

CYBERLINK CORP. AND SUBSIDIARIES

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

DECEMBER 31, 2006 AND 2005

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

PWCR06000538

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, 2006 and 2005, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those rules and standards require that we plan and perform the 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CyberLink Corp. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

The consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2006 and 2005 expressed in United States dollars were translated from the New Taiwan dollars financial statements using the exchange rates of NT\$32.595:US\$1 and NT\$32.85: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 12, 2007

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)

	<u>2006</u>			<u>2005</u>		
	<u>Amount</u>		<u>%</u>	<u>Amount</u>		<u>%</u>
	<u>NT\$</u>	<u>US\$</u>		<u>NT\$</u>	<u>US\$</u>	
		(Unaudited - Note 2)			(Unaudited - Note 2)	
<u>ASSETS</u>						
<u>Current Assets</u>						
Cash and cash equivalents (Note 4(1))	\$ 795,090	\$ 24,393	17	\$ 2,894,008	\$ 88,098	68
Financial assets at fair value through profit or loss-current (Note 4(2))	3,059,427	93,862	64	496,589	15,117	12
Notes receivable, net (Note 4(3))	2,367	73	-	1,852	56	-
Accounts receivable, net (Note 4(3))	409,333	12,558	9	337,061	10,261	8
Accounts receivable-related parties (Note 5)	-	-	-	10,056	306	-
Other receivables	73,619	2,259	1	34,424	1,048	1
Inventories	4,079	125	-	5,341	163	-
Deferred income tax assets-current (Note 4(7))	6,477	199	-	9,500	289	-
Other current assets-others	4,749	147	-	6,366	194	-
	<u>4,355,141</u>	<u>133,616</u>	<u>91</u>	<u>3,795,197</u>	<u>115,532</u>	<u>89</u>
<u>Funds and Investments</u>						
Financial assets carried at cost-non current (Note 4(4))	1,943	60	-	32,999	1,004	1
	<u>1,943</u>	<u>60</u>	<u>-</u>	<u>32,999</u>	<u>1,004</u>	<u>1</u>
<u>Property, Plant and Equipment (Note 4(6))</u>						
Cost	359,900	11,042	8	287,393	8,749	7
Less: accumulated depreciation	(43,826)	(1,346)	(1)	(29,097)	(886)	(1)
	<u>316,074</u>	<u>9,696</u>	<u>7</u>	<u>258,296</u>	<u>7,863</u>	<u>6</u>
<u>Intangible Assets</u>						
Other intangible assets	31,631	970	1	57,874	1,762	1
	<u>31,631</u>	<u>970</u>	<u>1</u>	<u>57,874</u>	<u>1,762</u>	<u>1</u>
<u>Other Assets</u>						
Assets held for lease	-	-	-	59,180	1,801	2
Refundable deposits	2,199	67	-	2,010	61	-
Deferred charges	282	9	-	294	9	-
Deferred income tax assets-non current (Note 4(7))	54,373	1,668	1	47,644	1,450	1
	<u>56,854</u>	<u>1,744</u>	<u>1</u>	<u>109,128</u>	<u>3,321</u>	<u>3</u>
<u>TOTAL ASSETS</u>	<u>\$ 4,761,643</u>	<u>\$ 146,086</u>	<u>100</u>	<u>\$ 4,253,494</u>	<u>\$ 129,482</u>	<u>100</u>

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31,

(EXPRESSED IN THOUSANDS OF DOLLARS)

