument (capital reserve from stock warrants) in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

a) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the straight-line method and is recorded as “Interest expense”.

b) The value of any derivative features (such as a call option, put option and price resetting option) embedded in the compound financial instrument is recognized as “Financial assets or financial liabilities at fair value through profit or loss”. At the maturity of the redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as “Paid-in capital”; however, if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as “Gain or loss”.

c) A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized and included in “Capital reserve from stock warrants”, net of income tax effect. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued, and the resulting difference shall be recognized as “Gain or loss” in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock warrants.

d) Costs incurred on issuance of convertible bonds are proportionally charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

B. If the difference between payment amount before the maturity date and the book value at liquidation date is significant, it should be recognized as “Extraordinary gain or loss” in the current period.

C. In the event that the bondholders may exercise put options within future one year, the underlying bonds payable shall be reclassified to current liabilities. The bonds payable with put options unexercised during the exercisable period of put options shall be reversed to non-current liabilities.

14) Pension plans

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 15 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

15) Income tax

A. Accounting for income taxes adopts inter-period and intra-period tax allocations. Over or under provision of prior years' income tax liabilities is included in current year's income tax.

B. In accordance with R.O.C. SFAS No. 12, "Accounting for Investment Tax Credits", investment tax credits resulting from expenditures for the acquisition of certain machinery or technology, research and development and employees' training are recognized in the period the related expenditure was incurred.

C. The additional 10% tax on the undistributed earnings is recorded as "Tax expense" in the year the stockholders resolved to retain the earnings.

16) Treasury stock

A. When the Company acquires its outstanding shares as treasury stock, the acquisition cost should be debited to the treasury stock account (classified as a contra account under stockholders' equity) if the shares are purchased.

B. Upon disposal of the treasury stock, if the disposal price exceeds the cost of the treasury stock disposed of, the difference is credited to "Capital reserve – treasury stock". If the disposal price is less than the cost, the difference is debited to the capital reserve arising from the treasury stock of the same class. Where the capital reserve is insufficient to cover the difference, the remaining amount is charged against retained earnings.

C. The cost of treasury stock is accounted for on a weighted-average basis.

17) Share-based payment — employee compensation plan

A. The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF92-070, EITF92-071 and EITF92-072 "Accounting for Employee Stock Options", prescribed by the R.O.C. Accounting Research and Development Foundation. Under the share-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share is prepared under the fair value method.

B. For the grant date of the share-based payment agreements set on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

18) Employees' bonuses and directors' and supervisors' remuneration

Pursuant to EITF96-052 "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation, the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal obligation or constructive obligation and those amounts can be estimated reasonably. The calculation for number of shares of stock bonus distributed to employees is based on the closing price of the Company's common stock at the previous day of the following year stockholders' meeting after taking into account the effects of ex-rights and ex-dividends.If the estimated amount of distribution of employees' bonuses and directors' and supervisors' remuneration is different from the amount resolved at the stockholders' meeting subsequently, the difference is recognized as gain or loss in the year the stockholders resolve the distribution.

19) Revenues and expenses

Revenues are recognized when the earning process is substantially completed and they are realized or realizable. Costs and expenses are recognized as incurred.

20) Earnings per share

A. Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the year after taking into consideration the retroactive effect of stock dividends and capital reserve capitalized.

B. Basic and diluted earnings per share are disclosed if there is potential dilution of common stocks resulting from the issuance of convertible bonds and employee stock options.

21) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported during the reporting period. Actual results could differ from those assumptions and estimates.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

1) Share-based payment – employee compensation plan

Effective January 1, 2008, the Group adopted the R.O.C. SFAS No. 39, "Accounting for Share-based Payment". This change in accounting principle had no significant effect on the financial statements as of and for the year ended December 31, 2008.

2) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, the Group adopted EITF96-052 "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation. As a result of the adoption of EITF96-052, net income decreased by $3,577 and earnings per share decreased by $0.06 for the year ended December 31, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash

	December 31,2008
Cash on hand	$ 143
Checking deposits	26
Demand deposits	213,946
Time deposits	808,158
	$ 1,022,273

2) Financial assets at fair value through profit or loss-current

Current items:	December 31, 2008
Financial assets held for trading	
Open-end fund	$ 30,000
Adjustment of financial assets held for trading	104
	$ 30,104

The Company recognized net gain of $ 2,822 for the year ended December 31, 2008.

