

**CYBERLINK CORP. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2011 AND 2010**

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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

PWCR11000422

To the Board of Directors and Stockholders of CyberLink Corp.

We have audited the accompanying consolidated balance sheets of CyberLink Corp. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. 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 Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CyberLink Corp. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended 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 consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2011 and 2010 expressed in United States dollars were translated from the New Taiwan dollar financial statements using the exchange rates of NT\$30.28: US\$1 and NT\$29.13: US\$1, respectively, and are presented solely for the convenience of the reader. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

February 15, 2012

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles 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 consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated 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.

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31**  
 (EXPRESSED IN THOUSANDS OF DOLLARS)

	2011			2010		
	NT\$	Amount US\$ (Unaudited-Note 2)	%	NT\$	Amount US\$ (Unaudited-Note 2)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents (Note 4(1))	\$ 2,718,695	\$ 89,785	42	\$ 2,430,194	\$ 83,426	36
Financial assets at fair value through profit or loss - current (Note 4(2))	1,389,744	45,896	21	1,931,694	66,313	29
Notes receivable, net (Note 4(3))	16,796	555	-	4,850	166	-
Accounts receivable, net (Note 4(3))	434,802	14,359	7	341,523	11,724	5
Other receivables	2,614	86	-	66,382	2,279	1
Inventories	7,938	262	-	5,425	186	-
Other current assets (Note 4(9))	24,589	813	-	17,725	608	-
	<u>4,595,178</u>	<u>151,756</u>	<u>70</u>	<u>4,797,793</u>	<u>164,702</u>	<u>71</u>
<b>Funds and Investments</b>						
Financial assets carried at cost - non current (Note 4(4))	53,077	1,753	1	4,369	150	-
Other financial assets - non current (Note 6)	10,000	330	-	10,000	343	-
	<u>63,077</u>	<u>2,083</u>	<u>1</u>	<u>14,369</u>	<u>493</u>	<u>-</u>
<b>Property, Plant, and Equipment (Note 4(5))</b>						
Cost	457,362	15,104	7	453,495	15,568	7
Less: accumulated depreciation	(103,750)	(3,426)	(1)	(92,078)	(3,161)	(2)
	<u>353,612</u>	<u>11,678</u>	<u>6</u>	<u>361,417</u>	<u>12,407</u>	<u>5</u>
<b>Intangible Assets</b>						
Deferred pension cost (Note 4(12))	82	3	-	123	4	-
Other intangible assets (Note 4(6))	1,369	45	-	2,784	96	-
	<u>1,451</u>	<u>48</u>	<u>-</u>	<u>2,907</u>	<u>100</u>	<u>-</u>
<b>Other Assets</b>						
Assets leased to others (Notes 4(7) and 7)	1,016,337	33,565	15	212,757	7,304	3
Refundable deposits	5,663	187	-	7,275	250	-
Deferred income tax assets - non current (Note 4(9))	196,562	6,491	3	253,662	8,708	4
Other assets - other (Note 4(8))	306,932	10,137	5	1,121,433	38,497	17
	<u>1,525,494</u>	<u>50,380</u>	<u>23</u>	<u>1,595,127</u>	<u>54,759</u>	<u>24</u>
<b>TOTAL ASSETS</b>	<b>\$ 6,538,812</b>	<b>\$ 215,945</b>	<b>100</b>	<b>\$ 6,771,613</b>	<b>\$ 232,461</b>	<b>100</b>

(Continued)

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	2011			2010		
	Amount		%	Amount		%
	NT\$	US\$ (Unaudited-Note 2)		NT\$	US\$ (Unaudited-Note 2)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 6,005	\$ 198	-	\$ 4,805	\$ 165	-
Income tax payable (Note 4(9))	45,020	1,487	1	25,222	866	1
Accrued expenses (Notes 4(10) and (15))	1,172,223	38,713	18	1,008,367	34,616	15
Other payables (Note 4(11))	437,221	14,439	7	540,152	18,542	8
Other current liabilities	15,688	518	-	11,345	389	-
	<u>1,676,157</u>	<u>55,355</u>	<u>26</u>	<u>1,589,891</u>	<u>54,578</u>	<u>24</u>
<b>Other Liabilities</b>						
Accrued pension liabilities (Note 4(12))	15,235	503	-	16,156	555	-
Deposits-in	6,994	231	-	1,443	50	-
	<u>22,229</u>	<u>734</u>	<u>-</u>	<u>17,599</u>	<u>605</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,698,386</u>	<u>56,089</u>	<u>26</u>	<u>1,607,490</u>	<u>55,183</u>	<u>24</u>
<b>Stockholders' Equity</b>						
Capital stock (Notes 4(13) and (16))						
Common stock	943,507	31,159	15	1,176,837	40,399	17
Capital reserve (Note 4(14))						
Paid-in capital in excess of par value	719,538	23,763	11	719,538	24,701	11
Paid-in capital in excess of par, convertible bonds	867,363	28,645	13	867,363	29,776	13
Employee stock option	214,015	7,068	3	171,949	5,903	2
Retained earnings (Note 4(15))						
Legal reserve	738,319	24,383	11	655,402	22,499	10
Special reserve	69,880	2,308	1	14,170	486	-
Unappropriated earnings	1,331,482	43,972	20	1,628,743	55,913	24
Other adjustments to stockholders' equity						
Cumulative translation adjustments	( 36,024)	( 1,190)	-	( 62,860)	( 2,158)	( 1)
Net loss not recognized as pension cost (Note 4(12))	( 7,654)	( 252)	-	( 7,019)	( 241)	-
<b>Total Stockholders' Equity</b>	<u>4,840,426</u>	<u>159,856</u>	<u>74</u>	<u>5,164,123</u>	<u>177,278</u>	<u>76</u>
<b>Commitments (Notes 4(7) and 7)</b>						
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 6,538,812</u></u>	<u><u>\$ 215,945</u></u>	<u><u>100</u></u>	<u><u>\$ 6,771,613</u></u>	<u><u>\$ 232,461</u></u>	<u><u>100</u></u>

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31,**  
 (EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

	2011			2010				
	Amount			Amount				
	NT\$	US\$	%	NT\$	US\$	%		
Operating revenues								
Sales revenue	\$ 3,948,974	\$ 130,415	102	\$ 4,565,742	\$ 156,737	102		
Less: Sales returns	( 56,591)	( 1,869)	( 1)	( 58,044)	( 1,993)	( 1)		
Sales allowances	( 23,182)	( 765)	( 1)	( 22,684)	( 779)	( 1)		
Net sales	3,869,201	127,781	100	4,485,014	153,965	100		
Operating costs								
Cost of sales	( 16,817)	( 556)	-	( 16,976)	( 583)	-		
Gross profit	3,852,384	127,225	100	4,468,038	153,382	100		
Operating expenses (Notes 4(12), (15) and (18))								
Selling	( 2,226,430)	( 73,528)	( 58)	( 2,470,053)	( 84,794)	( 55)		
General	( 157,043)	( 5,186)	( 4)	( 199,514)	( 6,849)	( 5)		
Research and development	( 589,648)	( 19,473)	( 15)	( 683,130)	( 23,451)	( 15)		
Total operating expenses	( 2,973,121)	( 98,187)	( 77)	( 3,352,697)	( 115,094)	( 75)		
Operating income	879,263	29,038	23	1,115,341	38,288	25		
Non-operating income								
Interest income	13,834	457	-	9,959	342	-		
Foreign exchange gain-net	316	10	-	-	-	-		
Gain on financial assets at fair value through profit or loss (Note 4(2))	8,155	269	-	4,448	153	-		
Other income	26,161	865	1	18,981	652	-		
Total non-operating income	48,466	1,601	1	33,388	1,147	-		
Non-operating expenses								
Foreign exchange loss-net	-	-	-	( 24,832)	( 852)	( 1)		
Other expenses	( 16,856)	( 557)	( 1)	( 18,791)	( 645)	-		
Total non-operating expenses	( 16,856)	( 557)	( 1)	( 43,623)	( 1,497)	( 1)		
Income before income tax	910,873	30,082	23	1,105,106	37,938	24		
Income tax expense (Note 4(9))	( 245,328)	( 8,102)	( 6)	( 275,939)	( 9,473)	( 6)		
Consolidated net income	\$ 665,545	\$ 21,980	17	\$ 829,167	\$ 28,465	18		
Attributable to:								
Equity holders of the Company	\$ 665,545	\$ 21,980	17	\$ 829,167	\$ 28,465	18		
Basic earnings per share (Note 4(17)) (In dollars)	\$ 8.36	\$ 6.11	\$ 0.28	\$ 0.20	\$ 9.44	\$ 7.08	\$ 0.32	\$ 0.24
Diluted earnings per share (Note 4(17)) (In dollars)	\$ 8.28	\$ 6.05	\$ 0.27	\$ 0.20	\$ 9.28	\$ 6.96	\$ 0.32	\$ 0.24

