

**CYBERLINK CORP. AND SUBSIDIARIES**

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

**JUNE 30, 2006 AND 2005**

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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

PWCR06000093

To the Board of Directors and Stockholders of CyberLink Corp.

We have reviewed the accompanying consolidated balance sheets of CyberLink Corp. and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

Except as explained in the following paragraph, our review was made in accordance with the "Rules Governing Reviews of Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As disclosed in Note 1, CyberLink Corp. sold its shares in CyberLink Japan Co., Ltd. in May 2005. Accordingly, only the income and expense from January 1, 2005 to the date of the disposal which was not reviewed by independent accountants, were included in the consolidated income statement. Total net loss of CyberLink Japan Co., Ltd. included was \$23,513, or constituting (7.42%) of the consolidated net income.

Based on our reviews, except for the effect on the consolidated financial statements of such adjustments, if any, as might have been determined to be necessary had the subsidiary's financial statements been reviewed as explained in the above paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be 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 six-month periods ended June 30, 2006 and 2005 expressed in United States dollars were translated from the New Taiwan dollars financial statements using the exchange rates of NT\$32.37:US\$1 and NT\$31.62: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.

August 8, 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  
JUNE 30,  
(EXPRESSED IN THOUSANDS OF DOLLARS)  
(UNAUDITED)

	2006			2005		
	Amount			Amount		
	NT\$	US\$	%	NT\$	US\$	%
	(Unreviewed) (Note 2)			(Unreviewed) (Note 2)		
<u>ASSETS</u>						
<u>Current Assets</u>						
Cash and cash equivalents (Note 4(1))	\$ 1,324,440	\$ 40,916	29	\$ 532,270	\$ 16,833	14
Financial assets at fair value through profit or loss-current (Note 4(2))	2,525,738	78,027	54	2,658,343	84,072	68
Notes receivable (Note 4(3))	1,002	31	-	2,830	90	-
Accounts receivable (Note 4(3))	307,388	9,496	7	215,344	6,810	5
Accounts receivable-related parties (Note 5)	15,065	465	-	9,779	309	-
Other receivables	32,696	1,010	1	20,886	661	1
Inventories	5,913	183	-	4,271	135	-
Deferred income tax assets-current (Note 4(7))	2,650	82	-	981	31	-
Other current assets-others	<u>5,428</u>	<u>167</u>	<u>-</u>	<u>5,109</u>	<u>162</u>	<u>-</u>
	<u>4,220,320</u>	<u>130,377</u>	<u>91</u>	<u>3,449,813</u>	<u>109,103</u>	<u>88</u>
<u>Long-term Investments</u>						
Financial assets carried at cost (Note 4(4))	32,370	1,000	1	32,326	1,022	1
Long-term equity investment accounted for under the equity method (Note 4(5))	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,174</u>	<u>37</u>	<u>-</u>
	<u>32,370</u>	<u>1,000</u>	<u>1</u>	<u>33,500</u>	<u>1,059</u>	<u>1</u>
<u>Property, Plant and Equipment</u> (Note 4(6))						
Cost	290,456	8,973	6	283,868	8,977	7
Less: accumulated depreciation	<u>( 35,383)</u>	<u>( 1,093)</u>	<u>( 1)</u>	<u>( 22,540)</u>	<u>( 713)</u>	<u>-</u>
	<u>255,073</u>	<u>7,880</u>	<u>5</u>	<u>261,328</u>	<u>8,264</u>	<u>7</u>
<u>Intangible Assets</u>						
Other intangible assets	<u>41,892</u>	<u>1,294</u>	<u>1</u>	<u>69,158</u>	<u>2,187</u>	<u>2</u>
	<u>41,892</u>	<u>1,294</u>	<u>1</u>	<u>69,158</u>	<u>2,187</u>	<u>2</u>
<u>Other Assets</u>						
Assets held for lease	58,973	1,822	1	59,387	1,878	1
Refundable deposits	2,160	67	-	1,948	62	-
Deferred charges	53	2	-	905	29	-
Deferred income tax assets-non current (Note 4(7))	<u>43,838</u>	<u>1,354</u>	<u>1</u>	<u>38,980</u>	<u>1,233</u>	<u>1</u>
	<u>105,024</u>	<u>3,245</u>	<u>2</u>	<u>101,220</u>	<u>3,202</u>	<u>2</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 4,654,679</u></b>	<b><u>\$ 143,796</u></b>	<b><u>100</u></b>	<b><u>\$ 3,915,019</u></b>	<b><u>\$ 123,815</u></b>	<b><u>100</u></b>

(Continued on next page)

The accompanying notes are an integral part of these consolidated financial statements.  
See PricewaterhouseCoopers' review report dated August 8, 2006.

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**JUNE 30,**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**  
**(UNAUDITED)**

	2006			2005		
	Amount		%	Amount		%
	NT\$	US\$		NT\$	US\$	
	(Unreviewed) (Note 2)			(Unreviewed) (Note 2)		
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>						
<b><u>Current Liabilities</u></b>						
Notes payable	\$ 144	\$ 4	-	\$ 207	\$ 7	-
Accounts payable	4,894	151	-	8,640	273	-
Income tax payable (Note 4(7))	24,850	768	1	19,070	603	1
Accrued expenses (Note 4(8))	426,570	13,178	9	275,692	8,719	7
Other payables (Note 4(9))	540,633	16,702	12	290,619	9,191	8
Other current liabilities	<u>5,583</u>	<u>172</u>	-	<u>8,336</u>	<u>263</u>	-
	<u>1,002,674</u>	<u>30,975</u>	<u>22</u>	<u>602,564</u>	<u>19,056</u>	<u>16</u>
<b><u>Other Liabilities</u></b>						
Accrued pension liabilities (Note 4(10))	2,962	92	-	3,380	107	-
Deposits - in	660	20	-	2,380	75	-
Other liabilities-others	<u>-</u>	<u>-</u>	-	<u>3,000</u>	<u>95</u>	-
	<u>3,622</u>	<u>112</u>	-	<u>8,760</u>	<u>277</u>	-
<b><u>Total Liabilities</u></b>	<u>1,006,296</u>	<u>31,087</u>	<u>22</u>	<u>611,324</u>	<u>19,333</u>	<u>16</u>
<b><u>Stockholders' Equity</u></b>						
<b><u>Capital stock (Note 4(11))</u></b>						
Common stock	977,376	30,194	21	858,487	27,150	22
Stock dividends to be distributed	45,489	1,405	1	109,123	3,451	3
<b><u>Capital reserve (Note 4(12))</u></b>						
Paid-in capital in excess of par value	559,113	17,273	12	515,021	16,288	13
Paid-in capital in excess of par, convertible bonds	867,363	26,795	19	867,363	27,431	22
Long-term investments	-	-	-	810	26	-
<b><u>Retained earnings (Note 4(13))</u></b>						
Legal reserve	257,399	7,952	5	184,814	5,845	5
Special reserve	7,097	219	-	7,097	224	-
Unappropriated earnings	941,380	29,082	20	770,227	24,359	19
<b><u>Other adjustments</u></b>						
Cumulative translation adjustment	( 6,834)	( 211)	-	( 9,247)	( 292)	-
<b><u>Total Stockholders' Equity</u></b>	<u>3,648,383</u>	<u>112,709</u>	<u>78</u>	<u>3,303,695</u>	<u>104,482</u>	<u>84</u>
<b><u>Commitments and Contingent Liabilities (Note 4(7))</u></b>						
<b><u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>	<u>\$ 4,654,679</u>	<u>\$ 143,796</u>	<u>100</u>	<u>\$ 3,915,019</u>	<u>\$ 123,815</u>	<u>100</u>

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

See PricewaterhouseCoopers' review report dated August 8, 2006.

