

**CYBERLINK CORP. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2005 AND 2004**

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These English financial statements and report of independent accountants were translated from the financial statements and report of independent accountants originally prepared in Chinese.

## Report of Independent Accountants

PWCR05000348

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, 2005 and 2004, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements for the financial years ended 2004 of CyberLink.Com Corporation (CyberLink-USA) a consolidated subsidiary, which statements reflect total assets of \$262,800 thousand (US\$8,288 thousand) constituting 7.20% and total revenues of \$686,794 thousand (US\$21,659 thousand) constituting 33.25%. The statements of 2004 were audited by other auditors, whose reports thereon have been finished to us and our opinion expressed herein, insofar as it relates to this subsidiary, is solely based on the reports of the other auditors.

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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with "The Rules Governing the Preparation of Financial Statements of Securities Issuers" and generally accepted accounting principles in the Republic of China.

The consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2005 and 2004 expressed in United States dollars were translated from New Taiwan dollars financial statements using the exchange rates of NT\$32.85:US\$1 and NT\$31.71: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 20, 2006

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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)

	2005			2004		
	Amount		%	Amount		%
	NT\$	US\$		NT\$	US\$	
	(Unaudited - Note 2)			(Unaudited - Note 2)		
<u>ASSETS</u>						
<u>Current Assets</u>						
Cash (Note 4(1))	\$ 2,435,820	\$ 74,150	57	\$ 412,313	\$ 13,003	11
Short-term investments (Note 4(2))	954,777	29,065	23	2,466,124	77,771	68
Notes receivable (Note 4(3))	1,852	56	-	4,001	126	-
Accounts receivable (Note 4(3))	337,001	10,259	8	249,782	7,877	7
Accounts receivable-related parties (Note 5)	10,056	306	-	-	-	-
Other receivables	34,484	1,050	1	16,440	518	1
Inventories	5,341	163	-	7,418	234	-
Deferred income tax assets-current (Note 4(6))	9,500	289	-	3,641	115	-
Other current assets-others (Note 10)	6,366	194	-	8,676	274	-
	<u>3,795,197</u>	<u>115,532</u>	<u>89</u>	<u>3,168,395</u>	<u>99,918</u>	<u>87</u>
<u>Long-term Investments (Note 4(4))</u>						
Investment accounted for under the cost method	32,999	1,004	1	32,416	1,022	1
	<u>32,999</u>	<u>1,004</u>	<u>1</u>	<u>32,416</u>	<u>1,022</u>	<u>1</u>
<u>Property, Plant and Equipment (Note 4(5))</u>						
Cost	287,393	8,749	7	285,574	9,006	8
Less: accumulated depreciation	( 29,097)	( 886)	( 1)	( 20,200)	( 637)	( 1)
	<u>258,296</u>	<u>7,863</u>	<u>6</u>	<u>265,374</u>	<u>8,369</u>	<u>7</u>
<u>Intangible Assets</u>						
Other intangible assets	57,874	1,762	1	67,781	2,138	2
	<u>57,874</u>	<u>1,762</u>	<u>1</u>	<u>67,781</u>	<u>2,138</u>	<u>2</u>
<u>Other Assets</u>						
Assets held for lease	59,180	1,801	2	59,593	1,879	2
Refundable deposits	2,010	61	-	302	9	-
Deferred charges	294	9	-	2,437	77	-
Deferred income tax assets-non current (Note 4(6))	47,644	1,450	1	47,396	1,495	1
Other assets-others	-	-	-	4,220	133	-
	<u>109,128</u>	<u>3,321</u>	<u>3</u>	<u>113,948</u>	<u>3,593</u>	<u>3</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,253,494</u>	<u>\$ 129,482</u>	<u>100</u>	<u>\$ 3,647,914</u>	<u>\$ 115,040</u>	<u>100</u>

(Continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.  
See PricewaterhouseCoopers' audit report dated February 20, 2006.

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

	2005			2004		
	Amount			Amount		
	NT\$	US\$	%	NT\$	US\$	%
		(Unaudited - Note 2)			(Unaudited - Note 2)	
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>						
<u>Current Liabilities</u>						
Notes payable	\$ 144	\$ 4	-	\$ 144	\$ 5	-
Accounts payable	18,781	572	-	27,541	869	1
Income tax payable (Note 4(6))	47,808	1,455	1	47,330	1,493	1
Accrued expenses (Note 4(7))	404,615	12,317	10	281,972	8,892	8
Other payables	27,295	831	1	6,134	193	-
Other current liabilities	<u>2,176</u>	<u>66</u>	-	<u>14,343</u>	<u>452</u>	<u>1</u>
	<u>500,819</u>	<u>15,245</u>	<u>12</u>	<u>377,464</u>	<u>11,904</u>	<u>11</u>
<u>Other Liabilities</u>						
Accrued pension liabilities (Note 4(8))	4,376	133	-	2,310	73	-
Deposits - in	660	20	-	660	21	-
Other liabilities-others	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>94</u>	<u>-</u>
	<u>5,036</u>	<u>153</u>	<u>-</u>	<u>5,970</u>	<u>188</u>	<u>-</u>
<u>Total Liabilities</u>	<u>505,855</u>	<u>15,398</u>	<u>12</u>	<u>383,434</u>	<u>12,092</u>	<u>11</u>
<u>Stockholders' Equity</u>						
Common stock (Note 4(9))	972,708	29,611	23	857,231	27,033	23
Capital reserve (Note 4(10))						
Paid-in capital in excess of par value	540,253	16,446	13	508,486	16,036	14
Paid-in capital in excess of par, convertible bonds	867,363	26,404	20	867,363	27,353	24
Long-term investments	-	-	-	810	26	-
Retained earnings (Note 4(11))						
Legal reserve	184,814	5,626	4	124,034	3,911	3
Special reserve	7,097	216	-	2,116	67	-
Unappropriated earnings	1,179,327	35,900	28	908,964	28,665	25
Other adjustments						
Cumulative translation adjustment	( 3,923)	( 119)	-	( 7,097)	( 224)	-
Minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,573</u>	<u>81</u>	<u>-</u>
<u>Total Stockholders' Equity</u>	<u>3,747,639</u>	<u>114,084</u>	<u>88</u>	<u>3,264,480</u>	<u>102,948</u>	<u>89</u>
<u>Commitments and Contingent Liabilities (Note 4(7))</u>						
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>\$ 4,253,494</u>	<u>\$ 129,482</u>	<u>100</u>	<u>\$ 3,647,914</u>	<u>\$ 115,040</u>	<u>100</u>

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

See PricewaterhouseCoopers' audit report dated February 20, 2006.

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)

	2005			2004		
	Amount			Amount		
	NT\$	US\$	%	NT\$	US\$	%
		(Unaudited - Note 2)			(Unaudited - Note 2)	
Operating revenues (Note 5)						
Sales revenue	\$ 2,487,606	\$ 75,726	101	\$ 2,085,564	\$ 65,770	101
Less: Sales returns	( 25,509)	( 777)	( 1)	( 17,284)	( 545)	( 1)
Sales allowances	( 1,129)	( 34)	-	( 6,362)	( 201)	-
Net sales	2,460,968	74,915	100	2,061,918	65,024	100
Gain from sales of portfolio securities (Note 1)	368	11	-	568	18	-
Service revenue	-	-	-	3,151	99	-
	<u>2,461,336</u>	<u>74,926</u>	<u>100</u>	<u>2,065,637</u>	<u>65,141</u>	<u>100</u>
Operating costs						
Cost of sales	( 49,220)	( 1,498)	( 2)	( 82,920)	( 2,615)	( 4)
Gross profit	<u>2,412,116</u>	<u>73,428</u>	<u>98</u>	<u>1,982,717</u>	<u>62,526</u>	<u>96</u>
Operating expenses (Notes 4(8) and (13))						
Selling	( 1,259,428)	( 38,339)	( 51)	( 1,071,510)	( 33,791)	( 52)
General	( 137,950)	( 4,199)	( 6)	( 98,084)	( 3,093)	( 5)
Research and development	( 241,258)	( 7,344)	( 10)	( 187,060)	( 5,899)	( 9)
Operating expenses	( 1,638,636)	( 49,882)	( 67)	( 1,356,654)	( 42,783)	( 66)
Operating income	<u>773,480</u>	<u>23,546</u>	<u>31</u>	<u>626,063</u>	<u>19,743</u>	<u>30</u>
Non-operating income						
Interest income	10,212	311	-	3,308	104	-
Gain on investments accounted for under the equity method (Note 4(4))	-	-	-	6,918	218	1
Gain on disposal of investments	38,777	1,180	2	39,373	1,242	2
Other income	21,611	658	1	21,019	663	1
Non-operating income	<u>70,600</u>	<u>2,149</u>	<u>3</u>	<u>70,618</u>	<u>2,227</u>	<u>4</u>
Non-operating expenses						
Loss on investments accounted for under the equity method (Note 4(4))	( 402)	( 12)	-	-	-	-
Exchange loss-net	( 16,133)	( 491)	( 1)	( 23,499)	( 741)	( 1)
Other expenses	( 5,189)	( 158)	-	( 8,426)	( 266)	( 1)
Non-operating expenses	<u>( 21,724)</u>	<u>( 661)</u>	<u>( 1)</u>	<u>( 31,925)</u>	<u>( 1,007)</u>	<u>( 2)</u>
Income before income tax	822,356	25,034	33	664,756	20,963	32
Income tax expense (Note 4(6))	( 98,902)	( 3,011)	( 4)	( 59,517)	( 1,877)	( 3)
Consolidated net income	<u>\$ 723,454</u>	<u>\$ 22,023</u>	<u>29</u>	<u>\$ 605,239</u>	<u>\$ 19,086</u>	<u>29</u>
Attributable to:						
Equity holder of the Company	\$ 725,849	\$ 22,096	29	\$ 607,799	\$ 19,167	29
Minority interest	( 2,395)	( 76)	-	( 2,560)	( 81)	-
	<u>\$ 723,454</u>	<u>\$ 22,023</u>	<u>29</u>	<u>\$ 605,239</u>	<u>\$ 19,086</u>	<u>29</u>
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>	
Basic earnings per share (Note 4(12))						
(In dollars)	<u>\$ 8.49</u>	<u>\$ 7.49</u>	<u>\$ 0.26</u>	<u>\$ 0.23</u>	<u>\$ 7.09</u>	<u>\$ 6.49</u>
Diluted earnings per share (Note 4(12))						
(In dollars)	<u>\$ 8.36</u>	<u>\$ 7.38</u>	<u>\$ 0.25</u>	<u>\$ 0.22</u>	<u>\$ 6.96</u>	<u>\$ 6.37</u>
	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.22</u>	<u>\$ 0.20</u>