	2006			2005		
	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	-
Accounts payable	7,238	222	-	18,781	572	-
Income tax payable (Note 4(7))	21,470	659	1	47,808	1,455	1
Accrued expenses (Note 4(8))	531,510	16,306	11	404,615	12,317	10
Other payables	29,518	906	1	27,295	831	1
Other current liabilities	<u>6,993</u>	<u>215</u>	-	<u>2,176</u>	<u>66</u>	-
	<u>596,729</u>	<u>18,308</u>	<u>13</u>	<u>500,819</u>	<u>15,245</u>	<u>12</u>
<u>Other Liabilities</u>						
Accrued pension liabilities (Note 4(9))	4,106	126	-	4,376	133	-
Deposits - in	<u>351</u>	<u>11</u>	-	<u>660</u>	<u>20</u>	-
	<u>4,457</u>	<u>137</u>	-	<u>5,036</u>	<u>153</u>	-
<u>Total Liabilities</u>	<u>601,186</u>	<u>18,445</u>	<u>13</u>	<u>505,855</u>	<u>15,398</u>	<u>12</u>
<u>Stockholders' Equity</u>						
Capital stock (Note 4(10))						
Common stock	1,027,681	31,529	22	972,708	29,611	23
Capital reserve (Note 4(11))						
Paid-in capital in excess of par value	575,771	17,664	12	540,253	16,446	13
Paid-in capital in excess of par, convertible bonds	867,363	26,610	18	867,363	26,404	20
Retained earnings (Note 4(12))						
Legal reserve	257,399	7,897	5	184,814	5,626	4
Special reserve	7,097	218	-	7,097	216	-
Unappropriated earnings	1,431,342	43,913	30	1,179,327	35,900	28
Other adjustments						
Cumulative translation adjustment	(6,196)	(190)	-	(3,923)	(119)	-
<u>Total Stockholders' Equity</u>	<u>4,160,457</u>	<u>127,641</u>	<u>87</u>	<u>3,747,639</u>	<u>114,084</u>	<u>88</u>
<u>Commitments and Contingent Liabilities (Notes 4(7) and 7)</u>						
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>\$ 4,761,643</u>	<u>\$ 146,086</u>	<u>100</u>	<u>\$ 4,253,494</u>	<u>\$ 129,482</u>	<u>100</u>

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

	2006			2005				
	Amount			Amount				
	NT\$	US\$	%	NT\$	US\$	%		
	(Unaudited - Note 2)			(Unaudited - Note 2)				
Operating revenues (Note 5)								
Sales revenue	\$ 3,126,611	\$ 95,923	101	\$ 2,487,606	\$ 75,726	101		
Less: Sales returns	(35,596)	(1,092)	(1)	(25,509)	(777)	(1)		
Sales allowances	(583)	(18)	-	(1,129)	(34)	-		
Net sales	3,090,432	94,813	100	2,460,968	74,915	100		
Gain from sale of portfolio securities (Note 1)	<u>12</u>	<u>-</u>	<u>-</u>	<u>368</u>	<u>11</u>	<u>-</u>		
	3,090,444	94,813	100	2,461,336	74,926	100		
Operating costs								
Cost of sales	(30,999)	(951)	(1)	(49,220)	(1,498)	(2)		
Gross profit	<u>3,059,445</u>	<u>93,862</u>	<u>99</u>	<u>2,412,116</u>	<u>73,428</u>	<u>98</u>		
Operating expenses (Notes 4(9) and (14))								
Selling	(1,698,050)	(52,095)	(55)	(1,259,428)	(38,339)	(51)		
General	(123,354)	(3,785)	(4)	(137,950)	(4,199)	(6)		
Research and development	(325,764)	(9,994)	(10)	(241,258)	(7,344)	(10)		
Operating expenses	(2,147,168)	(65,874)	(69)	(1,638,636)	(49,882)	(67)		
Operating income	<u>912,277</u>	<u>27,988</u>	<u>30</u>	<u>773,480</u>	<u>23,546</u>	<u>31</u>		
Non-operating income								
Interest income	28,216	866	1	10,212	311	-		
Gain on financial assets at fair value through profit of loss (Note 4(2))	25,217	774	1	-	-	-		
Gain on disposal of investments	74,671	2,291	2	38,777	1,180	2		
Other income	<u>28,808</u>	<u>884</u>	<u>1</u>	<u>21,611</u>	<u>658</u>	<u>1</u>		
Non-operating income	<u>156,912</u>	<u>4,815</u>	<u>5</u>	<u>70,600</u>	<u>2,149</u>	<u>3</u>		
Non-operating expenses								
Loss on investments accounted for under the equity method (Note 4(5))	-	-	-	(402)	(12)	-		
Exchange loss-net	(21,348)	(655)	(1)	(16,133)	(491)	(1)		
Other expenses	(405)	(12)	-	(5,189)	(158)	-		
Non-operating expenses	(21,753)	(667)	(1)	(21,724)	(661)	(1)		
Income before income tax	1,047,436	32,136	34	822,356	25,034	33		
Income tax expense (Note 4(7))	(145,900)	(4,477)	(5)	(98,902)	(3,011)	(4)		
Consolidated net income	<u>\$ 901,536</u>	<u>\$ 27,659</u>	<u>29</u>	<u>\$ 723,454</u>	<u>\$ 22,023</u>	<u>29</u>		
Attributable to:								
Equity holders of the Company	\$ 901,536	\$ 27,659	29	\$ 725,849	\$ 22,096	29		
Minority interest	-	-	-	(2,395)	(76)	-		
	<u>\$ 901,536</u>	<u>\$ 27,659</u>	<u>29</u>	<u>\$ 723,454</u>	<u>\$ 22,023</u>	<u>29</u>		
	<u>Before tax</u>	<u>After tax</u>	<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(13))								
(In dollars)	<u>\$ 10.24</u>	<u>\$ 8.81</u>	<u>\$ 0.31</u>	<u>\$ 0.27</u>	<u>\$ 8.11</u>	<u>\$ 7.16</u>	<u>\$ 0.25</u>	<u>\$ 0.22</u>
Diluted earnings per share (Note 4(13))								
(In dollars)	<u>\$ 10.08</u>	<u>\$ 8.68</u>	<u>\$ 0.31</u>	<u>\$ 0.27</u>	<u>\$ 8.00</u>	<u>\$ 7.06</u>	<u>\$ 0.24</u>	<u>\$ 0.21</u>