3) Accounts receivable

	December 31, 2008
Accounts receivable-non-related party	$ 44,603
Less: Allowance for doubtful accounts	(587)
	$ 44,016

4) Inventories

	Dcember 31, 2008
Raw materials	$ 18
Work in process	24,904
Finished goods	16,003
Goods in transit	189
Merchandise inventory	24,527
	65,641
Less: Allowance for inventory obsolescence and decline in market value	(11,037)
	$ 54,604

5) Financial assets carried at cost- non current

Investee company	December 31, 2008 Amount	Percentage of shareholding
Unlisted stocks - iPeer Multimedia International Ltd.	$ 285,313	18.46%
Accumulated impairment	(99,000)	
	$ 186,313	

A. Financial assets are measured at cost when they have no quoted prices in active markets and their fair values cannot be measured reliably.

B. The Company recognized $99,000 of impairment loss for a decline in investment value of iPeer Multimedia International Ltd. for the year ended December 31, 2008.

C. In accordance with the Board of Directors' resolution on June 22, 2007, the Company entered into a share exchange agreement with iPeer Multimedia International Ltd. ("iPeer"). The share exchange transaction had been completed on August 7, 2007 and the title to these shares had been transferred and registered. The exchange was based on the same kind of assests, the Company classified shares of iPeer as "Financial assets carried at cost - non current" with the book value of Kuroom Co., Ltd.

6) Property, plant and equipment

The details of accumulated depreciation are as follows:

	December 31, 2008
Building	$ 17,448
Machinery and equipment	63,142
Office equipment	5,217
	$ 85,807

7) Assets leased to others

	December 31, 2008
Land	$ 150,151
Building	71,263
	221,414
Less: Accumulated depreciation	(10,960)
	$ 210,454

8) Bonds payable

	December 31, 2008
Bonds payable	$ 652,200
Less: Discount of bonds payable	(84,711)
Total	$ 567,489

A. The Company was approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, to issue the first domestic unsecured convertible bonds in August 28, 2007. The bonds were listed on the Taiwan Over-The-Counter Securities Exchange on September 13, 2007. Relevant information is as follows:

a) The total issuance amount of the first domestic unsecured convertible bonds was $800,000, with a par value of $100 per piece of bonds and zero coupon. The issuance period is five years from September 11, 2007 to September 11, 2012.

b) Conversion period: from the following day of one month after issuance to 10 days before maturity date.

c) Conversion price and its adjustment: The conversion price will be adjusted based on the terms of the convertible bonds. The conversion price at the issue date of September 11, 2007 was $210 (in dollars) per share. The conversion price will be reset on the following certain dates in accordance with the terms of the convertible bonds: (i) the first business day after half-year of issuance (on March 11, 2008); (ii) the ex-rights base day every year from 2009 to 2012 (using ex-dividend base day if no ex-rights base day in that year; using June 30 as the conversion price resetting base day if no ex-rights base day or ex-dividend base day in that year). Effective March 11, 2008 (the conversion price resetting base day), the conversion price was reset to $168 (in dollars) per share, and the conversion price was reset to $147.75 (in dollars) per share on ex-dividend base day of August 18, 2008. As of December 31, 2008, none of the bonds were converted to common stocks.

d) Call options:

The Company may buy back all its issued and outstanding bonds at face value, provided that (i) the closing price of the Company's common shares on OTC is above 50% of the conversion price for a period of 30 consecutive business days, or (ii) the outstanding balance of the bonds is less than 10% of their initial total issuance amount, during the period from the following day of one month after issuance to 40 days before maturity date of the bonds. The Company shall send notices to the bondholders within 30 business days after occurrence of one of the foregoing two events to inform them that the Company will repurchase the bonds within 30 business days from the notice sending date in accordance with the terms of the convertible bonds.

e) Put options: The Company should redeem such bonds at face value on the date of three years after the issuance of convertible bonds upon the request of the bondholders.

f) Under the terms of the convertible bonds, all bonds (redeemed, matured and converted) are retired and not to be re-sold or re-issued.

g) Under the term of the convertible bonds, all bonds (redeemed, matured and converted) are retired and not to be re-issued. As of December 31, 2008, the convertible bonds in the amount of $147,800 were repurchased by the Company from the Taiwan Over-The-Counter Securities Exchange, and the loss on redemption was $4,354 (shown as Other non-operating losses) for the year ended December 31, 2008.