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

See PricewaterhouseCoopers' audit report dated February 20, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Retained earnings					Cumulative translation adjustment	Minority interest in consolidated subsidiaries	Total
	Common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings			
Balance at January 1, 2004	\$ 677,643	\$1,078,899	\$ 74,378	\$ 2,116	\$ 647,596	(\$ 98)	\$ 11,307	\$2,491,841
Distribution of 2003 earnings:								
Legal reserve	-	-	49,656	-	( 49,656)	-	-	-
Stock dividends	101,919	-	-	-	( 101,919)	-	-	-
Cash dividends	-	-	-	-	( 156,276)	-	-	( 156,276)
Remunerations of directors and supervisors	-	-	-	-	( 8,903)	-	-	( 8,903)
Employees' stock bonus	29,677	-	-	-	( 29,677)	-	-	-
Net income for 2004	-	-	-	-	607,799	-	-	607,799
Conversion of bonds payable to common stock	46,906	292,487	-	-	-	-	-	339,393
Exercise of employee stock options	1,086	5,273	-	-	-	-	-	6,359
Cumulative translation adjustment	-	-	-	-	-	( 6,999)	( 61)	( 7,060)
Increase in minority interest	-	-	-	-	-	-	( 6,113)	( 6,113)
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	( 2,560)	( 2,560)
Balance at December 31, 2004	857,231	1,376,659	124,034	2,116	908,964	( 7,097)	2,573	3,264,480
Distribution of 2004 earnings:								
Legal reserve	-	-	60,780	-	( 60,780)	-	-	-
Special reserve	-	-	-	4,981	( 4,981)	-	-	-
Stock dividends	85,739	-	-	-	( 85,739)	-	-	-
Cash dividends	-	-	-	-	( 257,218)	-	-	( 257,218)
Remunerations of directors and supervisors	-	-	-	-	( 7,795)	-	-	( 7,795)
Employees' stock bonus	23,384	-	-	-	( 38,973)	-	-	( 15,589)
Net income for 2005	-	-	-	-	725,849	-	-	725,849
Adjustment due to change in ownership in investees	-	( 810)	-	-	-	-	-	( 810)
Exercise of employee stock options	6,354	31,767	-	-	-	-	-	38,121
Cumulative translation adjustment	-	-	-	-	-	3,174	( 178)	2,996
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	( 2,395)	( 2,395)
Balance at December 31, 2005	<u>\$ 972,708</u>	<u>\$1,407,616</u>	<u>\$ 184,814</u>	<u>\$ 7,097</u>	<u>\$1,179,327</u>	<u>(\$ 3,923)</u>	<u>\$ -</u>	<u>\$3,747,639</u>

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The accompanying notes are an integral part of these consolidated financial statements.  
See PricewaterhouseCoopers' audit report dated February 20, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(EXPRESSED IN THOUSANDS OF US DOLLARS) (UNAUDITED-NOTE 2)

	<u>Retained earnings</u>					Cumulative translation adjustment	Minority interest in consolidated subsidiaries	Total
	<u>Common stock</u>	<u>Capital reserve</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Unappropriated earnings</u>			
Balance at January 1, 2004	\$ 19,948	\$ 31,760	\$ 2,190	\$ 62	\$ 19,064	(\$ 3)	\$ 333	\$ 73,354
Distribution of 2003 earnings:								
Legal reserve	-	-	1,566	-	( 1,566)	-	-	-
Stock dividends	3,214	-	-	-	( 3,214)	-	-	-
Cash dividends	-	-	-	-	( 4,928)	-	-	( 4,928)
Remunerations of directors and supervisors	-	-	-	-	( 281)	-	-	( 281)
Employees' stock bonus	936	-	-	-	( 936)	-	-	-
Net income for 2004	-	-	-	-	19,167	-	-	19,167
Conversion of bonds payable to common stock	1,479	9,224	-	-	-	-	-	10,703
Exercise of employee stock options	34	166	-	-	-	-	-	200
Cumulative translation adjustment	1,422	2,265	155	5	1,359	( 221)	22	5,007
Increase in minority interest	-	-	-	-	-	-	( 193)	( 193)
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	( 81)	( 81)
Balance at December 31, 2004	<u>27,033</u>	<u>43,415</u>	<u>3,911</u>	<u>67</u>	<u>28,665</u>	<u>( 224)</u>	<u>81</u>	<u>102,948</u>
Distribution of 2004 earnings:								
Legal reserve	-	-	1,850	-	( 1,850)	-	-	-
Special reserve	-	-	-	152	( 152)	-	-	-
Stock dividends	2,610	-	-	-	( 2,610)	-	-	-
Cash dividends	-	-	-	-	( 7,830)	-	-	( 7,830)
Remunerations of directors and supervisors	-	-	-	-	( 237)	-	-	( 237)
Employees' bonus	712	-	-	-	( 1,186)	-	-	( 474)
Net income for 2005	-	-	-	-	22,096	-	-	22,096
Adjustment due to change in ownership in investees	-	( 25)	-	-	-	-	-	( 25)
Exercise of employee stock options	193	967	-	-	-	-	-	1,160
Cumulative translation adjustment	( 937)	( 1,507)	( 135)	( 3)	( 996)	105	( 8)	( 3,481)
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	( 73)	( 73)
Balance at December 31, 2005	<u>\$ 29,611</u>	<u>\$ 42,850</u>	<u>\$ 5,626</u>	<u>\$ 216</u>	<u>\$ 35,900</u>	<u>(\$ 119)</u>	<u>\$ -</u>	<u>\$ 114,084</u>

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

See PricewaterhouseCoopers' audit report dated February 20, 2006.

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

	2005		2004	
	NT\$	US\$ (Unaudited - Note 2)	NT\$	US\$ (Unaudited - Note 2)
<u>Cash flows from operating activities</u>				
Net income	\$ 723,454	\$ 22,023	\$ 605,239	\$ 19,087
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposal of investments	( 38,777)	( 1,180)	( 39,373)	( 1,242)
Bad debts expense	15,708	478	948	30
Loss on obsolescence of inventories	4,502	137	7,294	230
Long-term investment loss (gain) accounted for under the equity method	402	12	( 6,918)	( 218)
Loss on disposal of property, plant, and equipment	-	-	160	5
Depreciation expenses	12,682	386	12,078	381
Amortization expenses	31,336	954	24,842	783
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Short-term investments-portfolio securities	-	-	285	9
Notes and accounts receivable	( 97,205)	( 2,959)	2,461	78
Accounts receivable-related parties	( 10,056)	( 306)	-	-
Other receivables	( 18,044)	( 549)	( 65)	( 2)
Inventories	( 1,208)	( 37)	4,857	153
Other current assets	2,310	70	( 4,703)	( 148)
Deferred income tax assets	( 6,107)	( 186)	( 28,870)	( 910)
Other assets-others	4,220	128	( 3,907)	( 123)
Increase (decrease) in liabilities:				
Notes and accounts payable	5,960	181	( 21,871)	( 690)
Income tax payable	478	15	25,334	799
Accrued expenses	116,897	3,559	34,439	1,086
Other payables	12,381	377	1,315	41
Other current liabilities	( 12,167)	( 370)	1,892	60
Accrued pension liabilities	2,066	63	1,454	46
Net cash provided by operating activities	<u>748,832</u>	<u>22,796</u>	<u>616,891</u>	<u>19,454</u>
<u>Cash flows from investing activities</u>				
Decrease (increase) in short-term investments, net	1,541,822	46,935	( 311,696)	( 9,830)
Increase in long term investments-third parties	( 598)	( 18)	( 31,710)	( 1,000)
Proceeds from sale of long-term investments	8,528	260	7,771	245
Proceeds from capital reduction of long-term investments	557	17	6,337	200
Acquisition of property, plant, and equipment	( 6,695)	( 204)	( 31,466)	( 992)
Proceeds from sale of property, plant, and equipment	-	-	270	9
(Increase) decrease in refundable deposits-net	( 1,708)	( 52)	4,126	130
Increase in other intangible assets	( 19,620)	( 597)	( 53,292)	( 1,681)
Increase in deferred charges	-	-	( 128)	( 4)
Net cash provided by (used in) investing activities	<u>1,522,286</u>	<u>46,341</u>	<u>( 409,788)</u>	<u>( 12,923)</u>