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(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, 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 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	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 2006	-	-	-	-	901,536	-	-	901,536
Exercise of employee stock options	9,484	35,518	-	-	-	-	-	45,002
Cumulative translation adjustment	-	-	-	-	-	(2,273)	-	(2,273)
Balance at December 31, 2006	<u>\$1,027,681</u>	<u>\$1,443,134</u>	<u>\$ 257,399</u>	<u>\$ 7,097</u>	<u>\$1,431,342</u>	<u>(\$ 6,196)</u>	<u>\$ -</u>	<u>\$4,160,457</u>

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(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, 2005	\$ 27,033	\$ 43,415	\$ 3,911	\$ 67	\$ 28,665	(\$ 224)	\$ 81	\$ 102,948
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 for 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	29,611	42,850	5,626	216	35,900	(119)	-	114,084
Distribution of 2005 earnings:								
Legal reserve	-	-	2,227	-	(2,227)	-	-	-
Stock dividends	599	-	-	-	(599)	-	-	-
Cash dividends	-	-	-	-	(14,977)	-	-	(14,977)
Remunerations for directors and supervisors	-	-	-	-	(354)	-	-	(354)
Employees' bonus	797	-	-	-	(1,770)	-	-	(973)
Net income for 2006	-	-	-	-	27,659	-	-	27,659
Exercise of employee stock options	291	1,090	-	-	-	-	-	1,381
Cumulative translation adjustment	231	334	44	2	281	(71)	-	821
Balance at December 31, 2006	<u>\$ 31,529</u>	<u>\$ 44,274</u>	<u>\$ 7,897</u>	<u>\$ 218</u>	<u>\$ 43,913</u>	<u>(\$ 190)</u>	<u>\$ -</u>	<u>\$ 127,641</u>