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX-MONTH PERIODS ENDED JUNE 30,**  
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)  
(UNAUDITED)

	2006			2005				
	Amount			Amount				
	NT\$	US\$	%	NT\$	US\$	%		
		(Unreviewed) (Note 2)			(Unreviewed) (Note 2)			
Operating revenues (Note 5)								
Sales revenue	\$ 1,470,504	\$ 45,428	100	\$ 1,134,558	\$ 35,881	102		
Less: Sales returns	( 2,528)	( 78)	-	( 16,751)	( 530)	( 2)		
Sales allowances	( 267)	( 8)	-	( 1,270)	( 40)	-		
Net sales	1,467,709	45,342	100	1,116,537	35,311	100		
Gain from sales of portfolio securities (Note 1)	-	-	-	226	7	-		
	1,467,709	45,342	100	1,116,763	35,318	100		
Operating costs								
Cost of sales	( 11,760)	( 363)	( 1)	( 18,913)	( 598)	( 2)		
Gross profit	1,455,949	44,979	99	1,097,850	34,720	98		
Unrealized profit	-	-	-	( 235)	( 7)	-		
	1,455,949	44,979	99	1,097,615	34,713	98		
Operating expenses (Notes 4(10) and (15))								
Selling	( 789,024)	( 24,375)	( 54)	( 569,406)	( 18,008)	( 51)		
General	( 50,461)	( 1,559)	( 3)	( 54,721)	( 1,731)	( 5)		
Research and development	( 156,039)	( 4,820)	( 11)	( 109,856)	( 3,474)	( 10)		
Operating expenses	( 995,524)	( 30,754)	( 68)	( 733,983)	( 23,213)	( 66)		
Operating income	460,425	14,225	31	363,632	11,500	32		
Non-operating income								
Interest income	18,804	581	1	1,485	47	-		
Gain on financial assets at fair value through profit or loss (Note 4(2))	7,837	242	1	-	-	-		
Gain on long-term equity investments accounted for under the equity method (Note 4(5))	-	-	-	569	18	-		
Gain on disposal of investments	12	-	-	14,044	444	1		
Other income	20,083	620	1	3,083	97	1		
Non-operating income	46,736	1,443	3	19,181	606	2		
Non-operating expenses								
Exchange loss-net	( 15,431)	( 477)	( 1)	( 6,234)	( 197)	( 1)		
Other expenses	( 197)	( 6)	-	( 4,974)	( 157)	-		
Non-operating expenses	( 15,628)	( 483)	( 1)	( 11,208)	( 354)	( 1)		
Income before income tax	491,533	15,185	33	371,605	11,752	33		
Income tax expense (Note 4(7))	( 79,959)	( 2,470)	( 5)	( 57,207)	( 1,809)	( 5)		
Consolidated net income	\$ 411,574	\$ 12,715	28	\$ 314,398	\$ 9,943	28		
Attributable to:								
Equity holders of the Company	\$ 411,574	\$ 12,715	28	\$ 316,749	\$ 10,017	28		
Minority interest	-	-	-	( 2,351)	( 74)	-		
	\$ 411,574	\$ 12,715	28	\$ 314,398	\$ 9,943	28		
	<u>Before tax</u>	<u>After tax</u>		<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>	
Basic earnings per share (Note 4(14)) (In dollars)	\$ 5.04	\$ 4.22	\$ 0.16	\$ 0.13	\$ 3.84	\$ 3.28	\$ 0.12	\$ 0.10
Diluted earnings per share (Note 4(14)) (In dollars)	\$ 4.97	\$ 4.16	\$ 0.15	\$ 0.13	\$ 3.80	\$ 3.24	\$ 0.12	\$ 0.10

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

See PricewaterhouseCoopers' review report dated August 8, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2006 AND 2005  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(UNAUDITED)

	<u>Capital stock</u>			<u>Retained earnings</u>			<u>Cumulative translation adjustment</u>	<u>Minority interest in consolidated subsidiaries</u>	<u>Total</u>
	<u>Common stock</u>	<u>Stock dividends</u>		<u>Legal reserve</u>	<u>Special reserve</u>	<u>Unappropriated earnings</u>			
		<u>distributable</u>	<u>Capital reserve</u>						
Balance at January 1, 2005	\$ 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 for directors and supervisors	-	-	-	-	-	( 7,795)	-	-	( 7,795)
Employees' stock bonus	-	23,384	-	-	-	( 38,973)	-	-	( 15,589)
Net income for the period ended June 30, 2005	-	-	-	-	-	316,749	-	-	316,749
Exercise of employee stock options	1,256	-	6,535	-	-	-	-	-	7,791
Cumulative translation adjustment	-	-	-	-	-	-	( 2,150)	( 222)	( 2,372)
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	-	( 2,351)	( 2,351)
Balance at June 30, 2005	<u>\$ 858,487</u>	<u>\$ 109,123</u>	<u>\$1,383,194</u>	<u>\$ 184,814</u>	<u>\$ 7,097</u>	<u>\$ 770,227</u>	<u>(\$ 9,247)</u>	<u>\$ -</u>	<u>\$3,303,695</u>
Balance at January 1, 2006	\$ 972,708	\$ -	\$1,407,616	\$ 184,814	\$ 7,097	\$1,179,327	(\$ 3,923)	\$ -	\$3,747,639
Distribution of 2005 earnings:									
Legal reserve	-	-	-	72,585	-	( 72,585)	-	-	-
Stock dividends	-	19,527	-	-	-	( 19,527)	-	-	-
Cash dividends	-	-	-	-	-	( 488,177)	-	-	( 488,177)
Remunerations for directors and supervisors	-	-	-	-	-	( 11,539)	-	-	( 11,539)
Employees' stock bonus	-	25,962	-	-	-	( 57,693)	-	-	( 31,731)
Net income for the period ended June 30, 2006	-	-	-	-	-	411,574	-	-	411,574
Exercise of employee stock options	4,668	-	18,860	-	-	-	-	-	23,528
Cumulative translation adjustment	-	-	-	-	-	-	( 2,911)	-	( 2,911)
Balance at June 30, 2006	<u>\$ 977,376</u>	<u>\$ 45,489</u>	<u>\$1,426,476</u>	<u>\$ 257,399</u>	<u>\$ 7,097</u>	<u>\$ 941,380</u>	<u>(\$ 6,834)</u>	<u>\$ -</u>	<u>\$3,648,383</u>

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The accompanying notes are an integral part of these consolidated financial statements.  
See PricewaterhouseCoopers' review report dated August 8, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2006 AND 2005  
(EXPRESSED IN THOUSANDS OF US DOLLARS) (UNREVIEWED-NOTE 2)  
(UNAUDITED)

	<u>Capital stock</u>			<u>Retained earnings</u>			Cumulative translation adjustment	Minority interest in consolidated subsidiaries	<u>Total</u>
	<u>Common stock</u>	Stock dividends		<u>Legal reserve</u>	<u>Special reserve</u>	<u>Unappropriated earnings</u>			
		<u>distributable</u>	<u>Capital reserve</u>						
Balance at January 1, 2005	\$ 27,033	\$ -	\$ 43,415	\$ 3,911	\$ 67	\$ 28,665	(\$ 224)	\$ 81	\$ 102,948
Distribution of 2004 earnings:									
Legal reserve	-	-	-	1,922	-	( 1,922)	-	-	-
Special reserve	-	-	-	-	157	( 157)	-	-	-
Stock dividends	-	2,711	-	-	-	( 2,711)	-	-	-
Cash dividends	-	-	-	-	-	( 8,135)	-	-	( 8,135)
Remunerations for directors and supervisors	-	-	-	-	-	( 247)	-	-	( 247)
Employees' stock bonus	-	740	-	-	-	( 1,233)	-	-	( 493)
Net income for the period ended June 30, 2005	-	-	-	-	-	10,017	-	-	10,017
Exercise of employee stock options	40	-	207	-	-	-	-	-	247
Cumulative translation adjustment	77	-	123	12	-	82	( 68)	( 7)	219
Minority interest in net loss of consolidated subsidiaries	-	-	-	-	-	-	-	( 74)	( 74)
Balance at June 30, 2006	<u>\$ 27,150</u>	<u>\$ 3,451</u>	<u>\$ 43,745</u>	<u>\$ 5,845</u>	<u>\$ 224</u>	<u>\$ 24,359</u>	<u>(\$ 292)</u>	<u>\$ -</u>	<u>\$ 104,482</u>
Balance at January 1, 2006	\$ 29,611	\$ -	\$ 42,850	\$ 5,626	\$ 216	\$ 35,900	(\$ 119)	\$ -	\$ 114,084
Distribution of 2005 earnings:									
Legal reserve	-	-	-	2,242	-	( 2,242)	-	-	-
Stock dividends	-	603	-	-	-	( 603)	-	-	-
Cash dividends	-	-	-	-	-	( 15,081)	-	-	( 15,081)
Remunerations for directors and supervisors	-	-	-	-	-	( 356)	-	-	( 356)
Employees' stock bonus	-	802	-	-	-	( 1,782)	-	-	( 980)
Net income for the period ended June 30, 2006	-	-	-	-	-	12,715	-	-	12,715
Exercise of employee stock options	144	-	583	-	-	-	-	-	727
Cumulative translation adjustment	<u>439</u>	<u>-</u>	<u>635</u>	<u>84</u>	<u>3</u>	<u>531</u>	<u>( 92)</u>	<u>-</u>	<u>1,600</u>
Balance at June 30, 2006	<u>\$ 30,194</u>	<u>\$ 1,405</u>	<u>\$ 44,068</u>	<u>\$ 7,952</u>	<u>\$ 219</u>	<u>\$ 29,082</u>	<u>(\$ 211)</u>	<u>\$ -</u>	<u>\$ 112,709</u>