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

	<u>2005</u>		<u>2004</u>	
	<u>NT\$</u>	<u>US\$</u> (Unaudited - Note 2)	<u>NT\$</u>	<u>US\$</u> (Unaudited - Note 2)
<u>Cash flows from financing activities</u>				
Increase in deposits-in, net	\$ -	\$ -	\$ 660	\$ 21
Payment of cash dividends	( 257, 218)	( 7, 830)	( 156, 276)	( 4, 928)
Payment of directors' and supervisors' remuneration and employees' bonus	( 14, 604)	( 445)	( 8, 903)	( 281)
Exercise of employee stock options	38, 121	1, 160	6, 359	201
Decrease in minority interest	-	-	( 6, 174)	( 195)
Net cash used in financing activities	<u>( 233, 701)</u>	<u>( 7, 115)</u>	<u>( 164, 334)</u>	<u>( 5, 182)</u>
Effects of changes in exchange rates on foreign currency holdings	6, 969	( 239)	( 7, 560)	553
Effect of loss of control in subsidiary	<u>( 20, 879)</u>	<u>( 636)</u>	-	-
Net increase in cash	2, 023, 507	61, 147	35, 209	1, 902
Cash at beginning of the year	<u>412, 313</u>	<u>13, 003</u>	<u>377, 104</u>	<u>11, 101</u>
Cash at end of the year	<u>\$2, 435, 820</u>	<u>\$ 74, 150</u>	<u>\$ 412, 313</u>	<u>\$ 13, 003</u>
<u>Supplemental disclosure of cash flows information:</u>				
Cash paid during the year for:				
Income taxes	<u>\$ 104, 454</u>	<u>\$ 3, 180</u>	<u>\$ 64, 413</u>	<u>\$ 2, 031</u>
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Financial activities which have no influence in cash flows:				
Conversion of bonds payable to capital stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339, 393</u>	<u>\$ 10, 703</u>
Unpaid employees' bonus	<u>\$ 8, 780</u>	<u>\$ 267</u>	<u>\$ -</u>	<u>\$ -</u>
Cash used for the acquisition of property, plant and equipment				
Total acquisition of property, plant and equipment	\$ 6, 695	\$ 204	\$ 6, 099	\$ 192
Add: Payable at beginning of year	-	-	25, 367	800
Less: Payable at end of year	-	-	-	-
Cash paid	<u>\$ 6, 695</u>	<u>\$ 204</u>	<u>\$ 31, 466</u>	<u>\$ 992</u>

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

See PricewaterhouseCoopers' audit report dated February 20, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

1. COMPANY HISTORY AND CONSOLIDATED SUBSIDIARIES

1) 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, 2005, the Company and its consolidated subsidiaries had approximately 310 employees.

2) Consolidated subsidiaries:

<u>Investor</u>	<u>Name of the subsidiary</u>	<u>Major operating activities</u>	<u>Ownership (%)</u>		<u>Note</u>
			<u>December 31, 2005</u>	<u>December 31, 2004</u>	
CyberLink Corp.	CyberLink.Com Corp. (CyberLink-USA)	Sales of computer software	100%	100%	
”	CyberLink Europe B.V. (CyberLink-B.V.)	”	100%	100%	
”	CyberLink International Technology Corp. (CyberLink-B.V.I)	Investments activities	100%	100%	
”	CyberLink Japan Co., Ltd. (CyberLink-Old Japan)	Sales of computer software	-	90%	Note

<u>Investor</u>	<u>Name of the subsidiary</u>	<u>Major operating activities</u>	<u>Ownership (%)</u>		<u>Note</u>
			<u>December 31, 2005</u>	<u>December 31, 2004</u>	
CyberLink Corp.	CyberLink Investment Corp. (CyberLink Investment)	Investment activities	100%	100%	
"	Tse-Lien Technology Corp. (Tse-Lien)	Sales of computer software	100%	-	Newly incorporated
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	"	100%	-	"

Note: As the Company sold its shares in CyberLink-Old Japan in May 2005, only the income and expenses from January 1, 2005 to the date of the disposal were included in the consolidated statements of income.

3) Adjustment and approach for difference in accounting period and policy of subsidiaries: None.

4) Special operating risks in foreign subsidiaries:

The functional currency of CyberLink-Japan is Japanese Yen. The functional currency of CyberLink-USA and CyberLink-B.V.I is US dollars. The functional currency of CyberLink-B.V. is Euro dollars. There is no exchange rate risk since there was no significant change in the respective exchange rates in 2005.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were 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. Summaries of significant accounting policies of the Company are as follows:

### 1) Basis for the preparation of consolidated financial statements

A. Effective January 1, 2005, all majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. The income (loss) of the subsidiaries is included in the consolidated statement of income effective the date on which the Company gains control over the subsidiaries. The income (loss) of the subsidiaries are excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries. Significant inter-company transactions and assets and

liabilities arising from inter-company transactions are eliminated.

- B. Trading or valuation gain on securities for consolidated subsidiaries engaging primarily in investment activities was accounted under “Gain from sales of portfolio securities” and “Recovery on decline in market value of short-term investment” 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.

## 2) Translation of foreign subsidiaries’ financial statements

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

The accounts of the Company and the consolidated subsidiaries are maintained in their functional currencies. Transactions arising in foreign currencies are translated into their functional currencies at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into their functional currencies at the exchange rate prevailing at the balance sheet date. Foreign exchange gains or losses are included in the current year’s net income.

## 4) Derivative financial instruments

### A. Forward Contracts

Forward exchange contracts entered into for hedging purpose are recorded at the spot exchange rate at the contract date. The difference between the spot exchange rate at the contract date and the forward rate is amortized over the life of the contract. At the balance sheet date, the outstanding contracts are revalued using the spot exchange rate at that date. The resulting exchange gain or loss is recognized in the current year’s net income.

## B. Option Contracts

Unrealized gains and losses on option contracts entered into for hedging purpose are deferred and recognized as income (loss) at settlement date. Options contracts entered into for trading purpose are carried at market value.

### 5) Short-term investments

- A. Equity securities are recorded at cost. Cost is determined using the weighted average method. Any excess of aggregate cost over the market value is recorded as unrealized losses. Subsequent recovery in market value is recognized to the extent of the original cost and is reflected under other non-operating income.
- B. The trade of bonds with repurchase or resell agreements are recorded at cost and determined using the specific identification method, if the trade belongs to operating activity. When reselling occurs, it is reflected as “investment of bonds with resell agreement” under current assets and when repurchase occurs, it is reflected as “investment of bonds with repurchase agreement” under current liability if the trade belongs to financial activity.

### 6) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience and the evaluation of the collectibility of accounts, notes and other receivables.

### 7) Inventories

Inventories are stated at the lower of cost or market value based on the aggregate value method. Allowance for loss is provided for obsolete inventories. Cost is determined by the weighted average method for the Company. Cost for CyberLink-USA, CyberLink-B.V. and CyberLink-Japan is determined by the first-in, first-out method. The market value for finished goods inventories is determined based on net realizable value. Loss for decline in market value and obsolescence of inventories is charged to current income.

### 8) Long-term investments

- A. Long-term investments in which the Company owns less than 20% of an investee company's voting rights and has no ability to exercise significant influence over the investee company are accounted for at the lower of cost or market value for listed companies or at cost for unlisted companies. Any unrealized decline in market value is recognized as a deduction from stockholders' equity. When it becomes evident that there has been a

permanent decrease in value and the chance of recovery is minimal, the loss is recognized in the current year's net income.

- B. If the Company owns at least 20% of an investee company's voting rights, the investment is accounted for using the equity method, unless there is evidence that the Company has no ability to exercise significant influence over the investee company, in which case it is accounted for under the cost method.
- C. Foreign investments in which the Company owns at least 20 percent of the affiliated company's voting rights are accounted for using the equity method. The procedures for accounting are as follows:
  - a. The initial investment is stated at the amount of New Taiwan dollars remitted out for the foreign currency transaction;
  - b. Any investment income or loss is translated into New Taiwan dollars at the average exchange rate for the year; and
  - c. The foreign investee company's financial statements are translated into New Taiwan dollars at year-end. Assets and liabilities are translated using the exchange rate at the balance sheet date, while equity accounts are translated at historical rates, except for beginning retained earnings which are transferred from prior year's ending retained earnings. Profit and loss accounts are translated using a weighted average rate. The cumulative translation adjustments resulting from these translation procedures are included as a component of the investee companies' stockholders' equity. The proportionate share of these cumulative translation adjustments is recognized by the Company and included in the stockholders' equity account as "cumulative translation adjustment".

9) Property, plant and equipment

- A. Property, plant and equipment are stated at cost. The Company calculates depreciation using the straight-line method over the estimated useful lives of the assets plus one year as estimated salvage value. Salvage values of fixed assets still in use after the end of their original estimated useful lives are depreciated based on their newly estimated remaining useful lives. The estimated useful lives of the assets are 50 years for buildings and 3 to 15 years for the other fixed assets.
- B. Significant renewals and improvements are treated as capital expenditure 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 expenses in the current year.

10) Intangible assets

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) Deferred Charges

Deferred assets, mainly circuit installation and acquisition of computer software, are amortized on a straight-line basis over their estimated useful lives.

12) 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.

13) Employee stock options

The employee stock options granted or amended on or after January 1, 2004 are accounted for in accordance with the Ruling (92) Chi-Mi-Tze No. 072, "Accounting for Employee Stock Options", prescribed by the R.O.C. Accounting Research and Development Foundation. Under the stock-based employee compensation plan, compensation cost is recognized using the intrinsic value method and pro forma disclosures of net income and earnings per share is prepared under the fair value method.

14) Income tax

a) Income tax is calculated based on accounting income after adjusting for permanent differences for the Company, CyberLink Europe B.V. and CyberLink Investment. Provision for income tax includes deferred income tax resulting from items reported in different periods for tax and financial reporting purposes, loss carry-forward 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. A valuation allowance is provided for deferred income tax assets to the extent that it is most likely 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.

#### 15) Impairment of Asset

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of 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 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. The impairment loss recognized for Goodwill is not recoverable.

#### 16) Revenue 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 market securities is recognized on the transaction date for consolidated subsidiaries engaging primarily in investments 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) 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\$32.85 and US\$1:NT\$31.71 at December 31, 2005 and 2004, 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. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

- 1) Effective from January 1, 2005, the Company adopted the R.O.C. SFAS No.7 “Consolidated Financial Statements”. As a result, the total consolidated revenue was increased by \$19,589 (US\$596) for year ended December 31, 2005, please see Note 1(2) for the summary of consolidated subsidiaries.
- 2) Effective January 1, 2005, the Company adopted the ROC SFAS No. 35 “Accounting for Asset Impairment”. The adoption of SFAS No. 35 had no impact on the consolidated financial statements as of and for the year ended December 31, 2005.