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

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

	2006		2005	
	NT\$	US\$ (Unaudited - Note 2)	NT\$	US\$ (Unaudited - Note 2)
<u>Cash flows from operating activities</u>				
Net income	\$ 901,536	\$ 27,659	\$ 723,454	\$ 22,023
Adjustments to reconcile net income to net cash(used in) provided by operating activities:				
Gain on financial assets at fair value through profit or loss	(25,217)	(774)	-	-
Gain on disposal of investments	(74,671)	(2,291)	(38,777)	(1,180)
Bad debts expense	1,001	31	15,708	478
Reversal of allowance for bad debts	(3,947)	(121)	-	-
Loss on obsolescence of inventories	-	-	4,502	137
Long-term investment loss accounted for under the equity method	-	-	402	12
Gain on liquidation of investee company	(187)	(6)	-	-
Loss on disposal of property, plant, and equipment	175	5	-	-
Depreciation expenses	13,156	404	12,682	386
Amortization expenses	26,535	814	31,336	954
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Notes and accounts receivable	(65,445)	(2,008)	(97,265)	(2,961)
Accounts receivable-related parties	10,056	309	(10,056)	(306)
Other receivables	(39,195)	(1,202)	(17,984)	(547)
Inventories	1,262	39	(1,208)	(37)
Other current assets	1,617	50	2,310	70
Deferred income tax assets	(3,706)	(114)	(6,107)	(186)
Other assets-others	-	-	4,220	128
Increase (decrease) in liabilities:				
Notes and accounts payable	(17,363)	(533)	5,960	181
Income tax payable	(26,338)	(808)	478	15
Accrued expenses	128,262	3,935	116,897	3,559
Other payables	(15,634)	(480)	12,381	377
Other current liabilities	4,818	148	(12,167)	(370)
Accrued pension liabilities	(270)	(8)	2,066	63
Net cash provided by operating activities	<u>816,445</u>	<u>25,049</u>	<u>748,832</u>	<u>22,796</u>
<u>Cash flows from investing activities</u>				
(Increase) decrease in financial assets at fair value through profit or loss	(2,535,761)	(77,796)	2,000,010	60,883
Increase in long term investments-third parties	-	-	(598)	(18)
Proceeds from sale of long-term investments	103,401	3,172	8,528	260
Proceeds from capital reduction of long-term investments	-	-	557	17
Cash received from liquidation of investee company	336	10	-	-
Acquisition of property, plant, and equipment	(11,818)	(362)	(6,695)	(204)
Increase in other intangible assets	-	-	(19,620)	(597)
Increase in refundable deposits-net	(189)	(6)	(1,708)	(52)
Increase in deferred charges	(281)	(9)	-	-
Net cash used in (provided by) investing activities	<u>(2,444,312)</u>	<u>(74,991)</u>	<u>1,980,474</u>	<u>60,289</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)

	2006		2005	
	NT\$	US\$ (Unaudited - Note 2)	NT\$	US\$ (Unaudited - Note 2)
<u>Cash flows from financing activities</u>				
Payment of cash dividends	(\$ 488,177)	(\$ 14,977)	(\$ 257,218)	(\$ 7,830)
Payment of directors' and supervisors' remuneration and employees' bonus	(25,413)	(780)	(14,604)	(445)
Exercise of employee stock options	45,002	1,381	38,121	1,160
Decrease in deposit in, net	(309)	(9)	-	-
Net cash used in financing activities	(468,897)	(14,385)	(233,701)	(7,115)
Effects of changes in exchange rates on foreign currency holdings	(2,154)	622	6,969	(239)
Effect of loss of control in subsidiary	-	-	(20,879)	(636)
Net (decrease) increase in cash	(2,098,918)	(63,705)	2,481,695	75,095
Cash and cash equivalents at beginning of the year	<u>2,894,008</u>	<u>88,098</u>	<u>412,313</u>	<u>13,003</u>
Cash and cash equivalents at end of the year	<u>\$ 795,090</u>	<u>\$ 24,393</u>	<u>\$ 2,894,008</u>	<u>\$ 88,098</u>
<u>Supplemental disclosure of cash flows information:</u>				
Cash paid during the year for:				
Income taxes	<u>\$ 97,280</u>	<u>\$ 2,985</u>	<u>\$ 104,454</u>	<u>\$ 3,180</u>
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating and financial activities which have no influence on cash flows:				
Unpaid employees' bonus	<u>\$ 17,857</u>	<u>\$ 548</u>	<u>\$ 8,780</u>	<u>\$ 267</u>
Leased assets transferred to fixed assets	<u>\$ 59,180</u>	<u>\$ 1,816</u>	<u>\$ -</u>	<u>\$ -</u>

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

CYBERLINK CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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, 2006, the Company and its consolidated subsidiaries had approximately 400 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, 2006</u>	<u>December 31, 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 1

Investor	Name of the subsidiary	Major operating activities	Ownership (%)		Note
			December 31, 2006	December 31, 2005	
CyberLink Corp.	CyberLink Investment Corp. (CyberLink Investment)	Investment activities	100%	100%	
"	Tse-Lien Technology Corp. (Tse-Lien)	Sales of computer software	-	100%	Note 2
CyberLink Investment Corp. (CyberLink Investment)	Tse-Lien Technology Corp. (Tse-Lien)	Sales of computer software	100%	-	Note 2
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	"	100%	100%	

Note 1: 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.