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

See PricewaterhouseCoopers' review report dated August 8, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,  
(EXPRESSED IN THOUSANDS OF DOLLARS)

	(UNAUDITED)			
	2006		2005	
	<u>NT\$</u>	<u>US\$</u> (Unreviewed) (Note 2)	<u>NT\$</u>	<u>US\$</u> (Unreviewed) (Note 2)
<u>Cash flows from operating activities</u>				
Net income	\$ 411,574	\$ 12,715	\$ 314,398	\$ 9,943
Adjustments to reconcile net income to net cash provided by operating activities:				
Unrealized profit	-	-	235	7
Gain on financial assets at fair value through profit or loss	( 7,837)	( 242)	-	-
Gain on disposal of investments	( 12)	-	( 14,968)	( 473)
Reversal of allowance for bad debts	( 3,947)	( 122)	-	-
Long-term equity investment gain accounted for under the equity method	-	-	( 569)	( 18)
Gain on liquidation of investee company	( 187)	( 6)	-	-
Depreciation expenses	6,420	198	6,376	202
Amortization expenses	16,223	501	15,441	488
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Notes and accounts receivable	34,656	1,071	35,967	1,137
Accounts receivable-related parties	( 4,009)	( 124)	( 9,779)	( 309)
Other receivables	1,788	55	370	12
Inventories	( 571)	( 18)	( 137)	( 4)
Other current assets-others	886	27	1,578	50
Deferred income tax assets	10,656	329	11,076	350
Increase (decrease) in liabilities:				
Notes and accounts payable	( 16,025)	( 495)	( 1,487)	( 47)
Income tax payable	( 22,958)	( 709)	( 28,206)	( 892)
Accrued expenses	24,758	765	( 8,058)	( 255)
Other payables	( 18,109)	( 559)	10,768	341
Other current liabilities	3,407	105	( 7,327)	( 232)
Accrued pension liabilities	( 1,414)	( 44)	1,070	34
Net cash provided by operating activities	<u>435,299</u>	<u>13,447</u>	<u>326,748</u>	<u>10,334</u>
<u>Cash flows from investing activities</u>				
Increase in financial assets at fair value through profit or loss	( 1,563,112)	( 48,289)	( 177,255)	( 5,606)
Increase in long term investments-third parties	-	-	( 598)	( 19)
Cash received from liquidation of investee company	336	10	-	-
Acquisition of property, plant, and equipment	( 2,928)	( 90)	( 3,580)	( 113)
Increase in other intangible assets	-	-	( 15,620)	( 494)
Increase in refundable deposits-net	( 150)	( 5)	( 1,646)	( 52)
Decrease in other assets	-	-	670	21
Net cash used in investing activities	<u>( 1,565,854)</u>	<u>( 48,374)</u>	<u>( 198,029)</u>	<u>( 6,263)</u>

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CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW (CONTINUED)  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,  
(EXPRESSED IN THOUSANDS OF DOLLARS)  
(UNAUDITED)

	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)
<u>Cash flows from financing activities</u>				
Increase in deposits-in, net	\$ -	\$ -	\$ 1,720	\$ 54
Exercise of employee stock options	<u>23,528</u>	<u>727</u>	<u>7,791</u>	<u>246</u>
Net cash provided by financing activities	<u>23,528</u>	<u>727</u>	<u>9,511</u>	<u>300</u>
Effects of changes in exchange rates of foreign currency holdings	( 4,353)	966	( 3,633)	( 78)
Effect of loss of control in subsidiary	<u>-</u>	<u>-</u>	<u>(14,640)</u>	<u>(463)</u>
Net (decrease) increase in cash and cash equivalents	( 1,111,380)	( 33,234)	119,957	3,830
Cash and cash equivalents at beginning of the period	<u>2,435,820</u>	<u>74,150</u>	<u>412,313</u>	<u>13,003</u>
Cash and cash equivalents at end of the period	<u>\$1,324,440</u>	<u>\$ 40,916</u>	<u>\$ 532,270</u>	<u>\$ 16,833</u>
<u>Supplemental disclosure of cash flows information:</u>				
Cash paid during the period for:				
Income taxes	<u>\$ 77,513</u>	<u>\$ 2,395</u>	<u>\$ 61,392</u>	<u>\$ 1,942</u>
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Financial activities which have no influence in cash flows:				
Cash dividends, employee cash dividends and remunerations of directors and supervisors payable	<u>\$ 531,447</u>	<u>\$ 16,417</u>	<u>\$ 280,602</u>	<u>\$ 8,874</u>

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

See PricewaterhouseCoopers' review report dated August 8, 2006.

CYBERLINK CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)  
(UNAUDITED)

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 June 30, 2006, the Company and its consolidated subsidiaries had approximately 330 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>June 30, 2006</u>	<u>June 30, 2005</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)	Investment activities	100%	100%	
”	CyberLink Japan Co., Ltd. (CyberLink-Old Japan)	Sales of computer software	-	-	Note

Investor	Name of the subsidiary	Major operating activities	Ownership (%)		Note
			June 30, 2006	June 30, 2005	
CyberLink Corp.	CyberLink Investment Corp. (CyberLink Investment)	Investment activities	100%	100%	
"	Tse-Lien Technology Corp. (Tse-Lien)	Sales of computer software	100%	-	Newly incorporated in October 2005
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	"	100%	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 United States 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 for the six-month period ended June 30, 2006.

## 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

- A. The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars 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 is 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) Cash equivalents

Cash equivalents include short- term highly-liquid investments which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

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.

C. The accounting policies before December 31, 2005 are shown in Note 3.

6) Financial assets carried at cost

A. Investment in unquoted equity instruments is recognized or derecognized using trade date accounting and is recognized 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 in the fair value of asset cannot be reversed.

C. The accounting policies before December 31, 2005 are shown in Note 3.

7) 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.

8) 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. 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.

9) Long-term equity investments accounted for under the equity method

- A. Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method.
- B. Effective January 1, 2006, investment loss on the non-controlled entities over which the Company has the ability to exercise significant influence is recognized to the extent that the amount of long-term investments in such investees is written down to zero. However, if the Company continues to provide endorsements, guarantees or financial support for such investees, the investment loss is recognized continuously in proportion to the Company's equity interest in such investees. In the case of controlled entities, the Company recognizes all the losses incurred by such entities that will not be covered by other stockholders. When the operations of such investees become profitable, the profits shall be allocated to the Company to the extent that the amount of losses previously recognized by the Company is fully recovered.
- C. Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity.