B. The fair value of convertible option amounting to $132,850 was separated from bonds payable, and was recognized in "Capital reserve from stock warrants" at issuance according to R.O.C. SFAS No. 36 for the convertible bonds issued by the Company in year 2007. In year 2008, the fair value reduction of convertible option amounting to $15,987, due to the reset of conversion price resulting from the movements in the make price of the conversion object, was recognized in "Capital reserve from stock warrants" in accordance to EITF97-331 and EITF98-046. In 2008, bonds of $27,498 that were repurchased and retired by the Company were reclassified from "Capital reserve from stock warrants" to "Capital reserve- treasury stock transactions". As of December 31, 2008, the balance of "Capital reserve from stock warrants" amounted to $121,339. In addition, the fair value of put options, call options and conversion price resetting options embedded in bonds payable was separated from bonds payable, and was recognized in "Financial liabilities at fair value through profit or loss- current" in accordance with R.O.C. SFAS No. 34. As of December 31, 2008, such amount recognized was $12,046. The effective annual interest rate of the bonds payable after separation was 2.67%.

9) Retirement plans

A. The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees before the enforcement of the Labor Pension Act (the "Act") on July 1, 2005 and the employees who choose to be covered under the pension scheme of the Labor Standards Law after the enforcement of the Act. Under the defined benefit plan, two points are granted for each year of service for the first 15 years and one point is granted for each additional year of service from the 16th year, subject to a maximum of 45 points. Pensions paid upon retirement are based on the number of points granted and the average monthly salaries and wages of the last six months prior to retirement. The Company contributes monthly an amount based on 2% of the employees' monthly salaries and wages to the retirement fund deposited with the Central Trust of China under the name of the independent retirement fund committee.

B. The details of pension based on the actuarial report are as follows:

a) The related actuarial assumptions used to calculate the pension liability in 2008 are as follows:

	December 31, 2008
Actuarial assumption	
Discount rate	2.75%
Rate of increase in compensation	3.00%
Expected return rate on plan assets	1.50%

b) Based on the measurement dates of 2008, the reconciliation of the funding status to accrued pension liability as of December 31, 2008 is as follows:

	2008
Benefit obligation:	
Vested benefit obligation	$ -
Non vested benefit obligation	20,959
Accumulated benefit obligation	20,959
Additional benefits based on future salaries increase	12,665
Project benefit obligation	33,624
Fair value of plan assets	(21,915)
Funded status	11,709
Unrecognized net transition obligation	(3,111)
Unrecognized pension gain (loss)	(6,838)
Additional pension liabilities	-
Accrued pension cost	$ 1,760
Vested benefit	$ -

c) The details of net periodic pension cost for 2008 are as follows:

	2008
Service cost	$ -
Interest cost	841
Expected return on plan assets	(529)
Amortization:	
Unrecognized net transition obligation	444
Pension loss	-
Net pension cost	$ 756

C. As a result of the enforcement of the Act, the Company established a defined contribution pension plan which took effect on July 1, 2005. Local employees are eligible for the defined contribution plan. For the employees who chose to be covered under the pension scheme of the Act, the Company contributes monthly an amount of not less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. Pensions are paid by monthly installments or in lump sum based on the accumulated balance of the employees' individual pension accounts. The net pension costs recognized under the defined contribution plan was $5,119 as of December 31, 2008.

10) Common stock

A. As of December 31, 2008, the Company's authorized capital stock was 82,000 thousand shares (including 6,000 thousand shares reserved for employee stock options), and the issued and outstanding capital stock was 61,818 thousand shares (excluding 893 thousand shares of treasury stock) with a par value of $10 (in dollars) per share.

B. As of December 31, 2008, 2,159 thousand shares of common stock were issued as a result of the exercise of the employee stock options. The capital reserve arising from the excess of the exercise price over the par value amounted to $11,617.

11) Capital reserve

A. The R.O.C. Company Law requires that capital reserve shall be exclusively used to offset against accumulated deficit and shall not be used for any other purpose. However, capital reserve arising from paid-in capital in excess of par value and donation can be used to increase capital provided the total amount to be capitalized each year shall not exceed 10% of outstanding capital.

B. Please refer to Note 4 (8) for information on capital reserve from stock warrants.

12) Retained earnings

A. Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, and special reserve shall be set aside or reversed in accordance with the provisions of the competent authority. The remainder, if any, shall be appropriated in the following order: (a) bonus to employees of 5%~10%, (b) remuneration to directors and supervisors not exceeding 1%, and (c) appropriation of dividends to stockholders shall be proposed by the Board of Directors and resolved at the stockholders' meeting. Employees' bonus could be distributed in cash or in the form of stocks. The group of people who are entitled to employees' bonus may include the employees of the Company's subsidiaries of which the Company holds directly and indirectly more than 50% voting shares.