Note 2: The Company sold all its shares in Tse-Lien to CyberLink Investment in November, 2006.

3) Adjustment and approach for difference in accounting years 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 year ended December 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the

Republic of China. The Group's significant accounting policies are summarized follows:

1) Basis for 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 on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the 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 for under "Gain from sales of portfolio securities" and "Recovery on decline in market value of short-term investments" in the consolidated statements of income; the relevant cash flows from short-term investment account was included under operating activities in the consolidated statements of cash flows.

2) Translation of financial statements of foreign subsidiaries

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

3) Foreign currency transactions

- A. 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) Classification of current and non-current items

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

5) 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.

6) 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 described in Note 3.

7) 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 described in Note 3.

8) 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.

9) 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. 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.

10) 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.

11) 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.

12) 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.

13) Deferred charges

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

14) 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.

15) 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.

16) 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 years 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 years 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.

17) Impairment of non-financial assets

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. However, the impairment loss recognized for goodwill is not recoverable.

18) 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 the sale of marketable securities is recognized on the transaction date for consolidated subsidiaries engaging primarily in investment activities.

19) 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.

20) 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\$32.595 and US\$1:NT\$32.85 on December 31, 2006 and 2005, 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) Consolidated financial statements

Effective 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 \$19,589 (US\$601) for the year ended December 31, 2005. Please see Note 1(2) for the summary of consolidated subsidiaries.

2) Impairment of non-financial assets

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 year ended December 31, 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”.

B. The accounting policies before December 31, 2005 (included) were 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.

C. As a result of the adoption of SFAS Nos.34 and 36, total stockholders' equity increased by \$25,217 (US\$774) as of December 31, 2006, and net income increased by \$25,217 (US\$774) for the year ended December 31, 2006. Earnings per share also increased by \$0.25 for the year ended December 31, 2006.

4. SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Cash on hand	\$ 355	\$ 11	\$ 308	\$ 9
Demand deposits	736,130	22,584	667,954	20,334
Checking accounts	9,267	284	1,139	35
Time deposits	49,338	1,514	1,766,419	53,772
Cash equivalents	-	-	458,188	13,948
	<u>\$ 795,090</u>	<u>\$ 24,393</u>	<u>\$2,894,008</u>	<u>\$ 88,098</u>

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

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		(Note 2)		(Note 2)
Financial assets held for trading				
Money market funds	\$ 3,034,210	\$ 93,088	\$ 496,589	\$ 15,117
Adjustment of financial assets held for trading	<u>25,217</u>	<u>774</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,059,427</u>	<u>\$ 93,862</u>	<u>\$ 496,589</u>	<u>\$ 15,117</u>

The Company and its subsidiaries recognized a net gain of \$25,217 (US\$774) for the year ended December 31, 2006.

3) Notes and accounts receivable

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		(Note 2)		(Note 2)
Notes receivable	\$ 2,397	\$ 74	\$ 1,882	\$ 57
Accounts receivable	<u>425,374</u>	<u>13,050</u>	<u>359,810</u>	<u>10,953</u>
	427,771	13,124	361,692	11,010
Less: Allowance for doubtful accounts	(<u>16,071</u>)	(<u>493</u>)	(<u>22,779</u>)	(<u>693</u>)
	<u>\$ 411,700</u>	<u>\$ 12,631</u>	<u>\$ 338,913</u>	<u>\$ 10,317</u>

4) Financial assets carried at cost

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Unlisted stocks	\$ 1,943	\$ 60	\$ 32,999	\$ 1,004

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

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

<u>Investee company</u>	December 31, 2006		
	Amount		%
	NT\$	US\$	ownership
		(Unaudited) (Note2)	
CyberLink Transdigital Inc. (CyberLink-NCR)	\$ -	\$ -	-