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

	Retained earnings					Cumulative translation adjustments	Net loss not recognized as pension cost	Total
	Common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings			
	\$	\$	\$	\$	\$			
Balance at January 1, 2010	\$ 1,156,820	\$ 1,650,025	\$ 564,850	\$ 7,097	\$ 1,650,363	(\$ 11,315)	(\$ 2,855)	\$5,014,985
Distribution of 2009 earnings (Note):								
Legal reserve	-	-	90,552	-	( 90,552)	-	-	-
Special reserve	-	-	-	7,073	( 7,073)	-	-	-
Stock dividends	9,038	-	-	-	( 9,038)	-	-	-
Cash dividends	-	-	-	-	( 744,124)	-	-	( 744,124)
Net income for 2010	-	-	-	-	829,167	-	-	829,167
Employees' stock bonus	4,754	56,368	-	-	-	-	-	61,122
Exercise of employee stock options	6,225	52,457	-	-	-	-	-	58,682
Cumulative translation adjustments	-	-	-	-	-	( 51,545)	-	( 51,545)
Net loss not recognized as pension cost	-	-	-	-	-	-	( 4,164)	( 4,164)
Balance at December 31, 2010	<u>\$ 1,176,837</u>	<u>\$1,758,850</u>	<u>\$ 655,402</u>	<u>\$ 14,170</u>	<u>\$ 1,628,743</u>	<u>(\$ 62,860)</u>	<u>(\$ 7,019)</u>	<u>\$5,164,123</u>
Balance at January 1, 2011	\$ 1,176,837	\$1,758,850	\$ 655,402	\$ 14,170	\$ 1,628,743	(\$ 62,860)	(\$ 7,019)	\$5,164,123
Capital reduction by cash	( 235,480)						( 235,480)	
Distribution of 2010 earnings (Note):								
Legal reserve	-	-	82,917	-	( 82,917)	-	-	-
Special reserve	-	-	-	55,710	( 55,710)	-	-	-
Cash dividends	-	-	-	-	( 824,179)	-	-	( 824,179)
Net income for 2011	-	-	-	-	665,545	-	-	665,545
Exercise of employee stock options	2,150	42,066	-	-	-	-	-	44,216
Cumulative translation adjustments	-	-	-	-	-	26,836	-	26,836
Net loss not recognized as pension cost	-	-	-	-	-	-	( 635)	( 635)
Balance at December 31, 2011	<u>\$ 943,507</u>	<u>\$ 1,800,916</u>	<u>\$ 738,319</u>	<u>\$ 69,880</u>	<u>\$ 1,331,482</u>	<u>(\$ 36,024)</u>	<u>(\$ 7,654)</u>	<u>\$ 4,840,426</u>

Note: Remunerations to directors and supervisors of \$10,358 and employees' bonus of \$74,625 and remunerations to directors and supervisors of \$12,225 and employees' bonus of \$203,742 have been deducted from consolidated statements of income for 2010 and 2009, respectively.

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**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**  
**(EXPRESSED IN THOUSANDS OF US DOLLARS) (UNAUDITED-NOTE 2)**

	Retained earnings				Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Total
	Common stock	Capital reserve	Legal reserve	Special reserve				
Balance at January 1, 2010	\$ 36,162	\$ 51,579	\$ 17,657	\$ 222	\$ 51,590	(\$ 354)	(\$ 89)	\$ 156,767
Distribution of 2009 earnings (Note) :								
Legal reserve	-	-	3,109	-	( 3,109)	-	-	-
Special reserve	-	-	-	243	( 243)	-	-	-
Stock dividends	310	-	-	-	( 310)	-	-	-
Cash dividends	-	-	-	-	( 25,545)	-	-	( 25,545)
Net income for 2010	-	-	-	-	28,465	-	-	28,465
Employees' stock bonus	163	1,935	-	-	-	-	-	2,098
Exercise of employee stock options	214	1,801	-	-	-	-	-	2,015
Net loss not recognized as pension cost	-	-	-	-	-	-	( 143)	( 143)
Cumulative translation adjustments	3,550	5,065	1,733	21	5,065	( 1,804)	( 9)	13,621
Balance at December 31, 2010	<u>\$ 40,399</u>	<u>\$ 60,380</u>	<u>\$ 22,499</u>	<u>\$ 486</u>	<u>\$ 55,913</u>	<u>(\$ 2,158)</u>	<u>(\$ 241)</u>	<u>\$ 177,278</u>
Balance at January 1, 2011	\$ 40,399	\$ 60,380	\$ 22,499	\$ 486	\$ 55,913	(\$ 2,158)	(\$ 241)	\$ 177,278
Capital reduction by cash	( 7,777)	-	-	-	-	-	-	( 7,777)
Distribution of 2010 earnings (Note) :								
Legal reserve	-	-	2,738	-	( 2,738)	-	-	-
Special reserve	-	-	-	1,840	( 1,840)	-	-	-
Cash dividends	-	-	-	-	( 27,219)	-	-	( 27,219)
Net income for 2011	-	-	-	-	21,980	-	-	21,980
Exercise of employee stock options	71	1,389	-	-	-	-	-	1,460
Net loss not recognized as pension cost	-	-	-	-	-	-	( 21)	( 21)
Cumulative translation adjustments	( 1,534)	( 2,293)	( 854)	( 18)	( 2,124)	968	10	( 5,845)
Balance at December 31, 2011	<u>\$ 31,159</u>	<u>\$ 59,476</u>	<u>\$ 24,383</u>	<u>\$ 2,308</u>	<u>\$ 43,972</u>	<u>(\$ 1,190)</u>	<u>(\$ 252)</u>	<u>\$ 159,856</u>

Note: Remunerations to directors and supervisors of \$342 and employees' bonus of \$2,464 and remunerations to directors and supervisors of \$420 and employees' bonus of \$6,994 have been deducted from consolidated statements of income for 2010 and 2009, respectively.

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	2011		2010	
	NT\$	US\$ (Unaudited - Note 2)	NT\$	US\$ (Unaudited - Note 2)
<b><u>Cash flows from operating activities</u></b>				
Net income	\$ 665,545	\$ 21,980	\$ 829,167	\$ 28,465
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on financial assets at fair value through profit or loss	( 8,155)	( 269)	( 4,448)	( 153)
Bad debts expense	-	-	518	18
Loss on obsolescence of inventories	760	25	679	23
Loss (gain) on disposal of property, plant and equipment	155	5	( 111)	( 4)
Depreciation and other expenses	23,488	776	26,550	911
Amortization	1,415	47	42,155	1,447
Employees' stock option cost	30,231	998	32,120	1,103
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Financial assets at fair value through profit or loss	550,105	18,167	( 539,479)	( 18,520)
Notes and accounts receivable	( 97,301)	( 3,213)	89,232	3,063
Other receivables	63,895	2,110	( 3,384)	( 116)
Inventories	( 3,273)	( 108)	( 1,152)	( 40)
Other current assets	( 475)	( 16)	( 5,426)	( 186)
Deferred income tax assets	50,817	1,678	44,458	1,526
Increase (decrease) in liabilities:				
Accounts payable	1,200	40	3,324	114
Income tax payable	19,798	654	( 9,895)	( 340)
Accrued expenses	149,343	4,932	( 227,045)	( 7,794)
Other payables	( 110,394)	( 3,646)	166,255	5,707
Other current liabilities	4,306	142	4,524	155
Accrued pension liabilities	( 1,515)	( 50)	1,547	53
Net cash provided by operating activities	<u>1,339,945</u>	<u>44,252</u>	<u>449,589</u>	<u>15,432</u>
<b><u>Cash flows from investing activities</u></b>				
Decrease in other financial assets	-	-	420	14
Acquisition of financial assets carried at cost	( 48,535)	( 1,603)	( 4,823)	( 166)
Acquisition of property, plant, and equipment, assets leased to other and other assets	( 4,702)	( 155)	( 43,785)	( 1,503)
Proceeds from disposal of property, plant and equipment	-	-	190	7
Increase in other intangible assets	-	-	( 2,374)	( 81)
Decrease in refundable deposits - net	<u>1,612</u>	<u>53</u>	<u>853</u>	<u>29</u>
Net cash used in investing activities	<u>( 51,625)</u>	<u>( 1,705)</u>	<u>( 49,519)</u>	<u>( 1,700)</u>

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**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	2011		2010	
	NT\$	US\$ (Unaudited - Note 2)	NT\$	US\$ (Unaudited - Note 2)
<b><u>Cash flows from financing activities</u></b>				
Capital reduction by cash	(\$ 235,480)	(\$ 7,777)	\$ -	\$ -
Payment of cash dividends	( 824,179)	( 27,219)	( 744,124)	( 25,545)
Payment of employees' bonus	( 641)	( 21)	( 13,972)	( 480)
Increase in deposits	5,551	183	1,443	50
Exercise of employee stock options	13,985	463	26,562	912
Net cash used in financing activities	( 1,040,764)	( 34,371)	( 730,091)	( 25,063)
Effects of changes in exchange rates of foreign currency holdings	40,945	( 1,817)	( 85,268)	5,841
Effect of changes in consolidated entities	-	-	( 10,769)	( 370)
Net increase (decrease) in cash and cash equivalents	288,501	6,359	( 426,058)	( 5,860)
Cash and cash equivalents at beginning of the year	2,430,194	83,426	2,856,252	89,286
Cash and cash equivalents at end of the year	<u>\$ 2,718,695</u>	<u>\$ 89,785</u>	<u>\$ 2,430,194</u>	<u>\$ 83,426</u>
<b><u>Supplemental disclosures of cash flow information:</u></b>				
Cash paid during the year for:				
Income tax	<u>\$ 169,405</u>	<u>\$ 5,595</u>	<u>\$ 247,506</u>	<u>\$ 8,497</u>
Investing activities which have no effect on cash flows:				
Other assets transferred to assets leased to others	<u>\$ 805,091</u>	<u>\$ 26,588</u>	<u>\$ 212,757</u>	<u>\$ 7,304</u>
Financing activities which have no effect on cash flows:				
Capital increased by employees' stock bonus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,122</u>	<u>\$ 2,098</u>

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011 AND 2010**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

**1. COMPANY HISTORY AND CONSOLIDATED SUBSIDIARIES**

CyberLink Corp. (the “Company”) was incorporated under the Company Law of the Republic of China (R.O.C.) in August 1990. The Company’s original name was Jing-Hua Corp., which was changed to CyberLink Corp. in February 1996. The main activities of the Company are the design and sale of computer peripheral equipment and computer software.

The Securities and Futures Commission of the Republic of China had approved the Company’s shares to be listed on the GreTai Securities Market (formerly Over-The-Counter Securities Exchange) and the shares started trading on October 11, 2000. The Company’s shares have been listed on the Taiwan Stock Exchange Corporation since September 27, 2004. As of December 31, 2011, the Company and its subsidiaries had approximately 580 employees.

**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 accordance 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**

A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis. Significant inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated.

Trading or valuation gain on securities for consolidated subsidiaries engaging primarily in investment activities was accounted for under “Gain from sales of portfolio securities” and “Recovery on decline in market value of short-term investments” in the consolidated statements of income; the relevant cash flows from short-term investment account was included under operating activities of the consolidated statements of cash flows.