10) 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.

11) 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.

12) Deferred charges

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

13) 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.

14) 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.

15) 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.

#### 16) 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 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. The impairment loss recognized for goodwill is not recoverable.

#### 17) 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. In preparing interim financial statements, cost and expense is recognized with relevant revenue. Other cost and expense is amortized during the estimated useful lives.
- b) Income and cost from sale of marketable securities is recognized on the transaction date for consolidated subsidiaries engaging primarily in investment activities.

#### 18) 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.

19) Convenience translation to US dollars (unreviewed)

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\$32.37 and US\$1:NT\$31.62 at June 30, 2006 and 2005, respectively. Such translation amounts are unreviewed 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) Consolidated financial statements

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 increased by \$37,100 (US\$1,173) for the period ended June 30, 2005. Please see Note 1(2) for the summary of consolidated subsidiaries.

2) Impairment

Effective January 1, 2005, the Company adopted the R.O.C SFAS No. 35 “Accounting for Asset Impairment”. The adoption of SFAS No. 35 had no significant impact on the consolidated financial statements as of and for the period ended June 30, 2005.

3) Financial instruments

A. Effective January 1, 2006, the Company adopted the R.O.C. SFAS No. 34, "Accounting for Financial Instruments ", and No. 36, " Disclosure and Presentation of Financial Instruments".

As a result of the adoption of SFAS Nos.34 and 36, total stockholders' equity were increased by \$7,837 (US\$242) as of June 30, 2006, and income increased by \$7,837 (US\$242) for the period ended June 30, 2006. Earnings per share increased by \$0.08 for the period ended June 30, 2006.

B. The accounting policies before December 31, 2005 (included) are as follows:

(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) Short-term investments

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.

(c) Long-term investments in equity securities-under the cost method

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.

4. SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	June 30,			
	2006		2005	
	NT\$	US\$ (Unreviewed) (Note 2)	NT\$	US\$ (Unreviewed) (Note 2)
Cash in hand	\$ 342	\$ 11	\$ 244	\$ 8
Demand deposits	488,448	15,089	474,240	14,998
Checking accounts	2,671	83	870	27
Time deposits	-	-	56,916	1,800
Cash equivalents	<u>832,979</u>	<u>25,733</u>	<u>-</u>	<u>-</u>
	<u>\$1,324,440</u>	<u>\$ 40,916</u>	<u>\$ 532,270</u>	<u>\$ 16,833</u>

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

	June 30,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)
Financial asset held for trading				
Money market funds	<u>\$ 2,525,738</u>	<u>\$ 78,027</u>	<u>\$ 2,658,343</u>	<u>\$ 84,072</u>

The Company recognized a net gain of \$7,837 (US\$242) for the period ended June 30, 2006.

3) Notes and accounts receivable

	June 30,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)
Notes receivable	\$ 1,032	\$ 32	\$ 2,860	\$ 90
Accounts receivable	<u>322,643</u>	<u>9,967</u>	<u>218,437</u>	<u>6,908</u>
	323,675	9,999	221,297	6,998
Less: Allowance for doubtful accounts	( <u>15,285</u> )	( <u>472</u> )	( <u>3,123</u> )	( <u>98</u> )
	<u>\$ 308,390</u>	<u>\$ 9,527</u>	<u>\$ 218,174</u>	<u>\$ 6,900</u>

4) Financial assets carried at cost

	June 30,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)
Unlisted stocks	<u>\$ 32,370</u>	<u>\$ 1,000</u>	<u>\$ 32,326</u>	<u>\$ 1,022</u>

5) Long-term equity investment accounted for under the equity method

- a) Details of long-term equity investment accounted for under the equity method are set forth below:

<u>Investee company</u>	<u>Period ended June 30, 2006</u>		<u>% ownership</u>
	<u>Amount</u>		
	<u>NT\$</u>	<u>US\$</u>	
	(Unreviewed) (Note2)		
CyberLink Transdigital Inc. (CyberLink-NCR)	<u>\$ -</u>	<u>\$ -</u>	-

<u>Investee company</u>	<u>Period ended June 30, 2005</u>		<u>% ownership</u>
	<u>Amount</u>		
	<u>NT\$</u>	<u>US\$</u>	
	(Unreviewed) (Note2)		
CyberLink Transdigital Inc. (CyberLink-NCR)	<u>\$ 1,174</u>	<u>\$ 37</u>	20.00

- b) In 2006 and 2005, the investment gain on long-term investments under the equity method are as follows:

	<u>Period ended June 30,</u>			
	<u>2006</u>		<u>2005</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
	(Unreviewed) (Note 2)		(Unreviewed) (Note 2)	
CyberLink-NCR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 569</u>	<u>\$ 18</u>

CyberLink-B.V.I sold its shares in CyberLink-NCR in September 2005. The long-term investment gain was recognized based on the unreviewed financial statements.

6) Property, plant and equipment

<u>June 30, 2006</u>			
(NT\$)			
<u>Item</u>	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net Book value</u>
Land	\$ 141,564	\$ -	\$ 141,564
Buildings	121,509	( 21,241)	100,268
Machinery	14,821	( 6,518)	8,303
Transportation equipment	1,430	( 727)	703
Furniture and fixtures	<u>11,132</u>	<u>( 6,897)</u>	<u>4,235</u>
	<u>\$ 290,456</u>	<u>(\$ 35,383)</u>	<u>\$ 255,073</u>

<u>June 30, 2005</u>			
(NT\$)			
<u>Item</u>	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net Book value</u>
Land	\$ 141,564	\$ -	\$ 141,564
Buildings	120,815	( 13,336)	107,479
Machinery	10,807	( 4,174)	6,633
Transportation equipment	1,430	( 558)	872
Furniture and fixtures	<u>9,252</u>	<u>( 4,472)</u>	<u>4,780</u>
	<u>\$ 283,868</u>	<u>(\$ 22,540)</u>	<u>\$ 261,328</u>

<u>June 30, 2006</u>			
(US\$: Unreviewed - Note 2)			
<u>Item</u>	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net Book value</u>
Land	\$ 4,373	\$ -	\$ 4,373
Buildings	3,754	( 656)	3,098
Machinery	458	( 201)	257
Transportation equipment	44	( 23)	21
Furniture and fixtures	<u>344</u>	<u>( 213)</u>	<u>131</u>
	<u>\$ 8,973</u>	<u>(\$ 1,093)</u>	<u>\$ 7,880</u>

June 30, 2005			
(US\$: Unreviewed - Note 2)			
Item	Original cost	Accumulated depreciation	Net Book value
Land	\$ 4,477	\$ -	\$ 4,477
Buildings	3,821	( 422)	3,399
Machinery	342	( 132)	210
Transportation equipment	45	( 18)	27
Furniture and fixtures	292	( 141)	151
	<u>\$ 8,977</u>	<u>(\$ 713)</u>	<u>\$ 8,264</u>

7) Income tax

	Period ended June 30,			
	2006		2005	
	NT\$	US\$ (Unreviewed) ( Note 2)	NT\$	US\$ (Unreviewed) ( Note 2)
Income tax expense	\$ 79,959	\$ 2,470	\$ 57,207	\$ 1,809
(Under) over				
provision of prior				
year's income tax	10,081	312	( 514)	( 16)
Effect of deferred				
income tax assets	( 11,417)	( 353)	( 11,076)	( 350)
Prepaid royalty tax	( 33,077)	( 1,022)	( 26,465)	( 837)
Short-term notes tax	( 1,170)	( 36)	-	-
Prepaid income tax	( 19,526)	( 603)	( 82)	( 3)
Income tax payable	<u>\$ 24,850</u>	<u>\$ 768</u>	<u>\$ 19,070</u>	<u>\$ 603</u>