<u>Investee company</u>	December 31, 2005		
	Amount		%
	NT\$	US\$	ownership
		(Unaudited) (Note2)	
CyberLink Transdigital Inc. (CyberLink-NCR)	\$ -	\$ -	-

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

	For the years ended December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
	(Unaudited) (Note 2)		(Unaudited) (Note 2)	
CyberLink-NCR	\$ -	\$ -	(\$ 402)	(\$ 12)

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

6) Property, plant and equipment

Item	December 31, 2006		
	Original cost	Accumulated depreciation	Net Book value
Land	\$ 181,692	\$ -	\$ 181,692
Buildings	146,683	(27,661)	119,022
Machinery	19,054	(8,000)	11,054
Transportation equipment	1,430	(820)	610
Furniture and fixtures	11,041	(7,345)	3,696
	<u>\$ 359,900</u>	<u>(\$ 43,826)</u>	<u>\$ 316,074</u>

Item	December 31, 2005		
	Original cost	Accumulated depreciation	Net Book value
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>

December 31, 2006			
(US\$: Unaudited - Note 2)			
Item	Original cost	Accumulated depreciation	Net Book value
Land	\$ 5,574	\$ -	\$ 5,574
Buildings	4,500	(849)	3,651
Machinery	585	(246)	339
Transportation equipment	44	(25)	19
Furniture and fixtures	339	(226)	113
	<u>\$ 11,042</u>	<u>(\$ 1,346)</u>	<u>\$ 9,696</u>

December 31, 2005			
(US\$: Unaudited - Note 2)			
Item	Original cost	Accumulated depreciation	Net 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>

7) Income tax

	For the years ended December 31,			
	2006		2005	
	NT\$	US\$ (Unaudited) (Note 2)	NT\$	US\$ (Unaudited) (Note 2)
Income tax expense	\$ 145,900	\$ 4,476	\$ 98,902	\$ 3,011
Over (under) provision of prior year's income tax	9,869	303	(514)	(16)
Effect of deferred income tax assets	3,706	114	6,107	186
Foreign royalty withholding tax	(76,361)	(2,343)	(56,492)	(1,720)
Short-term notes tax	(1,649)	(51)	(19)	(1)
Prepaid income tax	(59,995)	(1,840)	(176)	(5)
Income tax payable	<u>\$ 21,470</u>	<u>\$ 659</u>	<u>\$ 47,808</u>	<u>\$ 1,455</u>

A. As of December 31, 2006 and 2005, the deferred income tax assets (liabilities) were as follows:

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited) (Note 2)		(Unaudited) (Note 2)
Total deferred income tax assets	\$ 68,646	\$ 2,106	\$ 64,387	\$ 1,959
Valuation allowance of deferred income tax assets	(\$ 7,796)	(\$ 239)	(\$ 7,243)	(\$ 220)

B. As of December 31, 2006 and 2005, details of deferred income tax assets and liabilities were as follows:

	December 31,			
	2006		2005	
	(NT\$)			
Items	Amount	Income tax effect	Amount	Income tax effect
Current:				
Unrealized exchange loss	\$ 1,186	\$ 296	\$ 17,818	\$ 4,454
Unrealized profit on intercompany sales	653	163	787	197
Bad debt expenses	11,252	2,813	19,397	4,849
Loss carry-forward	12,820	<u>3,205</u>	-	<u>-</u>
		<u>6,477</u>		<u>9,500</u>
Non current:				
Investment loss on foreign long-term investments accounted for under the equity method	-	-	14,189	3,547
Loss carry-forward	-	-	14,783	3,696
Investment tax credits		62,196		47,644
Valuation allowance		(7,796)		(7,243)
		<u>54,373</u>		<u>47,644</u>
		<u>\$ 60,850</u>		<u>\$ 57,144</u>