   The dividend policy would depend on the current and future investment environment, capital demanding, domestic and foreign competition and capital budget for the next year, and taking into account stockholders' interests, dividend equalization and the Company's long-term financial planning. According to the Company's dividend policy, at least 10% of stockholders' dividends shall be paid in cash, and the remainder in the form of shares; while, appropriation of stockholders' cash dividends is subject to adjustments based on current year's actual profits and results of operations. The amendments to the Company's Articles of Incorporation published on June 13, 2008 are as follows: 10%~90% of stockholders' dividends shall be paid in cash, and the remainder in the form of shares; while, appropriation of stockholders' cash dividends is subject to adjustments based on current year's actual profits and status of operations.

B. The legal reserve can only be used to offset losses or to increase capital when the Company's accumulated legal reserve has reached 50% of its paid-in capital, and only one half of the legal reserve balance may be capitalized.

C. The appropriation of 2007 earnings had been resolved at the stockholders' meeting on June 13, 2008. Details are summarized below:

	2007	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 34,147	$ -
Stock dividends	14,471	0.25
Cash dividends	260,477	4.50
Directors' and supervisors' remuneration	3,073	-
Employees' stock bonus	13,400	-
Employees' cash bonus	14,000	-
Total	$ 339,568	$ 4.75

Further, on June 13, 2008, the stockholders at their meeting has approved to capitalize capital reserve of $14,471.

As of March 18, 2009, the appropriation of 2008 earnings has not been resolved by the Board of Directors. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

According to the resolution of the appropriation of 2007 earnings, employees' stock bonus of 1,340 thousand shares, constituting 2.32% of the outsanding shares as at December 31, 2007, were distributed. The estimated basic and diluted earings per share after accounting for the distribution of employees' bonus and directors' and supervisors' remuneration as expenses in 2007 are 5.47 (in dollars) and 5.35 (in dollars), respectively.

D. The Company accrued employees' bonus and directors' and supervisors' remuneration of $4,402 and $880, respectively, for the year ended December 31, 2008, which were estimated based on net income of 2008 and other factors, such as legal reserve, and the appropriation percentage of 5% and 1%, respectively, in accordance with the Company's Articles of Incorporation.

13) Treasury stock

A. Changes in the treasury stock for the year ended December 31, 2008 are set forth below:

For the year ended December 31, 2008				
Reason for reacquisition	Beginning shares	Additions	Disposal	Ending shares
To be reissued to employees	593,000	300,000	-	893,000

B. Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury stock should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital reserve. As of December 31, 2008, the shares bought back as treasury stock amounted to $74,089.

C. Pursuant to the R.O.C. Securities and Exchange Law, treasury stock should not be pledged as collateral and is not entitled to dividends before it is reissued to the employees.

D. Pursuant to the R.O.C. Securities and Exchange Law, treasury stocks should be reissued to the employees within three years and shares not reissued within the three-year period are to be retired.

14) Share based payment — employee compensation plan

A. As of December 31, 2008, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted (shares)	Contract period	Vesting conditions	Actual resignation rate in the current period	Estimated future resignation rate
Employee stock options	November 19, 2007	1,000,000	5 years	2 years' service	-	-
Employee stock options	December 26, 2007	2,000,000	8 years	3 years' service	-	-

B. Details of the employee stock options are set forth below:

	For the year ended December 31, 2008	
	Number of shares	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	3,000,000	$ 101.80
Options granted	-	-
Distribution of stock dividends / adjustments for number of shares granted for one unit of option	65,891	111.80
Options waived	(315,000)	101.09
Options exercised	-	-
Options revoked	-	-
Options outstanding at end of December 31, 2008	2,750,891	102.12
Options exercisable at end of December 31, 2008	-	-

C. As of December 31, 2008, the range of exercise price of stock options outstanding was $96.8～$111.8 (in dollars), and the expected vesting period was 4.4～6.3 years.