A. As of June 30, 2006 and 2005, the deferred income tax assets (liabilities) were as follows:

	June 30,			
	2006		2005	
	NT\$	US\$ (Unreviewed) ( Note 2)	NT\$	US\$ (Unreviewed) ( Note 2)
Total deferred income tax assets	\$ 57,203	\$ 1,767	\$ 67,250	\$ 2,127
Total deterred income tax liabilities	(\$ 1,120)	(\$ 35)	\$ -	\$ -
Valuation allowance of deferred income tax assets	(\$ 9,595)	(\$ 296)	(\$ 27,289)	(\$ 863)

B. As of June 30, 2006 and 2005, details of deferred income tax assets and liabilities were as follows:

Items	June 30,			
	2006		2005	
	(NT\$)			
	Amount	Income tax effect	Amount	Income tax effect
<b>Current:</b>				
Unrealized exchange (gain) loss	(\$ 4,479)	(\$ 1,120)	\$ 2,613	\$ 653
Unrealized profit on intercompany sales	651	163	1,311	328
Bad debt expenses	11,382	2,845	-	-
Others	3,048	<u>762</u>	-	<u>-</u>
		<u>2,650</u>		<u>981</u>
<b>Non current:</b>				
Investment loss on foreign long-term investments accounted for under the equity method	23,598	5,900	33,863	8,466
Loss carry-forward	14,783	3,695	75,292	18,823
Investment tax credits		43,838		38,980
Valuation allowance		( <u>9,595</u> )		( <u>27,289</u> )
		<u>43,838</u>		<u>38,980</u>
		<u>\$ 46,488</u>		<u>\$ 39,961</u>

Items	June 30,			
	2006		2005	
	Amount	Income tax effect	Amount	Income tax effect
(US\$: Unreviewed - Note 2)				
Current:				
Unrealized exchange (gain) loss	(\$ 138)	(\$ 35)	\$ 83	\$ 21
Unrealized profit on intercompany sales	20	5	41	10
Bad debt expense	352	88	-	-
Others	94	24	-	-
		<u>82</u>		<u>31</u>
Non current:				
Investment loss on foreign long-term investments accounted for under the equity method	729	182	1,071	268
Loss carry forward	457	114	2,381	595
Investment tax credits		1,354		1,233
Valuation allowance		(296)		(863)
		<u>1,354</u>		<u>1,233</u>
		<u>\$ 1,436</u>		<u>\$ 1,264</u>

C. As of June 30, 2006, 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\$36,461 (US\$ 1,126)	NT\$15,814 (US\$ 488)	2007
"	NT\$51,892 (US\$ 1,603)	NT\$11,527 (US\$ 356)	2008
"	NT\$55,066 (US\$ 1,701)	NT\$ 5,791 (US\$ 179)	2009
"	NT\$34,402 (US\$ 1,063)	NT\$10,706 (US\$ 331)	2010
		<u>NT\$43,838</u> (US\$ 1,354)	

D. The Company was granted a five-year tax holiday 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>2006.1.1 ~ 2006.6.30 Tax-exempt income</u>
Tai-Tsai-Shuey No 09404154230 on Dec. 19, 2005	December 31, 2004	January 1, 2006 – December 31, 2010	NT\$ 264,744 (US\$ 8,179)

E. Except for 2001 and 2002, the Company's income tax returns for the period through 2003 have been assessed and approved by the Tax Authority.

F. For the period ended June 30, 2006 and 2005, the income tax expense included the additional 10% corporate income tax related to the 2005 and 2004 undistributed earnings amounting to NT\$7,633 (US\$236) and \$10,871 (US\$331), respectively. These amounts were recognized based on the resolution adopted in the Company stockholders' meeting to retain the 2005 and 2004 earnings.

G. The Company's income tax of 2003 was assessed by the Tax Authority on July 10, 2006. Due to a difference in basis used in calculation, the tax free income of the Company's five-year tax holiday was reduced from NT\$403,548 (US\$12,467) to NT\$293,450 (US\$9,065). The Tax Authority viewed the Company's new products as an improvement of the original design and not a new design, hence, a reduction in the tax-exempt amount from NT\$36,461 (US\$1,126) to NT\$116 (US\$4). The Company also has to pay a \$16,453 (US\$508) tax expense but disagreed with the assessment and has requested for a reexamination.

8) Accrued expenses

	<u>June 30,</u>			
	<u>2006</u>		<u>2005</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
	(Unreviewed)		(Unreviewed)	
	( Note 2)		( Note 2)	
Royalty expense	\$336,301	\$ 10,389	\$213,042	\$ 6,738
Payroll	20,301	627	13,894	439
Commission expense	18,665	577	11,783	373
Professional service fees	16,849	521	11,379	360
Others	<u>34,454</u>	<u>1,064</u>	<u>25,594</u>	<u>809</u>
	<u>\$426,570</u>	<u>\$ 13,178</u>	<u>\$275,692</u>	<u>\$ 8,719</u>

9) Other payables

	June 30,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unreviewed)		(Unreviewed)
		( Note 2)		( Note 2)
Cash dividends payable	\$488,177	\$ 15,081	\$257,218	\$ 8,135
Employees' cash bonus payable	34,729	1,073	15,589	493
Remunerations for directors and supervisors payable	11,539	357	7,795	246
Others	<u>6,188</u>	<u>191</u>	<u>10,017</u>	<u>317</u>
	<u>\$540,633</u>	<u>\$ 16,702</u>	<u>\$290,619</u>	<u>\$ 9,191</u>

10) 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 pension costs under the defined benefit pension plan for the periods ended June 30, 2006 and 2005 was \$0 (US\$0) and \$2,625 (US\$81). The fund balance with Central Trust of China was \$12,549 (US\$388) and \$12,275 (US\$388) as of June 30, 2006 and 2005, respectively. The fund balance is not included in the financial statements.

B. 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 period ended June 30, 2006 was \$6,422 (US\$198).

C. Foreign subsidiaries have no retirement plan.

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

11) Capital stock

- A. According to the resolution adopted at the stockholders' meeting in June 2006 and as approved by the R.O.C. SFC, the Company issued common stock by capitalizing the unappropriated retained earnings of NT\$19,527 (US\$603) and employees' stock bonus of NT\$25,962 (US\$802). The registration of this capital increase is in process.
- B. As of June 30, 2006, the Company's authorized capital was NT\$1,400,000 (US\$43,250), the issued and outstanding capital was NT\$977,376 (US\$30,194) (including exercise of employee stock options of NT\$12,108 (US\$374) and the conversion of bonds payable to capital stock amounted to NT\$132,611 (US\$4,097)).
- C. 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 periods ended June 30, 2006 and 2005 are as follows:

	Periods ended June 30,			
	2006		2005	
	No. of shares (in thousands)	Weighted - average exercise price (in dollars)	No. of shares (in thousands)	Weighted - average exercise price (in dollars)
Beginning balance	3,762	NT\$ 56.41 (US\$ 1.74)	4,003	NT\$ 64.16 (US\$ 2.03)
Options granted	-	-	-	-
Distribution of stock dividends / adjustments for number of shares granted for one unit of options	-	-	-	-
Options exercised	( 467)	NT\$ 50.41 (US\$ 1.56)	( 126)	NT\$ 62.02 (US\$ 1.96)
Options revoked	( 59)	NT\$ 52.04 (US\$ 1.61)	( 197)	NT\$ 64.82 (US\$ 2.05)
Ending balance	<u>3,236</u>	NT\$ 57.35 (US\$ 1.77)	<u>3,680</u>	NT\$ 64.18 (US\$ 2.03)
Options exercisable at end of the period	<u>1,777</u>		<u>2,356</u>	
Options authorized but not granted at end of the period	<u>2,800</u>		<u>2,525</u>	

b) As of June 30, 2006, 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 remaining vesting period	Weighted average exercise price (in dollars)	No. of shares (in thousands)	Weighted average exercise price (in dollars)
\$48.30~51.60	855	3.03	NT\$ 49.39 (US\$ 1.53)	445	NT\$ 49.39 (US\$ 1.53)
\$54.00	1,755	4.00	NT\$ 54.00 (US\$ 1.67)	1,332	NT\$ 54.00 (US\$ 1.67)
\$67.60~100.30	626	5.17	NT\$ 77.60 (US\$ 2.40)	-	-

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:

	Period ended June 30, 2006	
	Financial statements information	Pro forma information
Net income	NT\$ 411,574 (US\$ 12,715)	NT\$ 406,654 (US\$ 12,563)
Basic earnings per share (in dollars)	NT\$ 4.22	NT\$ 4.16
Diluted earnings per share (in dollars)	NT\$ 4.16	NT\$ 4.11

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	
	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	0 units
Average fair value (in dollars)	NT\$ 59.76	NT\$ 45.07

## 12) 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 R.O.C 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.