4. SIGNIFICANT ACCOUNTS

1) Cash

	December 31,			
	2005		2004	
	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Cash in hand	\$ 308	\$ 9	\$ 271	\$ 9
Demand deposits	667,954	20,334	411,455	12,976
Checking accounts	1,139	35	587	18
Time deposits	<u>1,766,419</u>	<u>53,772</u>	<u>-</u>	<u>-</u>
	<u>\$2,435,820</u>	<u>\$ 74,150</u>	<u>\$ 412,313</u>	<u>\$ 13,003</u>

2) Short-term investments

	December 31,			
	2005		2004	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		(Note 2)		(Note 2)
Money market funds	\$ 496,589	\$ 15,117	\$ 2,466,124	\$ 77,771
Investment of bonds with resell agreement	458,188	13,948	-	-
	<u>\$ 954,777</u>	<u>\$ 29,065</u>	<u>\$ 2,466,124</u>	<u>\$ 77,771</u>

3) Notes and accounts receivable

	December 31,			
	2005		2004	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		(Note 2)		(Note 2)
Notes receivable	\$ 1,882	\$ 57	\$ 4,031	\$ 127
Accounts receivable	352,256	10,723	254,303	8,020
	354,138	10,780	258,334	8,147
Less: Allowance for doubtful accounts	(15,285)	(465)	(4,551)	(144)
	<u>\$ 338,853</u>	<u>\$ 10,315</u>	<u>\$ 253,783</u>	<u>\$ 8,003</u>

4) Long-term investments

a) List of long-term investments:

<u>Investee company</u>	<u>December 31, 2005</u>		<u>% ownership</u>
	<u>Amount</u>		
	<u>NT\$</u>	<u>US\$</u>	
	(Unaudited - Note 2)		
Cost method:			
Buylow Corp.	\$ 149	\$ 4	14.67
DivXNetworks, Inc.	32,850	1,000	0.86
	<u>\$ 32,999</u>	<u>\$ 1,004</u>	

<u>Investee company</u>	<u>December 31, 2004</u>		<u>% ownership</u>
	<u>Amount</u>		
	<u>NT\$</u>	<u>US\$</u>	
	(Unaudited - Note 2)		
Cost method:			
Buylow Corp.	\$ 706	\$ 22	14.67
DivXNetworks, Inc.	31,710	1,000	0.86
	<u>\$ 32,416</u>	<u>\$ 1,022</u>	

b) In 2005 and 2004, the investments (loss) gain on long-term investments under the equity method are as follows:

	<u>Years ended December 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
CyberLink-Europe	\$ -	\$ -	\$ 6,918	\$ 218
CyberLink-NCR	(402)	(12)	-	-
	<u>(\$ 402)</u>	<u>(\$ 12)</u>	<u>\$ 6,918</u>	<u>\$ 218</u>

The Company and CyberLink-B.V.I. sold their shares in CyberLink-Europe and CyberLink-NCR on December 2004 and September 2005, respectively. The long-term investments gain (loss) was recognized based on the unaudited financial statements.

5) Property, plant and equipment

<u>December 31, 2005</u>			
(NT\$)			
<u>Item</u>	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Land	\$ 141,564	\$ -	\$ 141,564
Buildings	121,498	( 17,290)	104,208
Machinery	12,272	( 5,297)	6,975
Transportation equipment	1,430	( 642)	788
Furniture and fixtures	10,629	( 5,868)	4,761
	<u>\$ 287,393</u>	<u>(\$ 29,097)</u>	<u>\$ 258,296</u>

<u>December 31, 2004</u>			
(NT\$)			
<u>Item</u>	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Book value</u>
Land	\$ 141,564	\$ -	\$ 141,564
Buildings	121,856	( 10,092)	111,764
Machinery	12,533	( 5,887)	6,646
Transportation equipment	1,430	( 459)	971
Furniture and fixtures	8,191	( 3,762)	4,429
	<u>\$ 285,574</u>	<u>(\$ 20,200)</u>	<u>\$ 265,374</u>

December 31, 2005			
(US\$: Unaudited - Note 2)			
Item	Original cost	Accumulated depreciation	Book value
Land	\$ 4,309	\$ -	\$ 4,309
Buildings	3,699	( 526)	3,173
Machinery	374	( 161)	213
Transportation equipment	44	( 20)	24
Furniture and fixtures	323	( 179)	144
	<u>\$ 8,749</u>	<u>(\$ 886)</u>	<u>\$ 7,863</u>

December 31, 2004			
(US\$: Unaudited - Note 2)			
Item	Original cost	Accumulated depreciation	Book value
Land	\$ 4,464	\$ -	\$ 4,464
Buildings	3,843	( 318)	3,525
Machinery	395	( 186)	209
Transportation equipment	45	( 14)	31
Furniture and fixtures	259	( 119)	140
	<u>\$ 9,006</u>	<u>(\$ 637)</u>	<u>\$ 8,369</u>

6) Income tax

	For the year ended December 31,			
	2005		2004	
	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Income tax expense	\$ 98,902	\$ 3,011	\$ 59,517	\$ 1,877
(Under) over				
provision of prior				
year's income tax	( 514)	( 16)	1,751	55
Effect of deferred				
income tax assets	6,107	186	28,870	910
Prepaid royalty tax	( 56,492)	( 1,720)	( 42,692)	( 1,346)
Short-term notes tax	( 19)	( 1)	-	-
Prepaid income tax	( 176)	( 5)	( 116)	( 3)
Income tax payable	<u>\$ 47,808</u>	<u>\$ 1,455</u>	<u>\$ 47,330</u>	<u>\$ 1,493</u>

A. As of December 31, 2005 and 2004, the deferred income tax assets (liabilities) were as follows:

	December 31,			
	2005		2004	
	NT\$	US\$ (Unaudited) ( Note 2)	NT\$	US\$ (Unaudited) ( Note 2)
Total deferred income tax assets	<u>\$ 64,387</u>	<u>\$ 1,959</u>	<u>\$ 88,782</u>	<u>\$ 2,800</u>
Valuation allowance of deferred income tax assets	<u>(\$ 7,243)</u>	<u>(\$ 220)</u>	<u>(\$ 37,745)</u>	<u>(\$ 1,190)</u>

B. As of December 31, 2005 and 2004, details of deferred income tax assets and liabilities were as follows:

Items	December 31,			
	2005		2004	
	Amount	Income tax effect (NT\$)	Amount	Income tax effect
<b>Current:</b>				
Unrealized exchange loss	\$ 17,818	\$ 4,454	\$ 10,700	\$ 2,675
Unrealized profit on intercompany sales	787	197	3,866	966
Bad debt expenses	19,397	<u>4,849</u>	-	<u>-</u>
		<u>9,500</u>		<u>3,641</u>
<b>Non current:</b>				
Investment loss on foreign long-term investments accounted for under the equity method	14,189	3,547	52,464	13,116
Loss carry-forward	14,783	3,696	98,328	24,582
Others	-	-	188	47
Investment tax credits		47,644		47,396
Valuation allowance		<u>( 7,243)</u>		<u>( 37,745)</u>
		<u>47,644</u>		<u>47,396</u>
		<u>\$ 57,144</u>		<u>\$ 51,037</u>

Items	December 31,			
	2005	(US\$: Unaudited - Note 2)		2004
	Amount	Income tax effect	Amount	Income tax effect
Current:				
Unrealized exchange loss	\$ 542	\$ 135	\$ 337	\$ 84
Unrealized sales profit	24	6	122	31
Bad debt expense	590	148	-	-
		<u>289</u>		<u>115</u>
Non current:				
Investment loss on foreign long-term investments accounted for under the equity method	432	108	1,654	414
Loss carry forward	450	112	3,101	775
Others	-	-	6	1
Investment tax credits		1,450		1,495
Valuation allowance		(220)		(1,190)
		<u>1,450</u>		<u>1,495</u>
		<u>\$ 1,739</u>		<u>\$ 1,610</u>

C. As of December 31, 2005, details of the unused portion of the Company's income tax credits were as follows:

Item	Total tax-exempt amount	Unused tax-exempt amount	Expiry year
Statute for Upgrading Industries	NT\$27,327 (US\$ 832)	NT\$ 7,300 (US\$ 222)	2006
"	NT\$36,461 (US\$ 1,110)	NT\$15,814 (US\$ 481)	2007
"	NT\$51,892 (US\$ 1,580)	NT\$11,527 (US\$ 351)	2008
"	NT\$63,440 (US\$ 1,931)	NT\$13,003 (US\$ 396)	2009
		<u>NT\$47,644</u> (US\$ 1,450)	

D. The Company was granted five-year tax holidays in respect to the income derived from its design and sale of software. The expiry dates are as follows:

<u>Approval date and no.</u>	<u>Completion date of investment plan</u>	<u>Tax-exempt period</u>	<u>Tax-exempt income</u>	
Tai-Tsai-Shuey No 0900456774 on 21st Nov. 2001	December 31, 2000	December 31, 2000 - December 30, 2005	NT\$	396, 676
			(US\$	12, 075)

E. The Company's income tax returns for the years through 2000 have been assessed and approved by the Tax Authority. CyberLink-Investment's income tax returns for the years through 2003 have been assessed and approved by the Tax Authority.

F. For the years ended December 31, 2005 and 2004, the income tax expense included the additional 10% corporate income tax related to the 2004 and 2003 undistributed earnings amounting to NT\$10,871 (US\$331) and \$17,427 (US\$550), respectively. These amounts were recognized based on the resolution adopted in the Company and local subsidiaries' stockholders' meeting to retain the 2004 and 2003 earnings.