**B. Consolidated subsidiaries:**

Investor	Name of the subsidiary	Major operating activities	Ownership (%)		
			December 31, 2011	December 31, 2010	Note
CyberLink Corp.	CyberLink.Com Corp. (CyberLink-USA)	Sales of computer software	100%	100%	
CyberLink Corp.	CyberLink Europe B.V. (CyberLink-B.V.)	Sales of computer software	100%	100%	
CyberLink Corp.	CyberLink International Technology Corp. (CyberLink-B.V.I.)	Investment activities	100%	100%	
CyberLink Corp.	CyberLink Investment Corp. (CyberLink Investment)	Investment activities	100%	100%	
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	Sales of computer software	100%	100%	

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustment and approach for differences in accounting period and policy of subsidiaries: None.

E. Special operating risks in foreign subsidiaries: None.

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

G. Contents of subsidiaries' securities issued by the parent company: None.

H. Information on convertible bonds and common stock issued by subsidiaries:  
None.

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 are 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. Transactions denominated in foreign currencies are translated into functional currencies at the spot exchange rates prevailing at the transaction dates.
- 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. However, translation exchange gains or losses on intercompany accounts that are deemed long-term are accounted for as a reduction in stockholders' equity.
- C. 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. Conversely, 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. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
  - a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
  - b) Assets held mainly for trading purposes;
  - c) Assets that are expected to be realized within twelve months from the balance sheet date;

- d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
  - a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
  - b) Liabilities arising mainly from trading activities;
  - c) Liabilities that are to be paid off within twelve months from the balance sheet date;
  - d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

5) Financial assets and financial 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 open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

6) Notes receivable, accounts receivable and other receivables

- A. Notes and accounts receivable are claims resulting from the sale of goods or services. Other receivables are receivables other than notes or accounts receivable. Notes, accounts and other receivables are initially stated at their fair value and carried at amortized cost after deducting for impairment loss.
- B. The Group evaluates if there is any objective evidence of impairment in any significant individual financial asset on each balance sheet date. The Group recognizes impairment loss when objective evidence exists. The amount of impairment is the difference between the carrying amount and the discounted future cash flow calculated by using the initial effective interest rate. When the amount of impairment subsequently decreases, and the decrease is related to events occurring after the impairment loss was recognized, the impairment loss recognized in prior years shall be recovered. The recovered amount should not result in the carrying amount exceeding the amortized cost had no impairment loss was recognized.

7) Inventories

Inventories are stated at cost. The cost is determined using the weighted-average method. At the end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value should be based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expense.

8) Financial assets and 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 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.

9) Property, plant and equipment

- A. Property, plant and equipment are stated at cost. The Group calculates depreciation using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are 50 years for buildings and 3 to 5 years for the other fixed assets.
- B. Significant renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Gains or losses on disposal of fixed assets are recorded as non-operating income or expense in the current year.

10) Intangible assets

Other intangible assets represent royalties paid for software patents and for website domain name which are amortized over their estimated useful lives using the straight-line method.

11) Pension plan

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 10 years. Under the defined contribution pension plan, net periodic pension costs

are recognized as incurred.

12) 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 EITF 92-070, EITF 92-071 and EITF 92-072 of the Accounting Research and Development Foundation, R.O.C., dated March 17, 2003, “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 are prepared in accordance with the R.O.C. SFAS No. 39, “Accounting for share-based payments”.
- 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.

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

Pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, “Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration”, the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008 “Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus”, the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

14) Income tax

- A. Income tax is calculated based on accounting income after adjusting for permanent differences. Provision for income tax includes deferred income tax

resulting from items reported in different periods for tax and financial reporting purposes, loss carryforward and investment tax credits. The tax effect of taxable temporary differences, deductible temporary differences, net operating loss carry forward and investment tax credits are recognized as deferred income tax liabilities or assets. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. Deferred income tax is classified as current or non-current based on the classification of the related assets or liabilities or the period when the temporary differences are expected to reverse. Income tax credits are charged to deferred income tax assets and credited to income tax expense in the year the tax credits arise.

- B. Current year's income tax is adjusted for over or under provision of prior year's income tax.
- C. The R.O.C. imputation tax system requires that any undistributed current earnings, on a tax basis, of a company derived on or after January 1, 1998 be subjected to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This additional 10% corporate income tax is included in income tax expense in the following year when the stockholders approve a resolution to retain the earnings.
- D. When the income tax act is enacted, the Company shall recompute the deferred tax assets and liabilities based on the new regulation in the year the revision was announced. The change in deferred tax assets and liabilities shall be included in current year's income tax of continuing operations.

15) Impairment of non-financial assets

The Group 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 the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from the continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered. However, the impairment loss recognized for goodwill is not recoverable.

16) Revenues, cost and expenses

- a) Revenues are recognized when the earning process is substantially completed

and they are realized or realizable. Costs and expenses are recognized as incurred.

b) Income and cost from sale of marketable securities is recognized on the transaction date for consolidated subsidiaries engaging primarily in investment activities.

17) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

18) Operating segments

The operating segments information is required to be reported on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker for the purpose of allocating resources to the segments and assessing its performance. If a financial report contains both the consolidated financial statements of a parent that is within the scope of R.O.C. SFAS No. 41 "Operating Segments" as well as the parent's separate financial statement, segment information is required only in the consolidated financial statements.

19) Convenience translation to US dollars (unaudited)

The Company maintains its accounting records and prepares its financial statements in New Taiwan ("NT") dollars. The United States ("US") dollar amounts disclosed in the consolidated financial statements are presented solely for the convenience of the reader and were translated to US dollars using the average of buying and selling exchange rates of US\$1:NT\$30.28 and US\$1:NT\$29.13 at December 31, 2011 and 2010, respectively. Such translation amounts are unaudited and should not be construed as representations that the NT dollar amounts represent, have been, or could be converted into US dollars at that or any other rate.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

A. Notes receivable, accounts receivable and other receivables

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 34 "Financial instruments: Recognition and Measurement". The Group recognizes impairment (bad debt) loss when there is objective evidence that the

recoverable amount of notes, accounts and other receivables is less than their carrying amount.

The adoption had no significant effect on the financial statements as of and for the year ended December 31, 2011.

**B. Operating segments**

Effective January 1, 2011, the Group adopted the amendments to R.O.C. SFAS No. 41 “Operating Segments” to replace R.O.C SFAS No. 20 “Segment Reporting”. Segment information for prior year is reported as comparative information during the initial year of application.

**4. DETAILS OF SIGNIFICANT ACCOUNTS**

**1) Cash and cash equivalents**

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
	(Unaudited) (Note 2)		(Unaudited) (Note 2)	
Cash on hand	\$ 282	\$ 9	\$ 282	\$ 10
Demand deposits	1,344,801	44,412	986,406	33,862
Checking deposits	22,898	756	1,938	67
Time deposits	1,350,714	44,608	1,441,568	49,487
	<u>\$ 2,718,695</u>	<u>\$ 89,785</u>	<u>\$ 2,430,194</u>	<u>\$ 83,426</u>

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

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
	(Unaudited) (Note 2)		(Unaudited) (Note 2)	
Financial assets held for trading-Money market funds	\$ 1,384,154	\$ 45,712	\$ 1,927,707	\$ 66,176
Adjustment of financial assets held for trading	5,590	184	3,987	137
	<u>\$ 1,389,744</u>	<u>\$ 45,896</u>	<u>\$ 1,931,694</u>	<u>\$ 66,313</u>

The Group recognized net gains of \$8,155 (US\$269) and \$4,448 (US\$153) for the

years ended December 31, 2011 and 2010, respectively.

3) Notes and accounts receivable

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$ 16,826	\$ 556	\$ 4,880	\$ 168
Accounts receivable	<u>435,320</u>	<u>14,376</u>	<u>342,041</u>	<u>11,742</u>
	452,146	14,932	346,921	11,910
Less: Allowance for doubtful accounts	( <u>548</u> )	( <u>18</u> )	( <u>548</u> )	( <u>20</u> )
	<u>\$ 451,598</u>	<u>\$ 14,914</u>	<u>\$ 346,373</u>	<u>\$ 11,890</u>

4) Financial assets carried at cost

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
Unlisted stocks	\$ 53,077	\$ 1,753	\$ 4,369	\$ 150

The investment in the Group was measured at cost since its fair value cannot be measured reliably.

5) Property, plant, and equipment

Item	December 31, 2011		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 220,698	\$ -	\$ 220,698
Buildings	181,368	( 63,508)	117,860
Machinery	40,393	( 31,081)	9,312
Transportation equipment	5,092	( 1,599)	3,493
Furniture and fixtures	9,811	( 7,562)	2,249
	<u>\$ 457,362</u>	<u>(\$ 103,750)</u>	<u>\$ 353,612</u>

  

Item	December 31, 2010		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 220,698	\$ -	\$ 220,698
Buildings	181,686	( 60,325)	121,361
Machinery	37,173	( 24,609)	12,564
Transportation equipment	5,092	( 751)	4,341
Furniture and fixtures	8,846	( 6,393)	2,453
	<u>\$ 453,495</u>	<u>(\$ 92,078)</u>	<u>\$ 361,417</u>

  

Item	December 31, 2011		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 7,289	\$ -	\$ 7,289
Buildings	5,990	( 2,097)	3,893
Machinery	1,334	( 1,026)	308
Transportation equipment	168	( 53)	115
Furniture and fixtures	323	( 250)	73
	<u>\$ 15,104</u>	<u>(\$ 3,426)</u>	<u>\$ 11,678</u>

Item	December 31, 2010		
	(US\$: Unaudited - Note 2)		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 7,576	\$ -	\$ 7,576
Buildings	6,237	(2,071)	4,166
Machinery	1,276	(845)	431
Transportation equipment	175	(26)	149
Furniture and fixtures	304	(219)	85
	<u>\$ 15,568</u>	<u>(\$ 3,161)</u>	<u>\$ 12,407</u>

6) Intangible assets

	December 31, 2011	
	(NT\$)	
	Other intangible assets	
Balance at January 1, 2011		
Cost	\$ 89,162	
Less: Accumulated amortization	(86,378)	
Book value at January 1, 2011		2,784
Amortization	(1,415)	
Book value at December 31, 2011	\$ 1,369	