## 13) 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. Distribution of cash dividends is not less than 20% of stock dividend except approved by the stockholders for significant capital expenditures. 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 for 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 June 30, 2006, the imputation tax credit account balance was NT\$67,373 (US\$2,081). The estimate creditable tax ratio of distributed earnings in 2006 is 5.76%. As of June 30, 2006, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were NT\$9,932 (US\$307) and NT\$931,448 (US\$28,775), 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 2006 and 2005, the Company's board of directors approved to appropriate cash dividends of NT\$5 in 2006 and NT\$2.9828 in 2005, and stock dividends of NT\$0.2 in 2006 and NT\$0.9942 in 2005 per share.

14) Earnings per common share

	Period ended June 30, 2006				
	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	\$ 491,533 (US\$ 15,185)	\$ 411,574 (US\$ 12,715)			
Basic earnings per share			97,544	\$ 5.04 (US\$0.16)	\$ 4.22 (US\$0.13)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,383		
Diluted earnings per share	\$ 491,533 (US\$ 15,185)	\$ 411,574 (US\$ 12,715)	98,927	\$ 4.97 (US\$0.15)	\$ 4.16 (US\$0.13)

	Period ended June 30, 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	\$ 371,605 (US\$ 11,752)	\$ 316,749 (US\$ 10,017)			
Basic earnings per share			96,656	\$ 3.84 (US\$0.12)	\$ 3.28 (US\$0.10)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,031		
Diluted earning per share	\$ 371,605 (US\$ 11,752)	\$ 316,749 (US\$ 10,017)	97,687	\$ 3.80 (US\$0.12)	\$ 3.24 (US\$0.10)

The above weighted-average outstanding common shares have been adjusted retroactively in proportion to retained earnings and employees' bonus capitalized during the periods ended June 30, 2005.

The issuance date of common stocks from capitalization of retained earnings effected after the issuance date of the financial statements, the retroactively adjusted earnings per common share is as follow:

	Period ended June 30, 2006				
	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	\$ 491,533 (US\$ 15,185)	\$ 411,574 (US\$ 12,715)			
Basic earnings per share			102,093	\$ 4.81 (US\$0.15)	\$ 4.03 (US\$0.12)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,383		
Diluted earnings per share	\$ 491,533 (US\$ 15,185)	\$ 411,574 (US\$ 12,715)	103,476	\$ 4.75 (US\$0.15)	\$ 3.98 (US\$0.12)

	Period ended June 30, 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	\$ 371,605	\$ 316,749			
	(US\$ 11,752)	(US\$ 10,017)			
Basic earnings per share			101,193	\$ 3.67	\$ 3.13
				(US\$0.12)	(US\$0.10)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,031		
Diluted earning per share	\$ 371,605	\$ 316,749	102,224	\$ 3.64	\$ 3.10
	(US\$ 11,752)	(US\$ 10,017)		(US\$0.12)	(US\$0.10)

15) Personnel, depreciation and amortization expense

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

	Period ended June 30, 2006					
	Operating costs		Operating expenses		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)
Personnel expenses						
Salaries	\$ -	\$ -	\$161,776	\$ 4,998	\$161,776	\$ 4,998
Insurance expense	-	-	10,891	336	10,891	336
Pension expense	-	-	6,422	198	6,422	198
Others	-	-	7,549	233	7,549	233
Depreciation	-	-	6,211	192	6,211	192
Amortization	-	-	16,223	501	16,223	501

Period ended June 30, 2005						
Operating costs		Operating expenses		Total		
NT\$	US\$	NT\$	US\$	NT\$	US\$	
	(Unreviewed) (Note 2)		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)	
Personnel expenses						
Salaries	\$ -	\$ -	\$123,034	\$ 3,891	\$123,034	\$ 3,891
Insurance expense	-	-	7,721	244	7,721	244
Pension expense	-	-	2,625	83	2,625	83
Others	-	-	6,859	217	6,859	217
Depreciation	-	-	6,129	194	6,129	194
Amortization	-	-	15,441	488	15,441	488

## 5. RELATED PARTY TRANSACTIONS

### 1) Name and relationships of related party

Name	Relationship with the Company
CyberLink Transdigital Inc. (CyberLink-NCR) (Note)	An investee 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 amounts is for comparison purposes only.

### 2) Significant transactions with related party

#### A. Sales

	Period ended June 30, 2006			Period ended June 30, 2005		
	Amount		% of net sales	Amount		% of net sales
	NT\$	US\$		NT\$	US\$	
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)		
CyberLink						
- NCR	\$ 17,670	\$ 545	2	\$ 9,779	\$ 309	1

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

	June 30,					
	2006			2005		
	Amount			Amount		
	NT\$	US\$	% of net sales	NT\$	US\$	% of net sales
		(Unreviewed) (Note 2)		(Unreviewed) (Note 2)		
CyberLink						
- NCR	\$ 15,065	\$ 465	4	\$ 9,779	\$ 309	4

6. DETAILS OF PLEDGED ASSETS

None.

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2006, CyberLink-USA leases certain office space. The total future minimum lease payments under the operating lease agreement amounted to NT\$8,620 (US\$266). In 2006, CyberLink-USA paid NT\$1,947 (US\$60) under the lease expense.

8. SIGNIFICANT LOSS OR DAMAGE

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Financial statement presentation

The Company has properly reclassified certain accounts in the December 31, 2005 financial statements (included) in accordance with the "Rules Governing the Preparation of Financial Statements of Securities Issuers", and R.O.C. Statements of Financial Accounting Standards No. 34, " Accounting for Financial Instruments ", and No. 36, " Disclosure and Presentation of Financial Instruments ".

2) The fair values of the financial instruments

	June 30, 2006 (NT\$)			June 30, 2005 (NT\$)	
	Book value	Quotations in an active market	Estimated using a valuation	Book value	Fair value
<u>Financial instruments</u>					
Non-derivative financial instruments					
Assets					
Financial assets with fair values equal to book values	\$ 1,680,591	\$ -	\$ 1,680,591	\$ 781,109	\$ 781,109
Financial assets at fair value through profit or loss	2,525,738	2,525,738	-	2,658,343	2,658,343
Financial assets carried at cost	32,370	-	-	32,326	-
Liabilities					
Financial liabilities with fair values equal to book values	1,003,334	-	1,003,334	604,944	604,944
Derivative financial instruments					
Forward exchange contracts	-	34	-	1,009	1,149

	June 30, 2006 (US\$)			June 30, 2005 (US\$)	
	Book value	Quotations in an active market	Estimated using a valuation	Book value	Fair value
<u>Financial instruments</u>					
Non-derivative financial instruments					
Assets					
Financial assets with fair values equal to book values	\$ 51,918	\$ -	\$ 51,918	\$ 24,703	\$ 24,703
Financial assets at fair value through profit or loss	78,027	78,027	-	84,072	84,072
Financial assets carried at cost	1,000	-	-	1,022	-
Liabilities					
Financial liabilities with fair values equal to book values	30,996	-	30,996	19,132	19,132
Derivative financial instruments					
Forward exchange contracts	-	1	-	32	36

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, Notes payable, Accounts payable, and other current liabilities.
  - B. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based upon the amounts to be received or paid assuming that if the contracts were settled as of the reporting date.
- 3) As of June 30, 2006, the financial assets with fair value risk due to the change of interest amounted to \$832,979 (US\$25,733).
- 4) For the period ended June 30, 2006, total interest income for financial assets or financial liabilities that are not at fair value through profit or loss amounted to \$18,804 (US\$581).