7) Accrued expenses

	<u>December 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
		(Unaudited)		(Unaudited)
		( Note 2)		( Note 2)
Royalty expense	\$303, 379	\$ 9, 235	\$210, 440	\$ 6, 636
Payroll	29, 419	896	24, 782	782
Professional service fees	24, 711	752	16, 886	533
Commission expense	18, 721	570	6, 287	198
Others	<u>28, 385</u>	<u>864</u>	<u>23, 577</u>	<u>743</u>
	<u>\$404, 615</u>	<u>\$12, 317</u>	<u>\$281, 972</u>	<u>\$ 8, 892</u>

8) 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 Central Trust of China, the trustee, under the name of the independent retirement fund committee. The fund balance with Central Trust of China was \$12,549 (US\$382) and \$10,611 (US\$335) as of December 31, 2005 and 2004, respectively. The fund balance are not included in the financial statement.
- B. The related actuarial assumptions to calculate the accrued pension cost, based on the measurement dates as of December 31, 2005 and 2004, were as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Discount rate	3.50%	3.50%
Rate of salary increase	3.00%	3.00%
Expected return on plan assets	2.50%	2.50%

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

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Benefit obligation:	(NT\$)	
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 12,672)	( 10,859)
Accumulated benefit obligation	( 12,672)	( 10,859)
Additional benefits based on future salaries	( 10,896)	( 9,007)
Projected benefit obligation	( 23,568)	( 19,866)
Plan assets at fair value	<u>12,723</u>	<u>10,719</u>
Funded status	( 10,845)	( 9,147)
Unrecognized net obligation at transition	329	370
Unrecognized pension loss	<u>7,110</u>	<u>6,467</u>
Accrued pension liabilities	<u>(\$ 3,406)</u>	<u>(\$ 2,310)</u>
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	(US\$: Unaudited - Note 2)	
Benefit obligation:		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	( 386)	( 342)
Accumulated benefit obligation	( 386)	( 342)
Additional benefits based on future salaries	( 332)	( 284)
Projected benefit obligation	( 718)	( 626)
Plan assets at fair value	<u>387</u>	<u>338</u>
Funded status	( 331)	( 288)
Unrecognized net obligation at transition	10	11
Unrecognized pension loss	<u>216</u>	<u>204</u>
Accrued pension liabilities	( <u>\$ 105</u> )	( <u>\$ 73</u> )
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

D. In 2005 and 2004, the net periodic pension costs were as follows:

	<u>2005</u>	
	<u>NT\$</u>	<u>US\$</u>
		(Unaudited) (Note 2)
Service cost	\$ 2,325	\$ 71
Interest cost	695	21
Expected return on plan assets	( 308)	( 9)
Amortization of unrecognized transition obligation	41	1
Unrecognized pension loss	<u>172</u>	<u>5</u>
Net periodic pension cost	<u>\$ 2,925</u>	<u>\$ 89</u>

	2004	
	NT\$	US\$
		(Unaudited)
		( Note 2)
Service cost	\$ 3,902	\$ 123
Interest cost	446	14
Expected return on plan assets	( 207)	( 7)
Amortization of unrecognized transition obligation	41	1
Unrecognized pension loss	<u>241</u>	<u>8</u>
Net periodic pension cost	<u>\$ 4,423</u>	<u>\$ 139</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 employee is terminated. The pension costs under defined contribution pension plan for the year ended December 31, 2005 was \$4,998 (US\$152).

F. Foreign subsidiaries have no retirement plan.

G. CyberLink Investment and Tse-Lien have no employees and do not have retirement plans.

9) Capital stock

A. According to the resolution adopted at the stockholders meeting in May 2005 and as approved by the R.O.C. SFC, the Company issued common stock by capitalizing the unappropriated retained earnings of NT\$85,739 (US\$2,610) and employees’ stock bonus of NT\$23,384 (US\$712). The registration of this capital increase has been completed. As of December 31, 2005, the Company’s authorized capital was NT\$1,400,000 (US\$42,618), and the issued and outstanding capital was NT\$972,708 (US\$29,611) (including exercise of employee stock options of NT\$7,440 (US\$226) and conversion of bonds payable to capital stock amounted to NT\$132,611 (US\$4,002)).

B. 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 during 2005 and 2004 are as follows:

	For the years ended December 31,			
	2005		2004	
	No. of shares (in thousands)	Weighted - average exercise price (in dollars)	No. of shares (in thousands)	Weighted - average exercise price (in dollars)
Beginning balance	4,003	NT\$ 64.16 (US\$ 1.95)	3,580	NT\$ 62.16 (US\$ 1.96)
Options granted	170	NT\$100.30 (US \$ 3.05)	275	NT\$ 79.30 (US \$ 2.50)
Distribution of stock dividends / adjustments for number of shares granted for one unit of options	424	NT\$ 59.86 (US\$ 1.82)	448	NT\$ 66.70 (US\$ 2.10)
Option exercised	( 635)	NT\$ 51.43 (US\$ 1.57)	( 109)	NT\$ 58.60 (US\$ 1.85)
Option revoked	( 200)	NT\$ 53.68 (US\$ 1.63)	( 191)	NT\$ 63.32 (US\$ 2.00)
Ending balance	<u>3,762</u>	NT\$ 56.41 (US\$ 1.72)	<u>4,003</u>	NT\$ 64.16 (US\$ 2.02)
Options exercisable at end of year	<u>1,198</u>		<u>690</u>	
Option authorized but not granted at end of year	<u>-</u>		<u>2,525</u>	

b) As of December 31, 2005, the details of the employee stock options plans are as follows:

Range of exercise price (in dollars)	Outstanding ending balance		Exercisable ending balance		
	No. of shares (in thousands)	Weighted average remaining vesting period	Weighted average exercise price (in dollars)	No. of shares (in thousands)	Weighted average exercise price (in dollars)
\$48.30~51.60	1,172	3.53	NT\$ 49.11 (US\$ 1.49)	387	NT\$ 49.42 (US\$ 1.50)
\$54.00	1,964	4.50	NT\$ 54.00 (US\$ 1.64)	811	NT\$ 54.00 (US\$ 1.64)
\$67.60~100.30	626	5.67	NT\$ 77.60 (US\$ 2.36)	-	-

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 (amended) on or after January 1, 2004:

	For the years ended December 31, 2005			
	Financial statements information		Pro forma information	
Net income	NT\$ 725,849 (US\$ 22,096)	NT\$ 718,007 (US\$ 21,857)		
Basic earnings per share (in dollars)	NT\$ 7.49	NT\$ 7.41		
Diluted earnings per share (in dollars)	NT\$ 7.38	NT\$ 7.30		

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

	Date granted	
	September 7, 2004	August 9, 2005
Divided yield rate	0.00%	0.00%
Expected price volatility	62.22%	33.66%
Risk-free rate	2.33%	1.92%
Expected vesting period	7 years	7 years
Options issued during the period	0 units	170 units
Average fair value (in dollars)	NT\$ 59.76	NT\$ 45.07

#### 10) Capital reserve

- A. According to the R.O.C. Company Law, capital reserve shall be exclusively used to offset against accumulated deficit. However, capital reserve arising from paid-in capital in excess of par and donation can be used to increase capital, after covering accumulated deficit, which shall not exceed 10% of the Company's capital each year. In addition, capital reserve can only be utilized to offset against accumulated deficit if the legal reserve is insufficient to cover the accumulated deficit.
- B. According to the ROC SFC regulations, the Company may apply once a year to capitalize the capital reserve arising from the paid in capital in excess of par from the issuance of stock for cash starting in the year following the issuance, subject to certain limitations prescribed in the regulations.

#### 11) Retained earnings

- A. According to the Company's Articles of Incorporation, distribution of earnings would be based on the Company's operating and capital needs and issuance of stock dividends would take preference over cash dividends. The annual net income should be used initially to pay income tax and then cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve; thereafter, the board of directors shall propose and the stockholders shall then approve to appropriate the amount of retained earnings to be distributed. When distributing the remaining retained earnings, the distributions should be in accordance with the following allocations:
  - a) Stockholders' dividend 88%
  - b) Employees' stock bonus 10%
  - c) Remuneration of directors and supervisors 2%
- B. The Taiwan imputation tax system requires that any undistributed current earnings, on tax basis, of a company derived on or after 1st January, 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 2005 was 5.99%. As of December 31, 2005, the imputation tax credit account balance was NT\$27,306 (US\$831). The estimate creditable tax ratio of distributed earnings in 2005 is 5.70%. As of December 31, 2005, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were NT\$9,932 (US\$302) and NT\$1,169,395 (US\$35,598), respectively.

- C. According to Article 41 of the ROC Security Exchange Act, in addition to the amount appropriated for legal reserve, the Company should, set aside a special reserve from retained earnings should the total of the cumulative translation adjustment and unrealized loss on long-term investments result in a net reduction of the stockholders' equity as of the end of the current year.
- D. In 2005 and 2004, the Company's board of directors approved to appropriate cash dividends of NT\$2.9828 in 2005 and NT\$2.1795 in 2004, and stock dividends of NT\$0.9942 in 2005 and NT\$1.4214 in 2004 per share.
- E. As of February 20, 2006, the board of directors has not approved the earnings distribution proposed by the management. The information regarding the board of directors' approval of earnings distribution will be posted to the Market Observation Post System of Taiwan Stock Exchange Corporation website when it is available. The amount of the retained earnings distributed in 2005 for employee bonuses and directors' and supervisors' remunerations are as follows:

The amount of the actual earnings distribution approved by the board of directors and stockholders

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a) Appropriation of 2004 earnings	
Employees' stock bonus	
Number of shares (in thousands)	2, 338
Amount	NT\$ 23, 384 (US\$ 712)
Percentage of outstanding shares at December 31, 2004	2. 40%
Employees' cash bonus	NT\$ 15, 589 (US\$ 475)
Directors' and supervisors' remuneration	NT\$ 7, 795 (US\$ 237)
b) Earnings per share (in dollars)	
Original earnings per common share	NT\$ 7. 30
(Note a)	(US\$ 0. 22)
Adjusted earnings per common share	NT\$ 6. 74
(Note b)	(US\$ 0. 21)

Note a: The amount is not adjusted for retained earnings capitalized in 2005.