	December 31, 2010			
	(NT\$)			
	Brand	Copyright	intangible assets	Total
Balance at January 1, 2010				
Cost	\$ 1,889	\$ 76,742	\$ 86,788	\$ 165,419
Less: Accumulated amortization	(1,731)	(70,332)	(50,828)	(122,891)
Book value at January 1, 2010	158	6,410	35,960	42,528
Acquired during the year	-	-	2,374	2,374
Amortization	(158)	(6,410)	(35,550)	(42,118)
Book value at December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,784</u>	<u>\$ 2,784</u>

	<u>December 31, 2011</u>
	<u>(US\$:Unaudited – Note 2 )</u>
	<u>Other intangible assets</u>
Balance at January 1, 2011	
Cost	\$ 2,945
Less: Accumulated amortization	( 2,853)
Book value at January 1, 2011	92
Amortization	( 47)
Book value at December 31, 2011	<u>\$ 45</u>

	<u>December 31, 2010</u>			
	<u>(US\$: Unaudited – Note 2 )</u>			
	<u>Other</u>			
	<u>Brand</u>	<u>Copyright</u>	<u>intangible assets</u>	<u>Total</u>
Balance at January 1, 2010				
Cost	\$ 65	\$ 2,634	\$ 2,979	\$ 5,678
Less: Accumulated amortization	( 60)	( 2,414)	( 1,745)	( 4,219)
Book value at January 1, 2010	5	220	1,234	1,459
Acquired during the year	-	-	82	82
Amortization	( 5)	( 220)	( 1,220)	( 1,445)
Book value at December 31, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96</u>	<u>\$ 96</u>

#### 7) Assets leased to others

The Company leased some of its fixed assets to other parties in May 2010 and reclassified such fixed asset amounts to “Assets leased to others” account.

Item	<u>December 31, 2011</u>		
	<u>(NT\$)</u>		
	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Land	\$ 620,336	\$ -	\$ 620,336
Buildings	420,049	( 24,048)	396,001
	<u>\$ 1,040,385</u>	<u>( \$ 24,048)</u>	<u>\$ 1,016,337</u>

Item	December 31, 2010		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 138,794	\$ -	\$ 138,794
Buildings	76,854	( 2,891)	73,963
	<u>\$ 215,648</u>	<u>(\$ 2,891)</u>	<u>\$ 212,757</u>

Item	December 31, 2011		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 20,487	\$ -	\$ 20,487
Buildings	13,872	( 794)	13,078
	<u>\$ 34,359</u>	<u>(\$ 794)</u>	<u>\$ 33,565</u>

Item	December 31, 2010		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 4,765	\$ -	\$ 4,765
Buildings	2,638	( 99)	2,539
	<u>\$ 7,403</u>	<u>(\$ 99)</u>	<u>\$ 7,304</u>

8) Other assets - other

Item	December 31, 2011		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 178,688	\$ -	\$ 178,688
Buildings	136,030	( 7,786)	128,244
	<u>\$ 314,718</u>	<u>(\$ 7,786)</u>	<u>\$ 306,932</u>

Item	December 31, 2010		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 660,230	\$ -	\$ 660,230
Buildings	479,225	(18,022)	461,203
	<u>\$ 1,139,455</u>	<u>(\$ 18,022)</u>	<u>\$ 1,121,433</u>

Item	December 31, 2011		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 5,901	\$ -	\$ 5,901
Buildings	4,493	(257)	4,236
	<u>\$ 10,394</u>	<u>(\$ 257)</u>	<u>\$ 10,137</u>

Item	December 31, 2010		
	Original cost	Accumulated depreciation	Net book value
Land	\$ 22,665	\$ -	\$ 22,665
Buildings	16,451	(619)	15,832
	<u>\$ 39,116</u>	<u>(\$ 619)</u>	<u>\$ 38,497</u>

The Company entered into an agreement with Founding Construction & Development Co., Ltd. to purchase real estate properties on March 2008. The agreement includes purchasing land located in Nei-Hu District and the B-building from 1F to 9F in “Sun-Ted Plaza”. The B-building was bought in February 2009. The Company planned to lease the building. As of December 31, 2011, part of the building was leased and was disclosed in Note 4(7). Therefore, the portion not leased was reclassified as “Other assets – other”.

9) Income tax

	For the years ended December 31,			
	2011		2010	
	NT\$	US\$ (Unaudited) (Note 2)	NT\$	US\$ (Unaudited) (Note 2)
Income tax expense	\$ 245,328	\$ 8,102	\$ 275,939	\$ 9,473
(Under) over provision of prior year's income tax	( 12,568)	( 415)	13,851	475
Effect of deferred income tax assets	( 50,817)	( 1,678)	( 44,458)	( 1,526)
Foreign royalty withholding tax	( 101,327)	( 3,346)	( 160,071)	( 5,495)
Prepaid income tax	( 35,596)	( 1,176)	( 60,039)	( 2,061)
Income tax payable	<u>\$ 45,020</u>	<u>\$ 1,487</u>	<u>\$ 25,222</u>	<u>\$ 866</u>

A. As of December 31, 2011 and 2010, the deferred income tax assets (liabilities) were as follows:

	December 31,			
	2011		2010	
	NT\$	US\$ (Unaudited) ( Note 2)	NT\$	US\$ (Unaudited) ( Note 2)
Total deferred income tax assets	<u>\$ 292,620</u>	<u>\$ 9,664</u>	<u>\$ 337,012</u>	<u>\$ 11,569</u>
Total deferred income tax liabilities	<u>(\$ 663)</u>	<u>(\$ 22)</u>	<u>(\$ 2,082)</u>	<u>(\$ 71)</u>
Valuation allowance	<u>(\$ 81,405)</u>	<u>(\$ 2,689)</u>	<u>(\$ 73,561)</u>	<u>(\$ 2,525)</u>

B. As of December 31, 2011 and 2010, details of deferred income tax assets and liabilities were as follows:

Items	December 31,			
	2011		2010	
	(NT\$)			
Items	Amount	Tax effect	Amount	Tax effect
Current:				
Unrealized exchange gain	(\$ 3,900)	(\$ 663)	(\$ 12,247)	(\$ 2,082)
Unrealized profit on intercompany sales	9,416	1,601	7,969	1,355
Others		13,052		8,434
		13,990		7,707
Non current:				
Investment tax credits		277,967		327,223
Valuation allowance		( 81,405)		( 73,561)
		196,562		253,662
		\$ 210,552		\$ 261,369
December 31,				
Items	2011		2010	
	(US\$: Unaudited - Note 2)			
Items	Amount	Tax effect	Amount	Tax effect
Current:				
Unrealized exchange gain	(\$ 129)	(\$ 22)	(\$ 420)	(\$ 71)
Unrealized profit on intercompany sales	311	53	274	47
Others		431		290
		462		266
Non current:				
Investment tax credits		9,180		11,233
Valuation allowance		( 2,689)		( 2,525)
		6,491		8,708
		\$ 6,953		\$ 8,974

C. As of December 31, 2011, the Company's income tax returns through 2009 have been assessed and approved by the Tax Authority.

D. As of December 31, 2011, details of the unused portion of the Company's investment tax credits were as follows:

Item	Total amount	Used amount	Unused amount	Expiry year
Statute for Upgrading Industries	NT\$124,395 (US\$ 4,108)	NT\$ 54,032 (US\$ 1,784)	NT\$ 70,363 (US\$ 2,324)	2012
"	NT\$207,604 (US\$ 6,856)	-	NT\$207,604 (US\$ 6,856)	2013
			<u>NT\$277,967</u> (US\$ 9,180)	

E. The Company was granted a five-year tax holiday with respect to the income derived from its design and sale of software. It is not included in 2011 tax calculation for overall tax considerations.

F. For the years ended December 31, 2011 and 2010, the income tax expense included the additional 10% corporate income tax related to the 2010 and 2009 undistributed earnings amounting to \$0 (US\$0) and \$5,473 (US\$188), respectively.

10) Accrued expenses

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
Royalty expense	\$ 822,494	\$ 27,163	\$ 640,929	\$ 22,002
Employees' bonuses and directors' and supervisors' remuneration	117,056	3,866	162,192	5,568
Employees' reward	79,505	2,626	44,631	1,532
Payroll	63,949	2,112	65,163	2,237
Professional service fees	20,523	678	26,638	914
Commission expense	12,413	410	15,608	536
Others	<u>56,283</u>	<u>1,858</u>	<u>53,206</u>	<u>1,827</u>
	<u>\$1,172,223</u>	<u>\$ 38,713</u>	<u>\$1,008,367</u>	<u>\$ 34,616</u>

11) Other payables

	December 31,			
	2011		2010	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		( Note 2)		( Note 2)
Royalty collection	\$ 399,392	\$ 13,190	\$ 504,956	\$ 17,334
Employees' bonuses payable	20,878	689	21,519	739
Others	<u>16,951</u>	<u>560</u>	<u>13,677</u>	<u>469</u>
	<u><u>\$ 437,221</u></u>	<u><u>\$ 14,439</u></u>	<u><u>\$ 540,152</u></u>	<u><u>\$ 18,542</u></u>

12) Pension plan

A. The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. The fund balance with Bank of Taiwan was \$18,015 (US\$595) and \$14,226 (US\$488) as of December 31, 2011 and 2010, respectively. The fund balance is not included in the financial statements.