D. The following sets forth the pro forma net income and earnings per share based on the assumption that the compensation cost is accounted for using the fair value method (the intrinsic value method) for the stock options granted before the effectivity of R.O.C. SFAS No. 39, "Accounting for Share-based Payment":

		For the year ended December 31, 2008
Net income	Net income stated in the statement of income	$ 97,825
	Pro forma net income	62,451
Basic earnings per share (EPS) (in dollars)	EPS stated in the statement of income	1.58
	Pro forma EPS	1.01
Diluted EPS (in dollars)	EPS stated in the statement of income	1.57
	Pro forma EPS	1.00

For the stock options granted as stated above with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected vesting period	Expected dividend yield rate	Risk-free interest rate	Fair value per unit (in dollars)
2007.11.19	$ 127	$ 111.8	56.18%	4.4 years	-	2.67%	$ 60.57
2007.12.26	110	96.8	55.81%	6.3 years	-	2.44%	60.85

15) Income tax

A. Income tax expense and income tax payable are reconciled as follows:

	For the year ended December 31, 2008
Income tax payable	$ 25,253
Net change of deferred income tax assets and	(16,233)
Prepaid income tax	42,146
Over provision of prior years' income tax	(4,532)
Income tax expense	$ 46,634
Income tax expense consists of :	
Income tax expense-current	$ 46,444
Income tax expense-10% tax on undistributed retained earnings	190
Income tax expense	$ 46,634

B. The temporary differences and related amounts of deferred income tax assets are as follows:

	December 31, 2008	
	Amount	Tax effect
Current:		
Temporary differences		
Allowance for inventory loss	$ 11,037	$ 2,759
Unrealized inventory scrap loss	9,056	2,264
Others	1,122	281
		$ 5,304
Non-Current:		
Temporary differences		
Impairment loss	$ 99,000	$ 24,750
Long-term equity investment loss accounted for under the equity method	13,385	3,346
Unrealized royalty and design expense	57,952	14,488
Others	1,685	421
		43,005
Valuation allowance - non current		(28,346)
		$ 14,659

C. As of December 31, 2008, the imputation tax credit account balance and the creditable tax ratio of the total distributed retained earnings are as follows:

	December 31, 2008
The imputation tax credit account balance	$ 74,464

	2008
The creditable tax ratio of the total distributed retained earnings	36.79%
	(Note)

Note: The ratio represented an estimated creditable ratio.

The ratio of imputation credit of 2008 wa s estimated by the imputation tax credit balance as of December 31, 2008. The amount of deductible tax distributable by the Company to its shareholders shall be limited to an amount not exceeding the amount of the imputation tax credit account balance on the date of distribution of the dividends. Accordingly, the actual creditable ratio for the distribution of undistributed earnings of 1998 or each ensuing year thereafter will be based on the imputation tax credit account balance up to the date of distribution of the dividends.

D. As of December 31, 2008, the unappropriated retained earnings were generated in 1998 and thereafter.

E. As of December 31, 2008, the Company's income tax returns through 2006 have been approved by the Tax Authority.

F. As of December 31, 2008, the available investment tax credits are as follows:

Qualifying expenditures	Total investment tax credits	Unused tax credits	Final year tax credits are due
Research and development expenditures	$ 14,009	$ -	-

16) Earnings per share

	For the year ended December 31, 2008				
	Amount		Weighted average number of outstanding common shares	Earnings per share (in dollars)	
	Before Tax	After Tax	(In thousands)	Before Tax	After Tax
Basic earnings per share					
Consolidated net income	$ 144,459	$ 97,825	62,018	$ 2.33	$ 1.58
Effect of diluted common stock equivalent:					
Convertible bonds	-	-	-		
Employees' bonus	-	-	166		
Diluted earnings per share	$ 144,459	$ 97,825	62,184	$ 2.32	$ 1.57

Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which take into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively. However, the accounting treatment for the appropriation of employees' bonus for 2007 earnings resolved at the stockholders' meeting held in 2008 is still in accordance with the regulations on capitalization of employees' bonus under paragraphs 19 and 39 of R.O.C. SFAS No. 24, "Earnings per Share".

17) Personnel, depreciation and amortization expenses

	For the year ended December 31, 2008		
	Cost of goods sold	Operating expenses	Total
Personnel expenses			
Salaries	$ 5,508	$ 104,870	$ 110,378
Insurances	324	6,253	6,577
Pension	322	5,553	5,875
Others	140	3,100	3,240
Depreciation (Note)	146	3,457	3,603
Amortization	6,459	4,495	10,954

Note: Excludes depreciation on rental assets which is included under "Non-operating expenses". For the year ended December 31, 2008, depreciation on these assets were $4,153.