Items	December 31,			
	2006		2005	
	Amount	(US\$: Unaudited - Note 2) Income tax effect	Amount	Income tax effect
Current:				
Unrealized exchange loss	\$ 36	\$ 9	\$ 542	\$ 135
Unrealized profit on intercompany sales	20	5	24	6
Bad debt expense	345	86	590	148
Loss carry-forward	393	99	-	-
		<u>199</u>		<u>289</u>
Non current:				
Investment loss on foreign long-term investments accounted for under the equity method	-	-	432	108
Loss carry forward	-	-	450	112
Investment tax credits		1,908		1,450
Valuation allowance		(240)		(220)
		<u>1,668</u>		<u>1,450</u>
		<u>\$ 1,867</u>		<u>\$ 1,739</u>

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

D. As of December 31, 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\$ 1,119)	NT\$15,814 (US\$ 485)	2007
"	NT\$51,892 (US\$ 1,592)	NT\$11,527 (US\$ 354)	2008
"	NT\$56,066 (US\$ 1,720)	NT\$ 5,791 (US\$ 178)	2009
"	NT\$69,231 (US\$ 2,124)	NT\$29,037 (US\$ 891)	2010
		<u>NT\$62,169</u> (US\$ 1,908)	

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

<u>Approval date and no.</u>	<u>Completion date of investment plan</u>	<u>Tax-exempt Years</u>	<u>2006.1.1 ~ 2006.12.31 Tax-exempt income</u>
Tai-Tsai-Shuey No 09404154230 on Dec. 19, 2005	December 31, 2004	January 1, 2006 – December 31, 2010	NT\$ 588,307 (US\$ 18,049)

- F. For the years ended December 31, 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\$9,418 (US\$289) 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\$12,381) to NT\$293,450 (US\$9,003). 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 income amount from NT\$36,461 (US\$1,119) to NT\$116 (US\$4). The Company also has to pay a \$16,453 (US\$505) tax expense but disagreed with the assessment and has already requested for a reexamination in August 22, 2006.
- H. The Company's income tax of 2001 was assessed by Tax Authority on November 13, 2006. The Tax Authority considered the royalty which the Company had paid for sale media products as outsourced manufacturing cost and made up 30% of the total cost. Therefore it did not meet the criteria of industry upgrading. The Company couldn't have been granted the Tax-exempt income by adopting the Note 5 of "The note of Tax-exempt income count formula", hence, a elimination in the tax-exempt income amount from NT\$126,778(US\$3,889) to zero. The Company also has to pay a NT\$10,195 (US\$313) tax expense. However, the Company disagrees with the Tax Authority's opinion and has already requested for a reexamination in December 21, 2006.

8) Accrued expenses

	December 31,			
	2006		2005	
	NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)
		(Note 2)		(Note 2)
Royalty expense	\$407,672	\$ 12,507	\$303,379	\$ 9,235
Payroll	36,621	1,124	29,419	896
Commission expense	27,869	855	24,711	752
Professional service fees	16,473	505	18,721	570
Others	42,875	1,315	28,385	864
	<u>\$531,510</u>	<u>\$ 16,306</u>	<u>\$404,615</u>	<u>\$ 12,317</u>

9) 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 \$12,815 (US\$393) and \$12,549 (US\$382) as of December 31, 2006 and 2005, respectively. The fund balance is not included in the financial statements.

B. The related actuarial assumptions to calculate the accrued pension cost, based on the measurement dates as of December 31, 2006 and 2005, were as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</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>2006</u>	<u>2005</u>
Benefit obligation:	(NT\$)	
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	(14,226)	(12,672)
Accumulated benefit obligation	(14,226)	(12,672)
Additional benefits based on future salaries	(11,534)	(10,896)
Projected benefit obligation	(25,760)	(23,568)
Plan assets at fair value	<u>13,045</u>	<u>12,723</u>
Funded status	(12,715)	(10,845)
Unrecognized net obligation at transition	288	329
Unrecognized pension loss	<u>8,321</u>	<u>7,110</u>
Accrued pension liabilities	(<u>\$ 4,106</u>)	(<u>\$ 3,406</u>)
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(US\$: Unaudited - Note 2)	
Benefit obligation:		
Vested benefit obligation	\$ -	\$ -
Non-vested benefit obligation	(436)	(386)
Accumulated benefit obligation	(436)	(386)
Additional benefits based on future salaries	(354)	(332)
Projected benefit obligation	(790)	(718)
Plan assets at fair value	<u>400</u>	<u>387</u>
Funded status	(390)	(331)
Unrecognized net obligation at transition	9	10
Unrecognized pension loss	<u>255</u>	<u>216</u>
Accrued pension liabilities	(<u>\$ 126</u>)	(<u>\$ 105</u>)
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