B. The related actuarial assumptions used to calculate the accrued pension cost, based on the measurement dates as of December 31, 2011 and 2010, were as follows:

	December 31, 2011	December 31, 2010
Discount rate	2.00%	2.25%
Rate of salary increase	3.00%	3.00%
Expected return on plan assets	2.00%	2.00%

C. Reconciliations of the plan funded status and the accrued pension cost were as follows:

	December 31,	
	2011	2010
	(NT\$)	
<b>Benefit obligation:</b>		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 33,250)	( 30,382)
Accumulated benefit obligation	( 33,250)	( 30,382)
Additional benefits based on future salaries	( 24,437)	( 24,280)
Projected benefit obligation	( 57,687)	( 54,662)
Plan assets at fair value	<u>18,015</u>	<u>14,226</u>
Funded status	( 39,672)	( 40,436)
Unrecognized net obligation at transition	82	123
Unrecognized pension loss	32,091	31,299
Net loss not recognized as pension cost	( 7,736)	( 7,142)
Accrued pension liabilities	<u>(\$ 15,235)</u>	<u>(\$ 16,156)</u>
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

	December 31,	
	2011	2010
	(US\$: Unaudited – Note 2)	

<b>Benefit obligation:</b>		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 1,098)	( 1,043)
Accumulated benefit obligation	( 1,098)	( 1,043)
Additional benefits based on future salaries	( 807)	( 833)
Projected benefit obligation	( 1,905)	( 1,876)
Plan assets at fair value	<u>595</u>	<u>488</u>
Funded status	( 1,310)	( 1,388)
Unrecognized net obligation at transition	3	4
Unrecognized pension loss	1,060	1,074
Net loss not recognized as pension cost	( 256)	( 245)
Accrued pension liabilities	<u>(\$ 503)</u>	<u>(\$ 555)</u>
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

D. In 2011 and 2010, the net periodic pension costs were as follows:

	For the year ended December 31, 2011	
	NT\$	US\$
	(Unaudited)	
	(Note 2)	
Service cost	\$ -	\$ -
Interest cost	1,230	41
Expected return on plan assets	( 308 )	( 10 )
Amortization of unrecognized transition obligation	41	1
Unrecognized pension loss	1,123	37
Net periodic pension cost	<u>\$ 2,086</u>	<u>\$ 69</u>

	For the year ended December 31, 2010	
	NT\$	US\$
	(Unaudited)	
	(Note 2)	
Service cost	\$ -	\$ -
Interest cost	1,016	35
Expected return on plan assets	( 303 )	( 10 )
Amortization of unrecognized transition obligation	41	1
Unrecognized pension loss	793	27
Net periodic pension cost	<u>\$ 1,547</u>	<u>\$ 53</u>

E. Effective July 1, 2005, the Company established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The pension costs under the defined contribution pension plan for the years ended December 31, 2011 and 2010 were \$23,347 (US\$771) and \$23,581 (US\$810), respectively.

F. Foreign subsidiaries have their contribution pension plans in accordance with

local regulations.

G. CyberLink Investment has no employees and do not have retirement plans.

13) Capital stock

- A. To increase the Company's return on equity and decrease idle funds, the Company decided to reduce its capital by returning cash amounting to \$235,480 (US\$7,777) to stockholders and retired 23,547,962 shares, which was resolved during the stockholders meeting on June 22, 2011, and approved by the R.O.C. SFC on July 25, 2011. The record date of the capital reduction is August 17, 2011.
- B. As of December 31, 2011, the Company's authorized capital was \$1,610,000 (US\$53,170); the issued and outstanding capital was \$943,507 (US\$31,159).

14) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

15) Retained earnings

- A. In accordance with the Company's Articles of Incorporation, distribution of earnings would be based on the Company's operating and capital needs. Distribution of cash dividends is not less than 20% of stock dividend except as approved by the stockholders for significant capital expenditures. The annual net income should be used to cover any accumulated deficit and pay income tax. When distributing the remaining retained earnings, the distributions should be in accordance with the following order:
  - a) Set aside 10% of the annual income as legal reserve. When such legal reserve amounts to the total authorized capital, this provision shall not apply.
  - b) Set aside special reserve according to the Securities and Exchange Act.
  - c) Set aside not more than 1.5% of the balance to directors and supervisors.
  - d) Any remaining balance together with prior year retained earnings may be distributed as employees' bonus and stockholders' dividend.

Employees' bonus is not lower than 3% of total amount of employees' bonus and stockholders' dividend. Employees' bonus could be distributed by cash or stock. Employees' stock bonus shall be distributed to all full-time employees of the Company and its subsidiaries.

The Company's annual shareholder dividends should not be less than the 50% of remaining balance after annual after-tax income to make up for accumulated deficit, setting aside for legal reserve and special reserve.

- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- C. The Taiwan imputation tax system requires that any undistributed current year earnings, on tax basis, of a company derived on or after January 1, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by the shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as a tax credit against its individual income tax liability effective 1998. The actual creditable tax ratio of distributed earnings in 2011 was 1.22%. As of December 31, 2011, the imputation tax credit account balance was \$9,012 (US\$298). The estimated creditable tax ratio of distributed earnings for 2012 is 1.97%. As of December 31, 2011, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were \$9,932 (US\$328) and \$1,321,550 (US\$43,644), respectively.
- D. In accordance with Article 41 of the ROC Securities and Exchange Act, in addition to the amount appropriated for legal reserve, the Company should set aside a special reserve from retained earnings for any reduction of the stockholders' equity as of the end of the current year.

E. The appropriation of 2010 and 2009 earnings had been resolved at the stockholders' meeting on June 22, 2011 and June 17, 2010, respectively. Details are summarized below:

	2010		2009	
	NT\$		NT\$	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 82,917		\$ 90,552	
Special reserve	55,710		7,073	
Stock dividends	-		9,038	\$ 0.08
Cash dividends	<u>824,179</u>	\$ 6.99	<u>744,124</u>	6.42
	<u><u>\$ 962,806</u></u>		<u><u>\$ 850,787</u></u>	

	2010		2009	
	US\$(Unaudited – Note 2)		US\$(Unaudited – Note 2)	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 2,738		\$ 3,109	
Special reserve	1,840		243	
Stock dividends	-		310	\$ -
Cash dividends	<u>27,219</u>	\$ 0.23	<u>25,545</u>	0.22
	<u><u>\$ 31,797</u></u>		<u><u>\$ 29,207</u></u>	

As of February 15, 2012, the appropriation of 2011 earnings had not been resolved by the Board of Directors.

F. The estimated amounts of employees' bonus and directors' and supervisors' remuneration for 2011 are \$59,899 (US\$1,978) and \$8,985 (US\$297), respectively, based on net income in 2011 after taking into account the legal reserve and other factors which are estimated according to the distribution percentage from the resolution of the Board of Directors (10% and 1.5%, respectively). Information on the appropriation of the Company's employees' bonus and directors' and supervisors' remuneration 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. The Company appropriated employees' bonus and remunerations to directors and

supervisors for 2010 amounting to \$74,625 (US\$2,464) and \$10,358 (US\$342), respectively. The difference of \$836 (US\$28) between actual and estimated remunerations to directors and supervisors had been adjusted in the statement of income for the year ended December 31, 2011.

16) Share-based payment - employee compensation plan

- A. The R.O.C. SFC approved the issuance of stock options under the employee stock option plan. Each option is equivalent to one share of common stock and new stock will be issued when the employees exercise their options. The purchase price is based on the Company's closing price on the issuance date. The Company uses par value as purchase price if the closing price is less than par value. The employees may exercise their stock options 2 years after receiving them. The stock option is valid for 7 years.

a) The amount and aggregate exercise price of the stock options for the compensation employee stock option plan for the years ended December 31, 2011 and 2010 are as follows:

	For the years ended December 31,	
	2011	2010
	Weighted -	Weighted -
	No. of shares (in thousands)	No. of shares (in thousands)
	average exercise price (in dollars)	average exercise price (in dollars)
Beginning balance	2,656	3,644
	NT\$118.09 (US\$ 3.90)	NT\$ 83.77 (US\$ 2.88)
Options granted	2,405	-
	NT\$ 76.20 (US\$ 2.52)	NT\$ - (US\$ -)
Distribution of stock dividends / adjustments for number of shares granted for one unit of options	-	32
	NT\$ - (US\$ -)	NT\$100.97 (US\$ 3.47)
Options exercised	( 215)	( 622)
	NT\$ 72.61 (US\$ 2.40)	NT\$ 40.66 (US\$ 1.40)
Options revoked	( 1,554)	( 398)
	NT\$ 88.75 (US\$ 2.93)	NT\$ 35.97 (US\$ 1.23)
Ending balance	<u>3,292</u>	<u>2,656</u>
	NT\$104.30 (US\$ 3.44)	NT\$101.24 (US\$ 3.48)
Options exercisable at end of the year	<u>773</u>	<u>860</u>
Options authorized but not granted at end of the year	<u>-</u>	<u>7,000</u>

b) As of December 31, 2011, the details of the employee stock option plans are as follows:

Range of exercise price (in dollars)	Outstanding ending balance			Exercisable ending balance		
	No. of shares (in thousands)	Weighted average		Weighted average exercise price (in dollars)	No. of shares (in thousands)	Weighted average exercise price (in dollars)
		remaining vesting period (year)	(in dollars)			
NT\$ 59.80 (US\$ 1.97)	53	0.61		NT\$ 59.80 (US\$ 1.97)	53	NT\$ 59.80 (US\$ 1.97)
NT\$108.90 (US\$ 3.60)	125	2.09		NT\$108.90 (US\$ 3.60)	125	NT\$108.90 (US\$ 3.60)
NT\$151.30 (US\$ 5.00)	1,189	4.89		NT\$151.30 (US\$ 5.00)	595	NT\$151.30 (US\$ 5.00)
NT\$ 76.20 (US\$ 2.52)	1,925	6.64		NT\$ 76.20 (US\$ 2.52)	-	-

B. Expense incurred on share-based payment transactions are shown below:

Employee stock option	2011		2010	
	NT\$	30,231	NT\$	32,120
	(US\$	998)	(US\$	1,103)

C 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 for the stock options granted before the effect of R.O.C. SFAS No. 39, "Accounting for Share-based Payment":

	For the year ended December 31, 2011			
	Financial statement information		Pro forma information	
	Net income	NT\$ 665,545 (US\$ 21,980)	NT\$ 665,431 (US\$ 21,976)	Diluted earnings per share (in dollars)
Basic earnings per share (in dollars)	NT\$ 6.11 (US\$ 0.20)	NT\$ 6.11 (US\$ 0.20)	NT\$ 6.05 (US\$ 0.20)	NT\$ 6.05 (US\$ 0.20)

The fair value of the above stock option plan is calculated by using the Black-Scholes Option Pricing Model. Information of the factors and average time value are as follows:

	Date granted			
	August 9, 2005	January 30, 2007	November 18, 2009	August 22, 2011
Stock price	NT\$ 116	NT\$ 135	NT\$ 136	NT\$ 61
Strike price	NT\$ 116	NT\$ 135	NT\$ 136	NT\$ 61
Expected dividend yield	0%	0%	0%	0%
Expected price volatility	33.66%	41.59%	41.16%	38.58%
Risk-free rate	1.92%	1.98%	1.13%	1.05%
Expected vesting period	7 years	4.875 years	4.875 years	4.875 years
Average fair value (in NT dollars)	NT\$ 45.07	NT\$ 52.008	NT\$ 50.07	NT\$ 21.16

#### 17) Earnings per share

	For the year ended December 31, 2011				
	Amount		Weighted average outstanding shares (in thousands)	Earnings per share (in dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Net income	\$ 910,873 (US\$ 30,082)	\$ 665,545 (US\$ 21,980)			
Basic earnings per share			108,995	\$ 8.36 (US\$0.28)	\$ 6.11 (US\$0.20)
Effect of dilutive common stock equivalent:					
Employees' stock options	-	-	78		
Employees' bonus	-	-	948		
Diluted earnings per share	\$ 910,873 (US\$ 30,082)	\$ 665,545 (US\$ 21,980)	110,021	\$ 8.28 (US\$0.27)	\$ 6.05 (US\$0.20)

For the year ended December 31, 2010

	<u>Amount</u>		Weighted		Earnings per share	
			Before income tax	After income tax	average outstanding shares (in thousands)	Before income tax
						After income tax
Net income	\$1,105,106 (US\$ 37,938)	\$ 829,167 (US\$ 28,465)				
Basic earnings per share			117,113	<u>\$ 9.44</u> (US\$0.32)	<u>\$ 7.08</u> (US\$0.24)	
Effect of dilutive common stock equivalent: Employees' stock options					747	
Employees' bonus	-----	-----	-----	-----	1,256	
Diluted earnings per share	<u>\$1,105,106</u> (US\$ 37,938)	<u>\$ 829,167</u> (US\$ 28,465)	<u>119,116</u>	<u>\$ 9.28</u> (US\$0.32)	<u>\$ 6.96</u> (US\$0.24)	

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 shares outstanding during the reporting year, taking into account the dilutive effect of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of 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.

18) Personnel expenses, depreciation and amortization expenses

The Group's personnel expenses, depreciation and amortization expenses were as follows:

	For the year ended December 31, 2011					
	Operating costs		Operating expenses		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		(Unaudited) (Note 2)
<b>Personnel expenses</b>						
Salaries	\$ -	\$ -	\$ 790,633	\$ 26,111	\$ 790,633	\$ 26,111
Insurance	-	-	55,445	1,831	55,445	1,831
Pension	-	-	27,092	895	27,092	895
Others	-	-	14,917	493	14,917	493
Depreciation	-	-	12,567	415	12,567	415
Amortization	-	-	1,415	47	1,415	47

	For the year ended December 31, 2010					
	Operating costs		Operating expenses		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		(Unaudited) (Note 2)
<b>Personnel expenses</b>						
Salaries	\$ -	\$ -	\$ 865,840	\$ 29,723	\$ 865,840	\$ 29,723
Insurance	-	-	56,418	1,937	56,418	1,937
Pension	-	-	27,392	940	27,392	940
Others	-	-	16,409	563	16,409	563
Depreciation	-	-	15,641	537	15,641	537
Amortization	-	-	42,155	1,447	42,155	1,447

## 5. RELATED PARTY TRANSACTIONS

The salaries and bonuses information of the key management, such as directors, supervisors, general managers, vice general managers, etc. are as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
	(Unaudited) (Note 2)	(Unaudited) (Note 2)	(Unaudited) (Note 2)	(Unaudited) (Note 2)
Salaries and bonuses	\$ 67,156	\$ 2,218	\$ 63,589	\$ 2,183
Service execution fees	50	2	28	1
Earnings appropriation	20,548	679	21,516	739
Total	<u>\$ 87,754</u>	<u>\$ 2,899</u>	<u>\$ 85,133</u>	<u>\$ 2,923</u>

- (1) Salaries and bonuses include regular wages, duty allowances, pensions, severance pay, various bonuses and rewards, etc.
- (2) Service execution fees include travel allowances, special expenditures, various allowances, housing and vehicle benefits, etc.
- (3) Earnings appropriation represents directors' and supervisors' remuneration and employees' bonus for the current year.

## 6. DETAILS OF PLEDGED ASSETS

The Group's assets pledged as collateral as of December 31, 2011 and 2010 are as follows:

	Book value		Purpose
	December 31, 2011	December 31, 2010	
Other financial assets –			
non-current – certificate of deposit	\$ 10,000 (US\$ 330)	\$ 10,000 (US\$ 343)	Guarantee for sequestration

## 7. COMMITMENTS

As of December 31, 2011, other than those described in Note 4(7), significant commitments are as follows:

CyberLink-USA and CyberLink-Japan leases certain office space. The total future minimum lease payments under the operating lease agreements amounted to \$5,668 (US \$187) and \$2,691 (US \$89), respectively. In 2011, CyberLink-USA and CyberLink-Japan paid lease expenses of \$2,393 (US\$79) and \$6,395 (US\$211), respectively.

8. SIGNIFICANT LOSS OR DAMAGE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

## 10. OTHERS

### 1) Financial statement presentation

Certain accounts in the 2010 consolidated financial statements were reclassified to conform to the 2011 consolidated financial statement presentation.

### 2) The fair values of the financial instruments

	December 31, 2011 (NT\$)			December 31, 2010 (NT\$)		
	Book value	Fair value		Book value	Fair value	
		Quotations in an active market	Estimated using a valuation technique		Quotations in an active market	Estimated using a valuation technique
<b>Financial instruments</b>						
Non-derivative financial instruments						
Assets						
Financial assets with fair values equal to book values	\$ 3,178,570	\$ -	\$ 3,178,570	\$ 2,850,224	\$ -	\$ 2,850,224
Financial assets at fair value through profit or loss-current	1,389,744	1,389,744	-	1,931,694	1,931,694	-
Financial assets carried at cost - non current	53,077	-	-	4,369	-	-
Other financial assets-non current	10,000	-	10,000	10,000	-	10,000
Liabilities						
Financial liabilities with fair values equal to book values	1,622,443	-	1,622,443	1,554,767	-	1,554,767

	December 31, 2011 (US\$)			December 31, 2010 (US\$)		
	(Unaudited – Note 2)			(Unaudited – Note 2)		
	Book value	Quotations in an active market	Fair value	Book value	Quotations in an active market	Fair value
<b><u>Financial instruments</u></b>						
Non-derivative financial instruments						
Assets						
Financial assets with fair values equal to book values	\$ 104,972	\$ -	\$ 104,972	\$ 97,845	\$ -	\$ 97,845
Financial assets at fair value through profit or loss-current	45,896	45,896	-	66,313	66,313	-
Financial assets carried at cost - non current	1,753	-	-	150	-	-
Other financial assets-non current	330	-	330	343	-	343
Liabilities						
Financial liabilities with fair values equal to book values	53,581	-	53,581	53,373	-	53,373

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, refundable deposits, notes payable, accounts payable, and deposits-in.
- B. The fair values of financial assets held for trading were determined based on their market values.
- C. The fair values of other financial assets - non current were based on the present value of expected cash flow amount. The discount rate was the one-year rate of the Directorate General of Postal Remittances and Savings Bank. The fair value was not discounted since the difference is insignificant.

3) For the years ended December 31, 2011 and 2010, total interest income on financial assets that are not at fair value through profit or loss amounted to \$13,834 (US\$457) and \$9,959 (US\$342), respectively.

**4) Procedure of financial risk control and hedge**

The main financial risks are the inherent risk of the financial instruments and the exchange rate risk of foreign currency transactions. The Group uses strict risk management and takes an overall assessment on any market risk, credit risk, liquidity risk and cash flow risk of financial investments and seeks to minimize risk. Based on the Group's policy, foreign currency transactions seek the balance of risk and liquidity in attaining the best strategy.

**5) Information of financial risk**

**A. Cash and cash equivalents**

**a) Market risk**

Cash and cash equivalents of the Group is not affected by market price. Therefore, cash and cash equivalents of the Group is not exposed to material market risk.

**b) Credit risk**

Cash and cash equivalents transactions are limited to financial institutions with good credit standing and are not expected to default. Thus, there is no material credit risk.

c) Liquidity risk

Cash and cash equivalents of the Group is not expected to be exposed to material liquidity risk.

d) Cash flow risk

Cash of the Group is not an interest-bearing asset, so there is no cash flow risk from changes in market interest rates.

**B. Financial assets and financial liabilities at fair value through profit or loss**

a) Market risk

The funds held by the Group are all money market funds. Unit market price is not affected by the market environment. Therefore, there is no significant market risk.

b) Credit risk

The funds held by the Group are all money market funds. The issuers of these money market funds are high-credit quality financial institutions and the Group chooses money market funds that are rated by Taiwan Ratings (higher than Taiwan Ratings twAAf). Management believes its exposure to default by these parties is low.

c) Liquidity risk

Financial assets of the Group all have open markets for transactions, and it is expected that the Group can immediately sell these financial assets at near fair value. Therefore, the liquidity risk is low.

d) Cash flow risk

The funds held by the Group are all money market funds and are not interest-bearing assets. Therefore, there is no cash flow risk due to changes in market interest rates.

**C. Accounts and notes receivable**

a) Market risk

Accounts and notes receivable of the Group are expected to be converted to cash within one year from the balance sheet date. Therefore, the market risk is low.

b) Credit risk

The counterparties or third parties to the receivables are reputable international business organizations. Management believes its exposure to

default by these parties is low.

c) Liquidity risk

Accounts and notes receivable of the Group are expected to be converted to cash within one year from the balance sheet date, and the Group has sufficient operating capital to meet cash needs. Therefore, the liquidity risk is low.

d) Cash flow risk

Accounts and notes receivable of the Group are expected to be converted to cash within one year from the balance sheet date. Therefore, the cash flow risk is low.