Note b: Adjusted earnings per share=(Net income-Employees' bonus-Remunerations to directors and supervisors)/Weighted average outstanding common shares.

12) Earnings per common share

For the year ended December 31, 2005					
	Amount		Weighted average outstanding common shares (in thousands)	Earnings per common share (in dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Net income	\$ 822,356 (US\$ 25,034)	\$ 725,849 (US\$ 22,096)			
Basic earnings per share			96,903	\$ 8.49 (US\$0.26)	\$ 7.49 (US\$0.23)
Effect of diluted common stock equivalent:					
Employees stock options	-	-	1,436		
Diluted earnings per share	\$ 822,356 (US\$ 25,034)	\$ 725,849 (US\$ 22,096)	98,339	\$ 8.36 (US\$0.25)	\$ 7.38 (US\$0.22)

  

For the year ended December 31, 2004					
	Amount		Weighted average outstanding common shares (in thousands)	Earnings per common share (in dollars)	
	Before income tax	After income tax		Before income tax	After income tax
Net income	\$ 664,756 (US\$ 20,963)	\$ 607,799 (US\$ 19,167)			
Basic earnings per share			93,710	\$ 7.09 (US\$0.22)	\$ 6.49 (US\$0.20)
Effect of diluted common stock equivalent:					
Convertible bonds	-	-	1,735		
Employees stock options	\$ 664,756 (US\$ 20,963)	\$ 607,799 (US\$ 19,167)	95,445	\$ 6.96 (US\$0.22)	\$ 6.37 (US\$0.20)

The above weighted-average outstanding common shares have been adjusted retroactively in proportion to retained earnings and employees' bonus capitalized during the years ended December 31, 2004 and 2003.

13) Personnel, depreciation and amortization expense

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

	For the year ended December 31, 2005					
	Operating costs		Operating expenses		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Personnel expenses						
Salaries	\$ -	\$ -	\$282,969	\$ 8,614	\$282,969	\$ 8,614
Insurance expense	-	-	22,961	699	22,961	699
Pension expense	-	-	7,983	243	7,983	243
Others	-	-	10,024	305	10,024	305
Depreciation expense	-	-	12,192	371	12,192	371
Amortization expense	-	-	31,336	954	31,336	954

	For the year ended December 31, 2004					
	Operating costs		Operating expenses		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Personnel expenses						
Salaries	\$ -	\$ -	\$282,792	\$ 8,918	\$282,792	\$ 8,918
Insurance expense	-	-	13,067	412	13,067	412
Pension expense	-	-	4,423	139	4,423	139
Others	-	-	7,439	235	7,439	235
Depreciation expense	-	-	13,955	440	13,955	440
Amortization expense	-	-	24,842	783	24,842	783

## 5. RELATED PARTY TRANSACTIONS

### 1) Name and relationships of related party

<u>Name</u>	<u>Relationship with the Company</u>
CyberLink Transdigital Inc. (CyberLink-NCR) (Note)	An invested company of CyberLink-B.V.I by equity method

Note: CyberLink-B.V.I. sold its shares in CyberLink-NCR on September 2005 and is no longer a related party. The stated amount is for comparison purpose only.

### 2) Significant transactions with related party

#### A. Sales

	<u>2005</u>			<u>2004</u>		
	<u>Amount</u>		<u>% of net sales</u>	<u>Amount</u>		<u>% of net sales</u>
	<u>NT\$</u>	<u>US\$</u>		<u>NT\$</u>	<u>US\$</u>	
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		
CyberLink - NCR	<u>\$ 27,006</u>	<u>\$ 822</u>	<u>1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

Sales to the subsidiary are at normal selling prices and are collected 90 days after the delivery of goods are made (sales to ordinary customers are either collected in advance or 30~45 days after the delivery of goods).

#### B. Accounts Receivable

	<u>2005</u>			<u>2004</u>		
	<u>Amount</u>		<u>% of net sales</u>	<u>Amount</u>		<u>% of net sales</u>
	<u>NT\$</u>	<u>US\$</u>		<u>NT\$</u>	<u>US\$</u>	
		(Unaudited) (Note 2)		(Unaudited) (Note 2)		
CyberLink - NCR	<u>\$ 10,056</u>	<u>\$ 306</u>	<u>3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

## 6. DETAILS OF PLEDGED ASSETS

None.

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2005, CyberLink-USA leases certain office space. The total future minimum lease payments under the operating lease agreement amounted to NT\$10,506 (US\$320). In 2005, CyberLink-USA paid NT\$3,686 (US\$112) under the lease expense.

8. SIGNIFICANT LOSS OR DAMAGE EXPERIENCE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Financial instruments disclosure:

A. Fair value of non-derivative financial instruments:

	December 31, 2005				December 31, 2004			
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NT\$		US\$		NT\$		US\$	
<u>Assets</u>	(Unaudited – Note 2)				(Unaudited – Note 2)			
Financial assets with book value equal to fair value	\$ 2,819,213	\$ 2,819,213	\$ 85,821	\$ 85,821	\$ 682,536	\$ 682,536	\$ 21,524	\$ 21,524
Short-term investments	954,777	954,798	29,065	29,065	2,466,124	2,466,320	77,771	77,777
Long-term investments	32,999	32,999	1,004	1,004	32,416	32,416	1,022	1,022
<u>Liabilities</u>								
Financial liabilities with book value equal to fair value	501,479	501,479	15,265	15,265	378,124	378,124	11,924	11,924
Accrued pension liabilities	4,376	10,845	133	330	2,310	9,147	73	288

B. Fair value of derivative financial instruments:

	December 31, 2005				December 31, 2004			
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NT\$		US\$		NT\$		US\$	
<u>Assets</u>	(Unaudited – Note 2)				(Unaudited – Note 2)			
Forward exchange contracts	\$ -	\$ -	\$ -	\$ -	\$ 810	\$ 810	\$ 25.54	\$ 25.54
Foreign currency option contracts	-	-	-	-	-	71	-	2.24

The methods and assumptions adopted by the Company in evaluating the fair value of financial instruments are as follows:

- A) The carrying amounts of short-term financial instruments, which include cash and cash equivalents, receivables, payables and other current liabilities, approximate the fair values due to their short maturities.
- B) The fair value of short-term and long-term investments was based on market value, or underlying equity in net assets or financial/other information, if market value is not available.
- C) The fair value of accrued pension liabilities was estimated according to the appropriation listed on the actuarial pension report, the measurement dates of which were December 31, 2005 and 2004.
- D) The fair values of derivative financial instruments are based on the estimated amount the Company will receive or pay if the contract is cancelled at the balance sheet date, including the unrealized gains or losses outstanding at the balance sheet date. Such fair values are estimated using discounted future cash flows.

2) Information on derivative instruments:

As of December 31, 2005 and 2004, the Company's outstanding derivative financial instruments contracts were as follows:

A. Forward exchange contracts

A) Contract amount or nominal principal and credit risk

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Contract amount</u>	<u>Credit risk</u>	<u>Contract amount</u>	<u>Credit risk</u>
	<u>(Nominal principal)</u>		<u>(Nominal principal)</u>	
Forward exchange contracts	\$ -	\$ -	US\$ 2,000	\$ -
"	-	-	EUR\$ 120	-

The banks which the Company deals with are all in good credit standing and, therefore, the possibility is low for the banks not to comply with the terms of the contracts. In the event that the banks fail to comply with the contracts, these will not cause any major losses to the Company.

B) Market risk

The main purpose of the forward contracts is to hedge exchange losses. The exchange gain or loss from rate fluctuation will be hedged by these transactions. Accordingly, no market risks are expected.

C) Future cash flow, periods and risk

From January 7, 2005 to February 22, 2005, the forward contracts cash inflow is expected to be in the amount of NT\$64,143 and US\$162; the related cash outflow is US\$2,000 and EUR\$120. No significant cash flow risks are expected.

D) Terms, characteristics and purposes of the derivative contracts

The Company entered into forward foreign exchange contracts with banks to hedge the risk on the identifiable purchase commitments of machinery and equipment and accounts payable. The Company reviews the hedge strategy periodically.

E) Disclosure

The net future cash flow of the forward foreign exchange contracts is shown as current assets or liabilities.

B. Foreign currency option contracts

A) Contract amount, nominal principal and credit risk

	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Contract amount</u> <u>(Nominal principal)</u>	<u>Credit risk</u>	<u>Contract amount</u> <u>(Nominal principal)</u>	<u>Credit risk</u>
Purchase of put option contracts	US\$ -	\$ -	US\$ 500	\$ -

The banks which the Company deals with are all in good credit standing and, therefore, the possibility is low for the banks not to comply with the terms of the contracts.

B) Market risk

The main purpose of the transaction is to hedge exchange loss. The exchange gain or loss from rate fluctuation will be hedged by these transactions. Accordingly, no market risks are expected.

C) Future cash flow periods and risk

The Company entered into foreign currency option contracts to hedge foreign exchange losses. There is no cash flow risk because the Company's working capital is sufficient to settle the contracts. Whether the option contracts would be settled depends on the effect of variability of exchange rate upon the counterparties. Therefore, the time and amount of future cash flows are determined by the future exchange rate. If the Company settles all option contracts, the related cash inflow would be NT\$16,360 and the related cash outflow would be US\$500.

D) Term, characteristics and purpose of the derivative contracts

<u>For the year ended December 31, 2004</u>			
<u>Contracts</u>	<u>Inception dates</u>	<u>Settlement dates</u>	<u>Settlement rates</u>
Purchase of put option	2004.02.17	2005.02.22	32.72(dollar) (US\$:NT\$)

The Company entered into foreign option contracts with banks to hedge the risk of exchange rate fluctuations. The Company reviews the hedge strategy periodically.

E) Disclosure

The unamortized premium of foreign currency option contracts is shown as other current assets or liabilities. As of December 31, 2004 the unamortized balance was \$0.