5. RELATED PARTY TRANSACTIONS

1) Names and relationships of related parties

Names of the related parties	Relationship with the Company
Realtek Semiconductor Corp. (Realtek)	Major shareholder
Kuroom Co., Ltd. (Kuroom)	Common board president
iPeer Multimedia International Ltd. (iPeer)	Common board president (effective October 2007)
Darling Digital Co., Ltd. (Darling)	The holding company of Darling has a common board president with the Company.
GCom Inc. (GCom)	The board president of GCom is a second-degree relative of the Company's board president.
Directors, supervisors, CEO, and vice CEO etc.	Chief administration

2) Significant related party transactions and balances

A. Other service income-royalty revenue

	For the year ended December 31, 2008
Realtek	$ 312,896

All CODEC royalty revenues collected from related party are based on the terms of the contract signed by two parties in 2004. The credit term was 49 days.

B. Sales revenue

	For the year ended December 31, 2008
Others	$ 28,159

All sales revenue mostly collected from Darling are based on the terms of the contract. The credit term was 60~90 days.

C. Purchases

	For the year ended December 31, 2008
Realtek	$ 42,893
Others	7
	$ 42,900

All purchases from Realtek pertain to purchases of wafers with a payment term of 49 days. There is no comparable purchase price available since Realtek is the only vendor. For the year ended December 31, 2008, payment terms to third parties for other purchases were 30~60 days.

D. Selling expenses - royalties

	For the year ended December 31, 2008
Realtek	$ 10,986

The Company paid royalties to the above related party for product technology license with a payment term of 49 days pursuant to the terms of the agreement.

E. Accounts receivable

		December 31, 2008
Realtek	$	29,630
Darling		23,346
Others		53
	$	53,029

F. Accounts payable

		December 31, 2008
Realtek	$	8,172

G. Lease revenue

		For the year ended December 31, 2008
Kuroom	$	1,941
Darling		1,572
	$	3,513

The Company collects lease payments monthly by renting office space to Kuroom and Darling.

H. Advertisement fees

		For the year ended December 31, 2008
Darling	$	8,744
Kuroom		5,930
	$	14,674

I. Directors', supervisors', CEO's, and vice CEO's etc. chief administrative salaries information

		For the year ended December 31, 2008
Salaries	$	13,527
Bonuses		1,541
Service execution fees		165
Earnings distribution		1,321
	$	16,554

a) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.

b) Bonuses include various bonuses and rewards.

c) Service execution fees include travel allowances, special expenditures, various allowances, housing & vehicle benefits offering, etc.

d) Earnings distribution means directors' and supervisors' remuneration and employees' bonus accrued in current year.

e) The relevant information above was posted in the Company's annual report.

J. Others

For the year ended December 31, 2008, research and development materials purchased from Realtek was $7,392.

6. PLEDGED ASSETS

Asset items	December 31, 2008	Purpose
Land	$ 121,039	Export financing, long-term loans and other credit
Property, plant and equipment	43,884	"

7. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2008, the total and unpaid amount of signed technology transfer contracts was $9,840 and $3,280, respectively.

8. SIGNIFICANT LOSSES FROM DISASTERS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

The Company acquired 1,000,000 preferred stock shares with a par value of $1 (in US dollars) issued by iPeer as resolved by the Company's Board of Directors on October 24, 2008 and remitted the payment on Feburary 20, 2009.

10. OTHER EVENTS

1) Fair Value of Financial Instruments

Financial instruments	December 31, 2008		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 1,133,484	$ -	$ 1,133,484
Financial asset held for trading-Beneficiary's Certificate	30,104	30,104	-
Liabilities			
Financial liabilities with fair values equal to book values	111,241	-	111,241
Convertible bonds	567,489	-	591,739
Derivative financial instruments liabilities			
Liabilities on derivative financial instruments embedded in convertible bonds	12,046	-	12,046

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

a) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to Cash and cash equivalents, Notes receivable, Accounts receivable, Other receivables, Deposits out, Notes payable, Accounts payable, Income tax payable, Accrued expenses, Other payables, Other current liabilities and Deposits received.

b) The fair value of financial assets at fair value through profit or loss was based on quotations in the active market.

c) The fair value of convertible bonds is based on the present value of expected cash flow amount. The discount rate is the initial effective interest rate of convertible bonds. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based upon the amounts to be received or paid assuming that the contracts are settled as of the reporting date.

2) Information of significant gain or loss on financial instruments and equity items

For the year ended December 31, 2008, the total amount of the change in fair value which was estimated using such a valuation technique that was recognized in profit or loss during the period was $9,452.

3) Information of interest-rate risk position

As of December 31, 2008, the financial liabilities with fair value risk due to the change of interest rate amounted to $567,489.