5) Procedure of financial risk control and hedge

The main financial risk is the inherent risk of the financial instruments and the exchange rate risk of foreign currency transactions. The Company 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 Company's policy, foreign currency transactions seek the balance of risk and liquidity and in attaining the best strategy.

6) Information of financial risk

A. Cash and cash equivalents

a) Market risk

Cash and cash equivalents of the Company is not affected by market price. Therefore, Cash and cash equivalents of the Company 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. There is no material credit risk.

c) Liquidity risk

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

d) Cash flow risk

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

B. Forward exchange contracts

<u>Item</u>	<u>June 30, 2006</u>	
	<u>Book value</u>	<u>Nominal principal (in thousands)</u>
Forward exchange contracts	\$ -	US\$ 2,000

a) For the six-month period ended June 30, 2006 the Company entered into forward exchange contracts with Bank SinoPac and Chinatrust Commercial Bank. The forward exchange contracts are mainly used to hedge foreign exchange fluctuations of foreign currency assets and liabilities. As of June 30,2006, the contract amount is US\$2,000 and the loss is NT\$34(US\$1) for the period ended June 30,2006.

b) Market risk

The forward exchange contracts are mainly used to hedge foreign exchange fluctuations of foreign- currency- denominated assets and liabilities. Therefore, the market risk of forward exchange contracts will be offset by the foreign exchange risk of these assets and liabilities, and the market risk is low.

c) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breach the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing derivative financial instruments are reputable financial institutions. Management believes its exposure to default by these parties is low.

d) Liquidity risk

The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidity risk is low.

e) Cash flow risk

The forward exchange contracts held by the Company are not interest-bearing debt instruments, so there is no cash flow risk due to changes in market interest rates.

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

a) Market risk

Bond funds of the Company are all money funds. Unit market price is not affected by the market environment and therefore there is no significant market risk.

b) Credit risk

Bond funds of the Company are all money funds. The issuers of these bond funds are high-credit quality financial institutions and the Company chooses bond funds that are rated by Taiwan Ratings (above Taiwan Ratings twAAf). Management believes its exposure to default by those parties is low.

c) Liquidity risk

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

d) Cash flow risk

Bond funds of the Company are all money funds and are not interest-bearing assets, so there is no cash flow risk due to changes in market interest rates.

D. Accounts receivable and notes receivable

a) Market risk

Accounts receivable and notes receivable of the Company 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 counter-parties or third-parties to the receivable are reputable international business organizations. Management believes its exposure to default by these parties is low.

c) Liquidity risk

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

d) Cash flow risk

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

E. Accounts payable and notes payable

a) Market risk

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

b) Credit risk

Accounts payable and notes payable are obligations of the Company, so there is no credit risk.

c) Liquidity risk

Accounts payable and notes payable of the Company are obligations expected to be due within one year from the balance sheet date, and the

Company has sufficient operating capital to meet cash needs. Therefore, the liquidity risk is low.

d) Cash flow risk

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

7) Information on derivative instruments:

As of June 30, 2005, the Company's outstanding derivative financial instruments contracts were as follows as required by SFAS No.27 "Disclosure and Presentation of Financial Instruments":

Forward exchange contracts

A) Contract amount or nominal principal and credit risk

	<u>June 30, 2005</u>	
	<u>Contract amount</u>	<u>Credit risk</u>
	<u>(Nominal principal)</u>	
Forward exchange contracts	US\$ 2,000	\$ -

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) Credit risk

The Company trades with financial institutions with high credit quality. Management believes its exposure to default by those parties is low.

D) Future cash flow, periods and risk

From August 11, 2005 to August 24, 2005, the forward contracts cash inflow is expected to be NT\$63,240; the related cash outflow is US\$2,000. No significant cash flow risks are expected.

E) Cash flow risk

The forward exchange contracts held by the Company are not interest-bearing debt instruments, so there is no cash flow risk due to changes in market interest rates.

F) Disclosure

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

8) Elimination of transactions between the Company and its subsidiaries.

Transactions	Subsidiaries	Period ended June 30, 2006		Period ended June 30, 2005	
		Amount		Amount	
		NT\$	US\$	NT\$	US\$
		(Unreviewed)		(Unreviewed)	
		(Note 2)		(Note 2)	
A) Elimination of long-term investments and stockholders' equity	CyberLink-USA	\$ 148,191	\$ 4,578	\$ 102,532	\$ 3,243
	CyberLink-B.V.	-	-	11,702	370
	CyberLink-B.V.I	45,374	1,402	52,141	1,649
	CyberLink-Investment	20,836	644	20,817	658
	Tse-Lien	939	29	-	-
	CyberLink-B.V.I to CyberLink - Japan	2,726	84	8,087	256
B) Elimination of balance sheet accounts					
Accounts receivable	CyberLink-USA	62,674	1,936	43,641	1,380
	CyberLink-B.V.	43,771	1,352	33,330	1,054
	CyberLink-Japan	15,433	477	11,336	359
Other receivables	CyberLink-USA	5,592	173	927	29
	CyberLink-B.V.	13,918	430	35	1
	CyberLink-Japan	8,187	253	-	-
Other liabilities	CyberLink-B.V.	14,292	442	-	-
C) Elimination of income statement accounts					
Sales	CyberLink-USA	143,792	4,442	102,251	3,234
	CyberLink-B.V.	114,242	3,529	86,443	2,734
	CyberLink-Japan	22,647	700	11,336	359
	CyberLink-Old Japan	-	-	12,568	397

Transactions	Subsidiaries	Period ended June 30, 2006		Period ended June 30, 2005	
		Amount		Amount	
		NT\$	US\$	NT\$	US\$
			(Unreviewed)		(Unreviewed)
			(Note 2)		(Note 2)
Other income	CyberLink-USA	\$ 4,571	\$ 141	\$ -	\$ -
	CyberLink-B.V.	10,472	324	-	-
	CyberLink-Japan	507	16	-	-
Commission expense	CyberLink-B.V.	1,446	45	2,811	89
	CyberLink-Japan	30	1	-	-
Realized profit on	CyberLink-USA	101	3	108	3
intercompany	CyberLink-B.V.	660	20	742	23
transactions	CyberLink-Japan	26	1	-	-
	CyberLink-Old Japan	-	-	3,016	95
Unrealized profit on	CyberLink-USA	84	3	167	5
intercompany	CyberLink-B.V.	551	17	870	28
transactions	CyberLink-Japan	16	1	39	1

9) Other significant disclosure or description: None.