3) Elimination of transactions between the Company and subsidiaries.

Transactions	Subsidiaries	2005		2004	
		Amount		Amount	
		NT\$	US\$	NT\$	US\$
			(Unaudited)		(Unaudited)
			(Note 2)		(Note 2)
A) Elimination of long-term investments and stockholders' equity	CyberLink-USA	\$ 127,035	\$ 3,867	\$ 81,644	\$ 2,575
	CyberLink-B.V.	6,189	188	6,508	205
	CyberLink-B.V.I	58,367	1,777	34,922	1,101
	CyberLink-Investment	20,881	636	20,598	650
	CyberLink-Old Japan	-	-	23,138	730
	Tse-Lien	969	29	-	-
	CyberLink-B.V.I to CyberLink - Japan	9,751	297	-	-
B) Elimination of balance sheet accounts					
Accounts receivable	CyberLink-USA	56,795	1,729	59,246	1,868
	CyberLink-B.V.	41,224	1,255	36,187	1,141
	CyberLink-Japan	33,884	1,031	-	-
	CyberLink-Old Japan	-	-	53,176	1,677
Other receivables	CyberLink-USA	6,581	200	393	12
	CyberLink-B.V	21,701	661	-	-
	CyberLink- Japan	256	8	-	-
	CyberLink-Old Japan	-	-	4,905	155
Other payables	CyberLink-Old Japan	-	-	1,349	43
	CyberLink-USA	-	-	155	5
Accrued expenses	CyberLink-B.V.	-	-	759	24
	CyberLink-Old	-	-	4,715	149

Transactions	Subsidiaries	2005		2004	
		Amount		Amount	
		NT\$	US\$	NT\$	US\$
			(Unaudited)		(Unaudited)
			(Note 2)		(Note 2)
	Japan				
C) Elimination of income statement accounts					
Sales	CyberLink-USA	\$ 226,097	\$ 6,883	\$ 166,287	\$ 5,244
	CyberLink-B.V.	191,600	5,833	89,370	2,818
	CyberLink-Japan	54,396	1,656	-	-
	CyberLink-Old	12,568	383	103,591	3,267
	Japan				
Other income	CyberLink-USA.	6,026	183	-	-
	CyberLink-B.V.	20,410	621	-	-
Commission expense	CyberLink-B.V.	5,557	169	4,557	144
	CyberLink-Japan	102	3	-	-
	CyberLink-Old	-	-	1,511	48
	Japan				
Service expense	CyberLink-B.V.	-	-	5,301	167
Realized profit on intercompany transactions	CyberLink-Old	3,016	92	7,001	221
	Japan				
	CyberLink-USA	108	3	160	5
	CyberLink-B.V.	742	23	-	-
Unrealized profit on intercompany transactions	CyberLink-Old	-	-	3,016	95
	Japan				
	CyberLink-USA	101	3	108	3
	CyberLink-B.V.	660	20	742	23
	CyberLink-Japan	26	1	-	-

4) Other significant disclosure or description: None.

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others:

Number of the Company (Note 1)	Company	Counterparty	Subject	Maximum Amount	December 31, 2005	Interest	Character of lending (Note 2)	Amount	Reason for short-term finance capital	Allowance for doubtful account	Guarantee		The restricted amount to single counterparty (Note 3)	
											Item	Value		
1	CyberLink International Technology Corp.	CyberLink Inc.	Other receivable	US\$100,000	US\$0	-	2	-	Operating working capital	-	-	-	-	USD\$710,711

Note 1: The Company & subsidiaries lend to other, the number is written below:

1: issuer: 0                      2.Subsidiaries were numbered from 1

Note 2: The character of lending is written below

1.transaction of inter companies: 1      2.Necessary for short-term finance: 2

Note 3: The maximum amount & lending to single individual company by subsidiaries are not exceed 40% of the stockholder's equity of the nearest financial statement.

B. Guarantees on behalf of others: None.

C. Marketable securities at December 31, 2005:

(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
CyberLink Corp.	Tse-Lien Technology Corp.	A subsidiary of the Company	Long-term investments	100,000	\$ 969	100.00	\$ 969
"	CyberLink.Com Corp.	"	"	4,000,000	127,035	100.00	127,035
"	CyberLink Europe B.V.	"	"	1,500,000	6,189	100.00	6,189
"	CyberLink International Technology Corp.	"	"	2,000,000	58,367	100.00	58,367
"	CyberLink Investment Corp.	"	"	2,000,000	20,881	100.00	20,881
"	Buylow Corp.	A manager is also a director of the affiliated company	"	14,670	149	14.67	-
"	ABN Amro Select Bond Fund	None	Short-term investments	14,155,838	158,248	-	158,254
"	ABN Amro Bond Fund	None	"	4,937,024	73,367	-	73,370
"	JF First Bond Fund	None	"	4,468,375	61,956	-	61,962
"	JF Taiwan Bond Fund	None	"	12,134,063	182,650	-	182,655
"	CHB resell agreement bonds	None	"	-	359,638	-	359,638
"	Yuanta resell agreement bonds	None	"	-	98,550	-	98,550
CyberLink Investment Corp.	ABN Amro Bond Fund	None	"	1,370,605	20,368	-	20,369
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term investments	1,000	9,745	100.00	9,745
"	DivXNetworks, Inc.	None	"	430,441	32,850	0.86	-

(US\$)

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.	Tse-Lien Technology Corp.	A subsidiary of the Company	Long-term investments	100,000	\$ 29	100.00	\$ 29
"	CyberLink.Com Corporation	"	"	4,000,000	3,867	100.00	3,867
"	CyberLink Europe B.V.	"	"	1,500,000	188	100.00	188
"	CyberLink International Technology Corp.	"	"	2,000,000	1,777	100.00	1,777
"	CyberLink Investment Corp.	"	"	2,000,000	636	100.00	636
"	Buylow Corp.	A manager is also a director of the affiliated company	"	14,670	5	14.67	-
"	ABN Amro Select Bond Fund	None	Short-term investments	14,155,838	4,817	-	4,818
"	ABN Amro Bond Fund	None	"	4,937,024	2,233	-	2,233
"	JF First Bond Fund	None	"	4,468,375	1,886	-	1,887
"	JF Taiwan Bond Fund	None	"	12,134,063	5,560	-	5,561
"	CHB resell agreement bonds	None	"	-	10,948	-	10,948
"	Yuanta resell agreement bonds	None	"	-	3,000	-	3,000
CyberLink Investment Corp.	ABN Amro Bond Fund	None	"	1,370,605	620	-	620
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term investments	1,000	297	100.00	297
	DivXNetworks, Inc.	None	"	430,441	1,000	0.86	-

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

January 1, 2005 – December 31, 2005

(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	Number of shares (thousand units)	Sales price	Book value	Gain (loss) from disposal	Number of shares (thousand units)	Amount
CyberLink Corp.	Solomon Fund	Short-term investments	-	-	-	\$ -	47,716	\$ 545,618	47,716	\$ 546,971	\$ 545,618	\$ 1,353	-	\$ -
"	ABN Amro Select Bond Fund	"	-	-	44,024	485,638	141,709	1,574,410	171,577	1,907,410	1,901,800	5,610	14,156	158,248
"	Core Pacific Well Pool Fund	"	-	-	-	-	113,630	1,395,426	113,630	1,398,641	1,395,426	3,215	-	-
"	UBS Taiwan Bond Fund	"	-	-	21,055	304,439	21,055	305,207	42,110	610,689	609,646	1,043	-	-
"	Yuanta Duo Li-2	"	-	-	10,727	152,843	-	-	10,727	152,886	152,843	43	-	-
"	JF First Bond Fund	"	-	-	19,661	269,251	80,200	1,105,763	95,393	1,316,763	1,313,058	3,705	4,468	61,956
"	JF Taiwan Bond Fund	"	-	-	35,305	524,563	110,034	1,645,782	133,205	1,993,782	1,987,695	6,087	12,134	182,650
"	SKIT Gi-Shin Bond Fund	"	-	-	26,567	370,715	65,501	920,085	92,068	1,294,193	1,290,800	3,393	-	-
"	HSBC Fu-Tai Bond Fund	"	-	-	21,319	292,294	50,249	692,089	71,568	986,508	984,383	2,125	-	-
"	ABN Amro Bond Fund	"	-	-	-	-	72,657	1,074,860	67,720	1,003,860	1,001,493	2,367	4,937	73,367
"	NITC Bond	"	-	-	-	-	4,814	774,858	4,814	775,973	774,858	1,115	-	-
"	CHB resell agreement Bond	"	-	-	-	-	-	877,763	-	518,300	518,125	175	-	359,638

January 1, 2005 – December 31, 2005

(US\$)

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	Number of shares (thousand units)	Sales price	Book value	Gain (loss) from disposal	Number of shares (thousand units)	Amount
CyberLink Corp.	Solomon Fund	Short-term investments	-	-	-	\$ -	47,716	\$ 16,609	47,716	\$ 16,651	\$ 16,609	\$ 42	-	\$ -
"	ABN Amro Select Bond Fund	"	-	-	44,024	14,784	141,709	47,927	171,577	58,064	57,894	170	14,156	4,817
"	Core Pacific Well Pool Fund	"	-	-	-	-	113,630	42,479	113,630	42,577	42,479	98	-	-
"	UBS Taiwan Bond Fund	"	-	-	21,055	9,268	21,055	9,291	42,110	18,590	18,559	31	-	-
"	Yuanta Duo Li-2	"	-	-	10,727	4,653	-	-	10,727	4,654	4,653	1	-	-
"	JF First Bond Fund	"	-	-	19,661	8,196	80,200	33,661	95,393	40,084	39,971	113	4,468	1,886
"	JF Taiwan Bond Fund	"	-	-	35,305	15,968	110,034	50,100	133,205	60,694	60,508	186	12,134	5,560
"	SKIT Gi-Shin Bond Fund	"	-	-	26,567	11,285	65,501	28,009	92,068	39,397	39,294	103	-	-
"	HSBC Fu-Tai Bond Fund	"	-	-	21,319	8,898	50,249	21,068	71,568	30,031	29,966	65	-	-
"	ABN Amro Bond Fund	"	-	-	-	-	72,657	32,720	67,720	30,559	30,487	72	4,937	2,233
"	NITC Bond	"	-	-	-	-	4,814	23,588	4,814	23,622	23,588	34	-	-
"	CHB resell agreement Bond	"	-	-	-	-	-	26,720	-	15,778	15,772	6	-	10,948

E. Additions of real estate exceeding NT\$100,000 or 20% of contributed capital: None.

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

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

January 1, 2005 – December 31, 2005

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 (Note)	Unit price	Credit terms	Balance	% of total accounts or notes receivable (payable)
CyberLink Corp.	CyberLink.Com Corp	A subsidiary of the Company	Sales	NT\$226, 097 (US\$ 6, 883)	14	Note	The same as those with third-parties	Note	NT\$ 56, 795 (US\$ 1, 729)	18
	CyberLink Europe B.V.	"	"	Nt\$191, 600 (US\$ 5, 833)	11	Note	"	Note	NT\$ 41, 224 (US\$ 1, 255)	13

Note: Sales to CyberLink.Com Corp. are at normal selling price and are collected 90 days after the delivery of goods are made.