4) Strategy of financial risk control and hedge

The Group's activities expose it to a variety of financial risk: market risk, credit risk, liquidity risk and cash flow risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

5) Information of Significant Financial Risk

A. Market risk

A) Foreign exchange risk

The Company major import and export transactions are conducted in United States dollars (USD). The fair value changes with the fluctuation of the exchange rate. The holding period of the position of asset and liability of the foreign currency is approximately the same with that of the collection and payment of the Company. As a result, the market risk is offset. The Company does not expect significant market risk.

B) Interest risk

The Company is exposed to equity securities price risk because of issuance of convertible bonds, which include the conversion option, call option, put option, conversion price resetting option and zero-coupon bonds. The Company could exercise the call option to lower its market risk adequately.

C) Price risk

The Open-end Beneficiary's Certificates in which the Company invested were mainly Quasi Money Market Funds. The market price fluctuation of those certificates was not volatile based on past experience. The Company does not expect significant market risk.

B. Credit risk

A) The Group has policies in place to ensure that the financial institution has appropriate credit history, and accordingly, that the amount of credit exposure to any financial institution has established limits.

B) The debtors have good credit standing and the Group has sufficient pledges. Based on its evaluation, the Group is not exposed to significant market risk. The maximum amount of the credit risk is the book value.

C. Liquidity risk

A) The Group investments in Open-end Beneficiary's Certificate mainly, and is able to redeem at fair values from wholesale sales at any moment.

B) The Group is exposed to a higher liquidity risk since financial assets carried at cost – non-current have no active market.

C) The Group's receivables and payables are due within one year, and, accordingly, the Group is not exposed to significant liquidity risk.

D. Cash flow risk with interest fluctuation

The investments in financial instruments of the Group were not interest bearing products and, accordingly, there is no cash flow risk with interest fluctuation.

6) In accordance with "Criteria Govering Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" Article No.14, the information is as follows:

A. Elimination of the Company's transactions with subsidiaries for the year ended December 31, 2008:

Transactions	Transaction companies and elimination amount: The Company	Transaction companies and elimination amount: C-Media Investments Limited and consolidated subsidiaries
Elimination of long-term investments and shareholders' equity		
- long-term investments	($ 92,521)	$ -
- stockholders' equity	-	(92,521)

B. Endorsements and guarantees for others: Note 11.

C. Information regarding trading in derivative financial instruments: Note 10 .

D. Commitments and contingent liabilities: Note 7.

E. Significant subsequent events: Note 9.

F. Marketable securities held at December 31, 2008: Notes 4(5) and 11.

G. Other relevant information to improve Consolidated Financial Statements present fairly: None.

7) Elimination of the Company's transactions with subsidiaries

Please see note 10(6).

11. ADDITIONAL DISCLOSURE INFORMATION OF INVESTEE COMPANY REQUIRED BY SFC

1) Related information of significant transactions

The significant transactions for the year ended December 31, 2008 are disclosed as follows:

A. Financing activities to any company or person: None.

B. Guarantee information: None.

C. Marketable securities held by the Company at December 31, 2008:

				As of December 31, 2008				
Name of investor	Kind and name of marketable securities	Relationship with the Company	General ledger accounts	Number of shares(in thousands)	Book value	Percentage	Market value Net worth	Remark
The Company	Fund- JIH SUN BOND FUND	None	Financial assets at fair value through profit or loss-current	1,430	$ 20,104	-	$ 20,104	-
〃	Fund- PCA WELL POOL FUND	None	〃	773	10,000	-	10,000	-
〃	Stock- iPeer Multimedia International Ltd.	Common Board president	Financial assets carried at cost-non-current	21,473	186,313	18.46%	None	-
〃	C-Media Investments Limited	An investee company accounted for under the equity method	Long-term equity investments accounted for under the equity method	2,800	92,521	100.00%	92,521	Note
C-Media Investments Limited	C-Media (Shanghai) Ltd.	An investee company accounted for under the equity method	Long-term equity investments accounted for under the equity method	None	21,993	100.00%	21,993	Note

Note: The financial statements were audited by investees' independent accountants.

D. Marketable securities acquired or sold in excess of $100,000 or 20% of contributed capital during the year ended December 31, 2008: None.

E. Acquired real estate in excess of $100,000 or 20% of contributed capital during the year ended December 31, 2008: None.

F. Disposal of real estate in excess of $100,000 or 20% of contributed capital during the year ended December 31, 2008: None.