11. ADDITIONAL DISCLOSURE REQUIRED BY SFC

1) Related information of significant transactions

A. Lending to others: None.

B. Guarantees on behalf of others: None.

C. Marketable securities at June 30, 2006:

(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.	CyberLink.Com Corp.	A subsidiary of the Company	Long-term equity investments accounted for under the equity method	4,000,000	\$ 148,191	100.00	\$ 148,191
"	CyberLink Europe B.V.	"	"	1,500,000	-	100.00	-
"	CyberLink International Technology Corp.	"	"	2,000,000	45,374	100.00	45,374
"	CyberLink Investment Corp.	"	"	2,000,000	20,836	100.00	20,836
"	Tse-Lien Technology Corp.	"	"	100,000	939	100.00	939
"	PCA Well Pool Fund	None	Financial assets at fair value through profit or loss-current	18,383,983	228,612	-	228,612
"	ABN Amro Select Bond Fund	"	"	23,419,633	263,602	-	263,602
"	HSBC Taiwan Money Management Band Fund	"	"	9,519,739	140,427	-	140,427
"	HSBC Taiwan Dragon Bond Fund	"	"	17,568,528	268,939	-	268,939
"	JF First Bond Fund	"	"	8,919,475	124,493	-	124,493
"	JF Taiwan Bond Fund	"	"	24,835,484	376,320	-	376,320
"	NITC Bond Fund	"	"	1,641,449	268,224	-	268,224
"	ABN Amro Bond Fund	"	"	23,903,295	357,672	-	357,672
"	INVESCO Bond Fund	"	"	20,352,091	300,506	-	300,506
"	Fuh-Hwa Albatross Bond Fund etc.	"	"	-	176,575	-	176,575
CyberLink Investment Corp.	ABN Amro Bond Fund	"	"	1,370,604	20,368	-	20,509
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term equity investments accounted for under the equity method	1,000	2,726	100.00	2,726
"	DivXNetworks, Inc.	None	Financial assets carried at cost	430,441	32,370	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.	CyberLink.Com Corp.	A subsidiary of the Company	Long-term equity investments accounted for under the equity method	4,000,000	\$ 4,578	100.00	\$ 4,578
"	CyberLink Europe B.V.	"	"	1,500,000	-	100.00	-
"	CyberLink International Technology Corp.	"	"	2,000,000	1,402	100.00	1,402
"	CyberLink Investment Corp.	"	"	2,000,000	644	100.00	644
"	Tse-Lien Technology Corp.	"	"	100,000	29	100.00	29
"	PCA Well Pool Fund	None	Financial assets at fair value through profit or loss-current	18,383,983	7,062	-	7,062
"	ABN Amro Select Bond Fund	"	"	23,419,633	8,143	-	8,143
"	HSBC Taiwan Money Management Band Fund	"	"	9,519,739	4,338	-	4,338
"	HSBC Taiwan Dragon Bond Fund	"	"	17,568,528	8,308	-	8,308
"	JF First Bond Fund	"	"	8,919,475	3,846	-	3,846
"	JF Taiwan Bond Fund	"	"	24,835,484	11,626	-	11,626
"	NITC Bond Fund	"	"	1,641,449	8,286	-	8,286
"	ABN Amro Bond Fund	"	"	23,903,295	11,049	-	11,049
"	INVESCO Bond Fund	"	"	20,352,091	9,283	-	9,283
"	Fuh-Hwa Albatross Bond Fund etc.	"	"	-	5,455	-	5,455
CyberLink Investment Corp.	ABN Amro Bond Fund	"	"	1,370,604	629	-	633
CyberLink International Technology Corp.	CyberLink Inc.	A subsidiary of CyberLink International Technology Corp.	Long-term equity investments accounted for under the equity method	1,000	84	100.00	84
"	DivXNetworks, Inc.	None	Financial assets carried at cost	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, 2006 – June 30, 2006

(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.	JF Taiwan Bond Fund	Financial assets at fair value through profit or loss-current	-	-	12,134	\$ 182,649	12,701	\$ 193,671	-	\$ -	\$ -	\$ -	24,835	\$ 376,320
"	ABN Amro Select Bond Fund	"	-	-	14,156	158,248	9,264	105,354	-	-	-	-	23,420	263,602
"	ABN Amro Bond Fund	"	-	-	4,937	73,367	18,966	284,305	-	-	-	-	23,903	357,672
"	PCA Well Pool Fund	"	-	-	-	-	19,673	244,600	1,289	16,000	15,988	12	18,384	228,612
"	HSBC Taiwan Money Management Bond Fund	"	-	-	-	-	9,520	140,427	-	-	-	-	9,520	140,427
"	NITC Bond Fund	"	-	-	-	-	1,641	268,224	-	-	-	-	1,641	268,224
"	HSBC Taiwan Dragon Bond Fund	"	-	-	-	-	17,569	268,939	-	-	-	-	17,569	268,939
"	INVESCO Bond Fund	"	-	-	-	-	20,352	300,506	-	-	-	-	20,352	300,506

January 1, 2006 – June 30, 2006

(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.	JF Taiwan Bond Fund	Financial assets at fair value through profit or loss-current	-	-	12,134	\$ 5,643	12,701	\$ 5,983	-	\$ -	\$ -	\$ -	24,835	\$ 11,626
"	ABN Amro Select Bond Fund	"	-	-	14,156	4,889	9,264	3,254	-	-	-	-	23,420	8,143
"	ABN Amro Bond Fund	"	-	-	4,937	2,266	18,966	8,783	-	-	-	-	23,903	11,049
"	PCA Well Pool Fund	"	-	-	-	-	19,673	7,556	1,289	494	494	-	18,384	7,062
"	HSBC Taiwan Money Management Bond Fund	"	-	-	-	-	9,520	4,338	-	-	-	-	9,520	4,338
"	NITC Bond Fund	"	-	-	-	-	1,641	8,286	-	-	-	-	1,641	8,286
"	HSBC Taiwan Dragon Bond Fund	"	-	-	-	-	17,569	8,308	-	-	-	-	17,569	8,308
"	INVESCO Bond Fund	"	-	-	-	-	20,352	9,283	-	-	-	-	20,352	9,283

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, 2006 – June 30, 2006

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\$143,792 (US\$ 4,442)	15	Note	The same as those with third-parties	Note	NT\$ 62,674 (US\$ 1,936)	18
	CyberLink Europe B.V.	"	"	NT\$114,242 (US\$ 3,529)	12	Note	"	Note	NT\$ 43,771 (US\$ 1,352)	13

Note: Sales to CyberLink.Com Corp. and CyberLink Europe B.V. 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: Please see Note 10.

2) Relevant information regarding investee companies as of June 30, 2006:

(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
				June 30, 2006	June 30, 2005	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100.00	\$ 148,191	\$ 22,927	\$ 22,927	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	11,874	11,874	1,500,000	100.00	-	( 20,060)	( 20,060)	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	64,821	64,821	2,000,000	100.00	45,374	( 12,275)	( 12,275)	"
"	CyberLink Investment Corp.	Taipei	"	20,000	20,000	2,000,000	100.00	20,836	( 46)	( 46)	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	1,000	1,000	100,000	100.00	939	( 30)	( 30)	"
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	US\$478,469	US\$478,469	1,000	100.00	US\$ 84,200	(US\$ 218,216)	(US\$ 218,216)	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
				June 30, 2006	June 30, 2005	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 4,212	\$ 4,212	4,000,000	100.00	\$ 4,578	\$ 708	\$ 708	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	367	367	1,500,000	100.00	-	( 620)	( 620)	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	2,003	2,003	2,000,000	100.00	1,402	( 379)	( 379)	"
"	CyberLink Investment Corp.	Taipei	"	618	618	2,000,000	100.00	644	( 1)	( 1)	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	31	31	100,000	100.00	29	( 1)	( 1)	"
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	478	478	1,000	100.00	84	( 218)	( 218)	A subsidiary of CyberLink International Technology Corp.

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

4) Transactions of intercompanies

January 1, 2006 ~ June 30, 2006

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	\$ 143,792	\$ 4,442	Sales to Subsidiary are at normal selling price and are collected 90 days after the delivery of goods are made.	10
			"	Accounts receivable	62,674	1,936		1
"	"	CyberLink Europe B.V.	"	Sales revenue	114,242	3,529		8
			"	Accounts receivable	43,771	1,352		1
"	"	CyberLink Inc.	"	Sales revenue	22,647	700		2
			"	Accounts receivable	15,433	476		0.3

January 1, 2005 ~ June 30, 2005

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	\$ 102,251	\$ 3,234	Sales to Subsidiary are at normal selling price and are collected 90 days after the delivery of goods are made.	9
			"	Accounts receivable	43,641	1,380		1
"	"	CyberLink Europe B.V.	"	Sales revenue	86,443	2,734		8
			"	Accounts receivable	33,330	1,054		1
"	"	CyberLink Japan Co., Ltd (Note 4)	"	Sales revenue	12,568	397		1
			"	Accounts receivable	15,080	477		0.4
"	"	CyberLink Inc.	"	Sales revenue	11,336	359	1	
			"	Accounts receivable	11,336	359	0.3	

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 accounts, it's calculated based on consolidated assets; for income statement accounts, it's calculated based on consolidated revenue.

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

**12. SEGMENTAL REPORTING**

Not applied to interim financial reports.