H. Receivables from related parties exceeding NT\$100,000 or above 20% of contributed capital: None.

I. Transactions of financial instruments: None.

2) Relevant information regarding investee companies as of December 31, 2005:

(NT\$)

Name of the company	Name of the invested companies	Address	Major operating activities	Original investment amount		Holding status			Net income (loss) of investee company	Recognized investment income (loss)	Relationship with the Company
				December 31, 2005	December 31, 2004	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100.00	\$ 127,035	\$ 41,576	\$ 41,576	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	11,874	11,874	1,500,000	100.00	6,189	329	329	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	64,821	37,983	2,000,000	100.00	58,367	( 4,195)	( 4,195)	"
"	CyberLink Investment Corp.	Taipei	"	20,000	20,000	2,000,000	100.00	20,881	283	283	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	1,000	-	100,000	100.00	969	( 31)	( 31)	"
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	US\$478,469	-	1,000	100.00	US\$296,838	(US\$ 137,519)	(US\$137,519)	A subsidiary of CyberLink International Technology Corp.

(US\$)

Name of the company	Name of the invested companies	Address	Major operating activities	Original investment amount		Holding status			Net income (loss) of investee company	Recognized investment income (loss)	Relationship with the Company
				December 31, 2005	December 31, 2004	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 4,150	\$ 4,299	4,000,000	100.00	\$ 3,867	\$ 1,266	\$ 1,266	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	361	374	1,500,000	100.00	188	10	10	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	1,973	1,198	2,000,000	100.00	1,777	( 128)	( 128)	"
"	CyberLink Investment Corp.	Taipei	"	609	631	2,000,000	100.00	636	9	9	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	30	-	100,000	100.00	29	( 1)	( 1)	"
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	478	-	1,000	100.00	297	( 137)	( 137)	A subsidiary of CyberLink International Technology Corp.

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

4) Transactions of intercompanies

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)
<b>2005</b>								
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	\$ 226,097	\$ 6,883	Sales to Subsidiary are at normal selling price and are collected 90 days after the delivery of goods are made.	9
"	"	"	"	Accounts receivable	56,795	1,729		1
"	"	CyberLink Europe B.V.	"	Sales revenue	191,600	5,833		8
"	"	"	"	Accounts receivable	41,224	1,255		1
"	"	CyberLink Japan Co., Ltd (Note 4)	"	Sales revenue	12,568	383		1
"	"	CyberLink Inc.	"	Sales revenue	54,396	1,656		2
"	"	"	"	Accounts receivable	33,884	1,031		1

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)
<b>2004</b>								
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	\$ 166,287	\$ 5,244	Sales to Subsidiary are at normal selling price and are collected 90 days after the delivery of goods are made.	8
"	"	"	"	Accounts receivable	59,246	1,868		2
"	"	CyberLink Europe B.V.	"	Sales revenue	89,370	2,818		4
"	"	"	"	Accounts receivable	36,187	1,141		1
"	"	CyberLink Japan Co., Ltd (Note 4)	"	Sales revenue	103,591	3,267		5
"	"	"	"	Accounts receivable	53,176	1,677		1

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 were numbered from 1.

Note 2 : Relationships between the counterparties :

- A. Parent company to subsidiary.
- B. Subsidiary to parent company.
- C. Subsidiary to subsidiaries.

Note 3 : For balance sheet's account, it's calculated by consolidated assets; for income statement's account, it's calculated by consolidated revenue.

Note 4 : CyberLink Japan Co., Ltd is no longer a subsidiary since it was sold in May 2005.

## 12. SEGMENTAL REPORTING

- 1) Financial information by business segments: The Company is engaged only in software design.
- 2) Financial information by geographic area: The financial information of the Company and its consolidated subsidiaries by geographic area in 2005 and 2004 are as follows:

	2005											
	Taiwan		America		Asia		Europe		Elimination		Consolidated	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Sales to unaffiliated customers	\$ 1,153,597	\$ 35,117	\$ 930,381	\$ 28,322	\$ 130,430	\$ 3,970	\$ 246,928	\$ 7,517	\$ -	\$ -	\$ 2,461,336	\$ 74,926
Sales to the Company and its consolidated subsidiaries	484,661	14,754	-	-	102	3	5,557	169	(490,320)	(14,926)	-	\$ -
Total sales	<u>\$ 1,638,258</u>	<u>\$ 49,871</u>	<u>\$ 930,381</u>	<u>\$ 28,322</u>	<u>\$ 130,532</u>	<u>\$ 3,973</u>	<u>\$ 252,485</u>	<u>\$ 7,686</u>	<u>(\$ 490,320)</u>	<u>(\$ 14,926)</u>	<u>\$ 2,461,336</u>	<u>\$ 74,925</u>
Operating income	<u>\$ 231,283</u>	<u>\$ 7,041</u>	<u>\$ 276,202</u>	<u>\$ 8,408</u>	<u>\$ 37,715</u>	<u>\$ 1,148</u>	<u>\$ 228,280</u>	<u>\$ 6,949</u>			\$ 773,480	\$ 23,546
Investment income under the equity method											(402)	(12)
Other non-operating income, net											49,278	1,500
Income before income tax											<u>\$ 822,356</u>	<u>\$ 25,034</u>
Identifiable assets	<u>\$ 3,667,505</u>	<u>\$ 111,644</u>	<u>\$ 382,586</u>	<u>\$ 11,647</u>	<u>\$ 133,003</u>	<u>\$ 4,048</u>	<u>\$ 70,400</u>	<u>\$ 2,143</u>			\$ 4,253,494	\$ 129,482
Long-term investments under the equity method											-	-
Total assets											<u>\$ 4,253,494</u>	<u>\$ 129,482</u>
	2004											
	Taiwan		America		Asia		Europe		Elimination		Consolidated	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Sales to unaffiliated customers	\$ 1,052,853	\$ 33,203	\$ 686,794	\$ 21,659	\$ 206,684	\$ 6,518	\$ 119,306	\$ 3,762	\$ -	\$ -	\$ 2,065,637	\$ 65,142
Sales to the Company and its consolidated subsidiaries	359,248	11,329	-	-	1,511	48	9,858	311	(370,617)	(11,688)	-	\$ -
Total sales	<u>\$ 1,412,101</u>	<u>\$ 44,532</u>	<u>\$ 686,794</u>	<u>\$ 21,659</u>	<u>\$ 208,195</u>	<u>\$ 6,566</u>	<u>\$ 129,164</u>	<u>\$ 4,073</u>	<u>(\$ 370,617)</u>	<u>(\$ 11,688)</u>	<u>\$ 2,065,637</u>	<u>\$ 65,142</u>
Operating income	<u>\$ 238,453</u>	<u>\$ 7,520</u>	<u>\$ 198,522</u>	<u>\$ 6,260</u>	<u>\$ 100,347</u>	<u>\$ 3,165</u>	<u>\$ 88,741</u>	<u>\$ 2,798</u>			\$ 626,063	\$ 19,743
Investment income under the equity method											6,918	218
Other non-operating income, net											31,775	1,002
Income before income tax											<u>\$ 664,756</u>	<u>\$ 20,963</u>
Identifiable assets	<u>\$ 3,182,922</u>	<u>\$ 100,376</u>	<u>\$ 262,692</u>	<u>\$ 8,284</u>	<u>\$ 154,939</u>	<u>\$ 4,886</u>	<u>\$ 47,361</u>	<u>\$ 1,494</u>			\$ 3,647,914	\$ 115,040
Long-term investments under the equity method											-	-
Total assets											<u>\$ 3,647,914</u>	<u>\$ 115,040</u>

- 3) Information about the Company's export sales: For the years ended December 31, 2005 and 2004, the Company's export sales were NT\$2,059,293 (US\$62,688) and NT\$1,784,389 (US\$56,272), respectively. The information on export sales are as follows:

	<u>2005</u>		<u>2004</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
America	\$ 935,291	\$ 28,472	\$ 725,377	\$ 22,875
Asia	601,293	18,304	605,627	19,099
Europe	387,046	11,782	329,186	10,381
Others	<u>135,663</u>	<u>4,130</u>	<u>124,199</u>	<u>3,917</u>
	<u>\$2,059,293</u>	<u>\$ 62,688</u>	<u>\$1,784,389</u>	<u>\$ 56,272</u>

- 4) Information regarding important customers: Sales to customers constituting more than 10% of the Company's total sales were as follows:

<u>Customer</u>	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Customer A	NT\$800,341	33%	NT\$606,252	29%
	(US\$ 24,364)		(US\$ 19,119)	