G. Related party purchase or sale transactions in excess of $100,000 or 20% of contributed capital during the year ended December 31, 2008:

			Transaction				Difference with general transactions		Notes and accounts receivables		
Seller	Counter party	Relationship with the Company	Sales	Amount	Percentage of Sales	Term	Unit price	Term	Balance	Percentage of balance	Note
C-Media Electronics Inc.	Realtek Semiconductor Corp.	Long-term investor accounted for under equity method	service income	$ 312,896	44%	49 Days	Note	Note	$ 29,630	31%	-

Note: Please refer to Note 5(2).

H. Receivable from related parties in excess of $100,000 or 20% of contributed capital: None.

I. Information on derivative transactions: Please refer to Note 4(8) and 10.

2) Information of investee company for the year ended December 31, 2008

A.Basic information as of and for the year ended December 31, 2008:

				Initial investment (in USD thousand dollars)		Ending Holdings					
Investor Company	Investee Company Name	Area	Main operating Activities	Ending Balance	Beginning Balance	Shares (in thousands)	Ratio	Book value	Investee Income	Investment Income	Note
The Company	C-Media Investments Limited	Hong Kong	Holding company	$ 2,800	$ -	2,800	100%	$ 92,521	$ 656	$ 656	-
C-Media Investments Limited	C-Media (Shanghai) Ltd.	China	The vendor of electronics products, pc audio, MP3, and MP4.	670	-	NA	100%	21,993	-	-	-

Note: Investment income recognized was based on the audited financial statements of the investee companies.

B. For additional disclosure information of subsidaries above, please refer to Note 11 (1) A~I.

3) Disclosure of investments in Mainland China for the year ended December 31, 2008

A. Basic information as of and for the year ended December 31, 2008:

Name of the investee company in Mainland China	Main activities of investee company	Capital	Investment method	Accumulated amount remitted out from Taiwan at the beginning of the year	Transactions during the year: Remitted amount	Transactions during the year: Collected amount	Accumulated amount remitted out from Taiwan at the end of the year	Percentage directly or indirectly owned by the Company	Investment Income recognized during the year(Note 3)	Book value of investment at the end of the year (Note 3)	Investment income collected as of the end of the year
C-Media (Shanghai) Ltd.	The vendor of electronics products, pc audio, MP3, and MP4.	US$ 670,000 (Note1)	(Note 2)	$ -	US$ 670,000	$ -	US$ 670,000	100%	$ -	$ 21,993	$ -

Accumulated amount remitted from Taiwan to Mainland China as of the end of the year	Investment amount approved by FIC of MOEA	Ceiling of investment amount of the Company
US$ 670,000	US$ 2,800,000	$ 684,524

Note 1: C-Media (Shanghai) Ltd. was established on November 4, 2008.

Note 2: Invested by C-Media Investments Limited, which was approved by FIC of MOEA.

Note 3: Investment income recognized was based on the audited financial statements of the Company's independent accountants.

B. Material transactions directly between the Company and its mainland investees and material transactions indirectly between the Company and its mainland investees via entities in other areas:

(a) Purchases for the year ended December 31, 2008, its percentage over total purchases and the balance of related payables as of December 31, 2008: None.

(b) Sales for the year ended December 31, 2008, its percentage over total sales and the balance of related receivables as of December 31, 2008: None.

(c) Disposal or selling price of asset transactions and related gains or losses recognized during the year ended December 31, 2008: None.

(d) The purpose and the balance of endorsement, guarantee or collateral provided as of December 31, 2008: None.

(e) The maximum balance for the year ended December 31, 2008, the ending balance as of December 31, 2008, the range of interest rate and interest income recognized during the year ended December 31, 2008 resulting from financing activities: None.

(f) Other significant direct transactions of the Company with the investee companies in Mainland China: None.

4) Material transactions occurring between the Company and its subsidiaries: None

12. SEGMENT FINANCIAL INFORMATION

(1) Financial information by industry

Not applicable as the Company and its consolidated subsidiaries are mainly engaged in a single segment, the manufacture and sale of electronic products.

(2) Financial information by geographic area

Not applicable.

(3) Export sales by geographic area

Area	For the year ended Dcember 31, 2008
Asia	$ 374,783
America	3,668
Europe	7,180
Oceania	357
Total	$ 385,988

(4) Information on major customers

Th e customers accounting for more than 10% of the Company's operating revenues for the year ended December 31, 2008 are set forth below:

	For the year ended December 31, 2008	
Customer	Amount	% of sales
A	$ 312,929	44%
B	83,900	12%