D. Accounts and notes payable

a) Market risk

Accounts and notes payable of the Group are obligations expected to be due within one year from the balance sheet date. Therefore, the market risk is low.

b) Credit risk

Accounts and notes payable are obligations of the Group. Therefore, there is no credit risk.

c) Liquidity risk

Accounts and notes payable of the Group are obligations that are expected to be due within one year from the balance sheet date. In addition, the Group has sufficient operating capital to meet cash needs. Therefore, the liquidity risk is low.

d) Cash flow risk

Accounts and notes payable of the Group are obligations expected to be due within one year from the balance sheet date. Therefore, the cash flow risk is low.

11. ADDITIONAL DISCLOSURES REQUIRED BY SECURITIES AND FUTURES BUREAU

1) Related information of significant transactions

- A. Lending to others: None.
- B. Guarantees on behalf of others: None.
- C. Marketable securities at December 31, 2011:

(NT\$)

Name of the investor	Type and name of marketable securities	Relationship with the issuer	General ledger account	Number of shares	Book value	Percentage	Market value or net asset value
CyberLink Corp.	CyberLink.Com Corp.	A subsidiary of the Company	Long-term equity investments accounted for under the equity method	4,000,000	\$ 521,803	100.00	\$ 521,803
"	CyberLink Europe B.V.	"	"	1,500,000	12,253	100.00	12,253
"	CyberLink International Technology Corp.	"	"	2,000,000	135,065	100.00	135,065
"	CyberLink Investment Corp.	"	"	12,000,000	163,215	100.00	163,215
"	Polaris De-Bao Money Market Fund	None	Financial assets at fair value through profit or loss -current	28,236,284	327,228		327,228
"	PCA Well Pool Money Market Fund	"	"	28,240,220	370,173		370,173
"	Yuanta Wan Tai Money Market Fund	"	"	37,463,622	547,197		547,197
"	One-Blue, LLC	Director of the investee company	Financial assets carried at cost - non current	-	48,535	16.67	-
CyberLink Investment Corp.	Yuanta Wan Tai Money Market Fund	None	Financial assets at fair value through profit or loss -current	9,937,366	145,146		145,146
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term equity investments accounted for under the equity method	1,900	US\$ 2,326	100.00	US\$ 2,326
"	Preferred stock of Cidana Inc.	None	Financial assets carried at cost - non current	500,000	US\$ 150	7.14	-

## (US\$ Unaudited - Note 2)

Name of the investor	Type and name of marketable securities	Relationship with the issuer	General ledger account	Number of shares	Book value	Percentage	Market value or net asset
CyberLink Corp.	CyberLink.Com Corp.	A subsidiary of the Company	Long-term equity investments accounted for under the equity method	4,000,000	\$ 17,233	100.00	\$ 17,233
"	CyberLink Europe B.V.	"	"	1,500,000	405	100.00	405
"	CyberLink International Technology Corp.	"	"	2,000,000	4,461	100.00	4,461
"	CyberLink Investment Corp.	"	"	12,000,000	5,390	100.00	5,390
"	Polaris De-Bao Money Market Fund	None	Financial assets at fair value through profit or loss -current	28,236,284	10,807		10,807
"	PCA Well Pool Money Market Fund	"	"	28,240,220	12,225		12,225
"	Yuanta Wan Tai Money Market Fund	"	"	37,463,622	18,071		18,071
"	One-Blue, LLC	Director of the investee company	Financial assets carried at cost - non current	-	1,603	16.67	-
CyberLink Investment Corp.	Yuanta Wan Tai Money Market Fund	None	Financial assets at fair value through profit or loss -current	9,937,366	4,793		4,793
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term equity investments accounted for under the equity method	1,900	2,326	100.00	2,326
"	Preferred stock of Cidana Inc.	None	Financial assets carried at cost - non current	500,000	150	7.14	-

D. Accumulated additions and disposals of each single marketable security exceeding \$100,000 or 20% of contributed capital:

January 1, 2011–December 31, 2011

(NT\$)

Name of Company	Name of the security	Account used to record transaction	Counterparty	Relationship with the counterparty	Beginning balance		Additions		Disposals				Ending balance	
					Number of shares (thousand units)	Amount	Number of shares (thousand units)	Amount (Note)	Number of shares (thousand units)	Sales price	Book value	Gain (loss) from disposal	Number of shares (thousand units)	Amount
CyberLink Corp.	Polaris De-Bao Money Market Fund	Financial assets at fair value through profit or loss-current	-	-	45,647	\$ 525,702	27,642	\$ 319,929	45,053	\$ 520,000	\$ 518,403	\$ 1,597	28,236	\$ 327,228
"	PCA Well Pool Money Market Fund	"	-	-	52,753	687,129	35,890	468,179	60,403	789,331	785,135	4,196	28,240	370,173
"	Shin Kong Chi-Shin Money Market Fund	"	-	-	11,107	165,046	12,109	179,968	23,216	345,774	345,014	760	-	-
CyberLink Investment Corp.	Yuanta Wan Tai Money Market Fund	"	-	-	691	10,032	9,246	135,114	-	-	-	-	9,937	145,146

Note: Including valuation amount.

(US\$ Unaudited - Note 2)

Name of Company	Name of the security	Account used to record transaction	Counterparty	Relationship with the counterparty	Beginning balance		Additions		Disposals				Ending balance	
					Number of shares (thousand units)	Amount	Number of shares (thousand units)	Amount (Note)	Number of shares (thousand units)	Sales price	Book value	Gain (loss) from disposal	Number of shares (thousand units)	Amount
CyberLink Corp.	Polaris De-Bao Money Market Fund	Financial assets at fair value through profit or loss-current	-	-	45,647	\$ 17,361	27,642	\$ 10,566	45,053	\$ 17,173	\$ 17,120	\$ 53	28,236	\$ 10,807
"	PCA Well Pool Money Market Fund	"	-	-	52,753	22,693	35,890	15,462	60,403	26,068	25,930	138	28,240	12,225
"	Shin Kong Chi-Shin Money Market Fund	"	-	-	11,107	5,451	12,109	5,943	23,216	11,419	11,394	25	-	-
CyberLink Investment Corp.	Yuanta Wan Tai Money Market Fund	"	-	-	691	331	9,246	4,462	-	-	-	-	9,937	4,793

Note: Including valuation amount.

E. Acquisition of real estate properties exceeding \$100,000 or 20% of the Company's paid-in capital during the year ended December 31, 2011: None.

F. Disposals of real estate exceeding \$100,000 or 20% of contributed capital: None.

G. Purchases and sales with related parties exceeding \$100,000 or 20% of contributed capital:

January 1, 2011 – December 31, 2011

Name of the Company	Name of the counterparty	Relationship	Description of the transactions				Description of and reasons for difference in transaction terms compared to non-related party transactions		Accounts or notes receivable (payable)	
			Purchases (Sales)	Amount	% of total purchases (sales)	Credit terms	Unit price	Credit terms	Balance	% of total accounts or notes receivable
CyberLink Corp.	CyberLink.Com Corp.	A subsidiary of the Company	Sales	NT\$368,791 (US\$ 12,179)	16	Note	The same as those with third parties	Note	NT\$ 37,537 (US\$ 1,240)	12
"	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	"	NT\$230,497 (US\$ 7,612)	10	Note	"	Note	NT\$ 48,046 (US\$ 1,587)	15
"	CyberLink Europe B.V.	A subsidiary of the Company	"	NT\$149,442 (US\$ 4,935)	6	Note	"	Note	NT\$ 5,791 (US\$ 191)	2

Note : Sales to subsidiaries are at normal selling price and are collected 30 days after the delivery of goods.

H. Receivables from related parties exceeding \$100,000 or 20% of the Company's paid-in capital as at December 31, 2011:None.

I. Information as to transaction of derivatives: None.

2) Relevant information regarding investee companies as of December 31, 2011:

(NT\$)

Name of the company	Name of the investee companies	Address	Major operating activities	Original investment amount		Holding status			Net income (loss) of investee company	Recognized investment income (loss)
				December 31, 2011	December 31, 2010	Shares	Percentage (%)	Book value		
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100.00	\$ 521,803	\$ 55,606	\$ 55,606
"	CyberLink Europe B.V.	Europe	"	64,770	64,770	1,500,000	100.00	12,253	4,013	4,013
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	64,821	64,821	2,000,000	100.00	135,065	13,966	13,966
"	CyberLink Investment Corp.	Taiwan	"	220,000	220,000	12,000,000	100.00	163,215	1,794	1,794
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	US\$ 848	US\$ 848	1,900	100.00	US\$ 2,326	US\$ 805	US\$ 805

(US\$ Unaudited - Note 2)

Name of the company	Name of the investee companies	Address	Major operating activities	Original investment amount		Holding status			Net income (loss) of investee company	Recognized investment income (loss)
				December 31, 2011	December 31, 2010	Shares	Percentage (%)	Book value		
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 4,502	\$ 4,502	4,000,000	100.00	\$ 17,233	\$ 1,836	\$ 1,836
"	CyberLink Europe B.V.	Europe	"	2,139	2,139	1,500,000	100.00	405	133	133
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	2,141	2,141	2,000,000	100.00	4,461	461	461
"	CyberLink Investment Corp.	Taiwan	"	7,266	7,266	12,000,000	100.00	5,390	59	59
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	848	848	1,900	100.00	2,326	805	805

3) Disclosures of relevant information regarding indirect investments in Mainland China: None.

4) Intercompany transactions

January 1, 2011~ December 31, 2011

Number of the Company (Note 1)	Company	Names of Counterparty	Relationship with Company (Note 2)	Transaction				
				Subject	Amount (NT\$)	Amount (US\$)	Terms of Transaction	Percentage of Consolidated Revenue or Assets (Note 3)
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	\$ 368,791	\$ 12,179	Note 4	10
				Accounts receivable	37,537	1,240	Note 4	0.6
"	"	CyberLink Europe B.V.	"	Sales revenue	149,442	4,935	Note 4	4
"	"	CyberLink Inc.	"	Sales revenue	230,497	7,612	Note 4	6
				Accounts receivable	48,046	1,587	Note 4	0.7

January 1, 2010 ~ December 31, 2010

Number of the Company (Note 1)	Company	Names of Counterparty	Relationship with Company (Note 2)	Transaction				
				Subject	Amount (NT\$)	Amount (US\$)	Terms of Transaction	Percentage of Consolidated Revenue or Assets (Note 3)
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	\$ 704,007	\$ 24,168	Note 4	16
				Service revenue	22,103	759	Note 5	0.5
				Accounts receivable	115,454	3,963	Note 4	2
"	"	CyberLink Europe B.V.	"	Sales revenue	82,336	2,827	Note 4	2
				Service revenue	19,535	671	Note 5	0.4
"	"	CyberLink Inc.	"	Sales revenue	221,165	7,592	Note 4	4
				Accounts receivable	31,169	1,070	Note 4	0.5

Note 1 : Transaction information between parent company and subsidiaries should be noted in the first column, the number is written as below:

- A. Parent Company : 0
- B. Subsidiaries are numbered from 1.

Note 2 : Relationships between the counterparties:

- A. Parent company to subsidiary : 1
- B. Subsidiary to parent company : 2
- C. Subsidiary to another subsidiary : 3

Note 3 : For balance sheet accounts, it is calculated based on consolidated assets; for income statement accounts, it is calculated based on consolidated revenue.

Note 4 : Sales to subsidiaries are at normal price and are collected 30 days after the delivery of goods.

Note 5 : Income from management service provided to subsidiaries.

## 12. SEGMENT REPORTING

### A. General information

The Company recognizes the reportable segments based on the reporting information used by chief operating decision-maker. The chief operating decision-maker operates the business and evaluates performance by products. Its main business activities are related to the sale of video entertainment and media creation software. Information about operating results of other products is provided in the accompanying note "Other operating segments".

### B. Measure of segmental information

- a) The accounting policies for operating segments are the same as those summarized in Note 2 of the financial statements; except for foreign segments' defined contribution pension plans that is in compliance with local regulations.
- b) The Company uses segment revenue and operating income as the basis for evaluating performance and has eliminated the impact of inter-segment transactions.

### C. Quantitative information about profit or loss, assets and liabilities

The segmental financial information of the Group for the years ended December 31, 2011 and 2010 are as follows:

For the year ended December 31, 2011									
	Media Experience and Entertainment		Media Creation		Others		Total		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Segment Revenue	\$ 2,613,824	\$ 86,322	\$ 1,106,671	\$ 36,548	\$ 148,706	\$ 4,911	\$ 3,869,201	\$ 127,781	
Segment Operating Income	460,925	\$ 15,222	\$ 375,091	\$ 12,387	\$ 43,247	\$ 1,429	\$ 879,263	\$ 29,038	
Segment Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
For the year ended December 31, 2010									
	Media Experience and Entertainment		Media Creation		Others		Total		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Segment Revenue	\$ 3,182,087	\$ 109,237	\$ 1,183,595	\$ 40,631	\$ 119,332	\$ 4,097	\$ 4,485,014	\$ 153,965	
Segment Operating Income	\$ 596,563	\$ 20,479	\$ 469,302	\$ 16,111	\$ 49,476	\$ 1,698	\$ 1,115,341	\$ 38,288	
Segment Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

### D. Reconciliation of reported segment profit or loss

The Chief operating decision-maker evaluates operating segment performance and allocates resources to operating segments based on segment revenues and operating income. Therefore, no reconciling adjustments are necessary.

### E. Financial information by product

Please refer to Note 12(C).

**F. Financial information by geographic area**

The financial information by geographic area for the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
	<u>Sales</u>	<u>Non-current assets</u>	<u>Sales</u>	<u>Non-current assets</u>
America	\$ 1,618,295 ( US\$ 53,444)	\$ 1,317 ( US\$ 43)	\$ 2,384,823 ( US\$ 81,868)	\$ 1,293 ( US\$ 44)
Taiwan	690,977 ( US\$ 22,820)	1,673,140 ( US\$ 55,256)	815,716 ( US\$ 28,003)	1,695,046 ( US\$ 58,189)
Japan	539,870 ( US\$ 17,829)	9,315 ( US\$ 308)	386,395 ( US\$ 13,265)	9,087 ( US\$ 312)
Others	1,020,059 ( US\$ 33,688)	141 ( US\$ 4)	898,080 ( US\$ 30,829)	240 ( US\$ 9)
	<u>\$ 3,869,201</u> ( US\$ 127,781)	<u>\$ 1,683,913</u> ( US\$ 55,611)	<u>\$ 4,485,014</u> ( US\$ 153,965)	<u>\$ 1,705,666</u> ( US\$ 58,554)

**G. Major customer information**

The major customer information for the years ended December 31, 2011 and 2010 are as follows:

Customer	2011		2010	
	<u>Sales</u>	<u>Operating segment</u>	<u>Sales</u>	<u>Operating segment</u>
Customer A	NT\$ 866,831 (US\$ 28,627)	Media Experience and Entertainment	NT\$ 1,341,626 (US\$ 46,057)	Media Experience and Entertainment
Customer B	NT\$ 648,044 (US\$ 21,402)	Media Experience and Entertainment and Others	NT\$ 942,930 (US\$ 32,370)	Media Experience and Entertainment and Others
Customer C	NT\$ 578,751 (US\$ 19,113)	Media Experience and Entertainment and Others	NT\$ 693,196 (US\$ 23,797)	Media Experience and Entertainment and Others
Customer D	NT\$ 483,608 (US\$ 15,971)	Media Experience and Entertainment, Media Creation and Others	NT\$ 452,717 (US\$ 15,541)	Media Experience and Entertainment, Media Creation and Others

### **13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs**

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Group discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

Major contents and status of execution of the Group’s plan for IFRSs adoption:

A. The Group has formed an IFRSs project team led by the Company’s CEO, who is responsible for setting up a plan relative to the Group’s transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Contents of IFRSs Adoption Project	Status of Execution
a. Set up an IFRSs project team	Completed in October, 2009.
b. Make a plan to adopt the IFRSs	Completed in October, 2009.
c. Compare and analyze the differences between current accounting policies and IFRSs	Completed in April, 2010.
d. Identify consolidated entities under the IFRSs framework	Completed in March, 2010.
e. Assess the applicability of the IFRS 1 – “First-time Adoption of International Financial Reporting Standards”	Completed in April, 2010.
f. Assess the adjustments of the related information system	Completed in April, 2010.
g. Assess the adjustments of the related internal control	Completed in December, 2011.
h. Determine how to adjust the existing accounting policies in accordance with IFRSs	Completed in April, 2011.
i. Determine how to apply to the IFRS 1 – “First-time Adoption of International Financial Reporting Standards”	Completed in April, 2011.
j. Prepare the opening balance sheet of IFRSs	In progress.
k. Prepare comparative financial statements in conformity with IFRSs	In progress.
l. Complete the adjustments of related internal control (including financial reporting process and relevant information system)	In progress.

B. Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future:

The Group uses the IFRSs already ratified currently by the Financial Supervisory Commission and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Group’s current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the “Rules Governing the Preparation of Financial Statements by Securities Issuers” come in the future.

Material differences identified by the Group that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future are set forth below:

**1. Financial assets: equity instruments**

In accordance with the amended “Rules Governing the Preparation of Financial Statements by Securities Issuers”, dated July 7, 2011, unlisted stocks and emerging stocks held by the Group should be measured at cost and recognized in “Financial assets carried at cost”. However, in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”, investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value.

**2. Software debugging cost**

The Group provided software bug-fixing program for free from time to time, and recognized as expenses as incurred in accordance with current accounting standards in R.O.C.. However, in accordance with IAS 18, “Revenue”, the service is not an obligation along with product sales, neither does it function of the product. Therefore, the Group should estimate relevant debug-fixing cost and liabilities and account it for common product warranty obligations.

**3. Royalty cost**

The Group accrued and paid royalty costs to third party based on sales quantities, and recognized such costs as expenses. The current accounting standards in R.O.C. do not address the rules on classifications of such costs. However, in accordance with IFRSs, it should be recognized as costs by nature of transaction.

**4. Investment property**

In accordance with current accounting standards in R.O.C., the Group’s property leased to others was presented in “Other assets” account. In accordance with IAS 40, “Investment Property”, property that meets the definition of investment property is classified and accounted for as “Investment property”.

**5. Pensions**

(i) The discount rate used to calculate pensions was determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, “Employee Benefits”, requires an entity to determine the discount rate with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of the pension plan;

when there is no deep market for corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.

- (ii) In accordance with the Group's accounting policies, the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees who are expected to receive benefits and still in service. However, since the Group is a first adopter of IFRSs, the recognition and amortization of transitional net benefit obligation is not applicable.
- (iii) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet ("minimum pension liability"). However, IAS 19, "Employee Benefits", has no regulation regarding the minimum pension liability.
- (iv) In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Group is recognized in net pension cost of current period using the 'corridor' method. However, IAS 19, "Employee Benefits", requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income.

## 6. Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognized such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period.

## 7. Income taxes

- (i) In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting, should be classified as current or noncurrent according to the expected time period to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current.
- (ii) In accordance with current accounting standards in R.O.C., when evidence shows that part or whole of the deferred tax asset with 50% probability or above will not be realized, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, "Income Taxes", a deferred tax asset should be recognized if, and only if, it is considered highly probable that it will be realized.

## 8. Share-based payment

The share-based payment arrangements of the Group include employee stock option, treasury stock transferred to employees, cash capital increase reserved for employee preemption and employees' bonus.

- (i) The employee stock options granted from January 1, 2004 through December 31, 2007 were accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072, "Accounting for Employee Stock Options", issued by the R.O.C. Accounting Research and Development Foundation, dated March 17, 2003. Compensation cost of such employee stock options was recognized as

an expense using the intrinsic value method. Compensation cost of treasury stock transferred to employees and cash capital increase reserved for employee preemption incurred before December 31, 2007 was not recognized as an expense by the Group. Employees' bonus distributed before 2007 was earnings appropriation and not recognized as an expense by the Group.

- (ii) However, according to IFRS 2, "Share-based Payment", the fair value of the share-based payment arrangements stated above should be measured at measurement date and expensed over the vesting period.

Among the differences above, share-based payment may not have effect on the Group in transition to IFRSs due to the exemption rules in IFRS 1, "First-time Adoption of International Financial Reporting Standards", adopted by the Group.