D. In 2006 and 2005, the net periodic pension costs were as follows:

	2006	
	NT\$	US\$ (Unaudited) (Note 2)
Service cost	\$ -	\$ -
Interest cost	825	25
Expected return on plan assets	(357)	(11)
Amortization of unrecognized transition obligation	41	1
Unrecognized pension loss	<u>190</u>	<u>6</u>
Net periodic pension cost	<u>\$ 699</u>	<u>\$ 21</u>
	2005	
	NT\$	US\$ (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>

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 years ended December 31, 2006 and 2005 were \$11,675 (US\$358) and \$4,998 (US\$152), respectively.

F. Foreign subsidiaries have their contribution pension plans according to local policies.

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

10) 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\$599) and employees' stock bonus of NT\$25,962 (US\$797). The registration of this capital increase has been completed in October 2, 2006.
- B. As of December 31, 2006, the Company's authorized capital was NT\$1,400,000 (US\$42,951), the issued and outstanding capital was NT\$1,027,681 (US\$31,529) (including exercise of employee stock options of NT\$16,924 (US\$519) and the conversion of bonds payable to capital stock amounted to NT\$132,611 (US\$4,068).
- 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 years ended December 31, 2006 and 2005 are as follows:

	For the years ended December 31,			
	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\$ 1.73)	4,003	NT\$ 64.16 (US\$ 1.95)
Options granted	-	-	170	NT\$100.30 (US\$ 3.05)
Distribution of stock dividends / adjustments for number of shares granted for one unit of options	173	NT\$ 45.35 (US\$ 1.39)	424	NT\$ 59.86 (US\$ 1.82)
Options exercised	(900)	NT\$ 44.10 (US\$ 1.35)	(635)	NT\$ 51.43 (US\$ 1.57)
Options revoked	(65)	NT\$ 44.76 (US\$ 1.37)	(200)	NT\$ 53.68 (US\$ 1.63)
Ending balance	<u>2,970</u>	NT\$ 50.40 (US\$ 1.55)	<u>3,762</u>	NT\$ 56.41 (US\$ 1.72)
Options exercisable at end of the year	<u>1,862</u>		<u>1,198</u>	
Options authorized but not granted at end of the year	<u>2,800</u>		<u>-</u>	

b) As of December 31, 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 years	Weighted average exercise price (in dollars)	No. of shares (in thousands)	Weighted average exercise price (in dollars)
\$41.10~44.20	460	2.53	NT\$ 41.53 (US\$ 1.27)	460	NT\$ 41.53 (US\$ 1.27)
\$46.40	1,924	3.50	NT\$ 46.40 (US\$ 1.42)	1,306	NT\$ 46.40 (US\$ 1.42)
\$59.80~91.10	586	4.67	NT\$ 70.52 (US\$ 2.16)	96	NT\$ 59.80 (US\$ 1.83)

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, 2006	
	Financial statement information	Pro forma information
Net income	NT\$ 901,536 (US\$ 27,659)	NT\$ 893,445 (US\$ 27,410)
Basic earnings per share (in dollars)	NT\$ 8.81	NT\$ 8.73
Diluted earnings per share (in dollars)	NT\$ 8.68	NT\$ 8.60

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 Years	7 years	7 years
Options issued during the Years	0 units	0 units
Average fair value (in dollars)	NT\$ 59.76	NT\$ 45.07

11) 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.

12) 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 2006 was 5.81%. As of December 31, 2006, the imputation tax credit account balance was NT\$59,038 (US\$1,811). The estimated creditable tax ratio of distributed earnings in 2007 is 4.44%. As of December 31, 2006, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were NT\$9,932 (US\$305) and NT\$1,421,410 (US\$43,608), 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 for any 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\$4.9917 in 2006 and NT\$2.9828 in 2005, and stock dividends of NT\$0.1997 in 2006 and NT\$0.9942 in 2005 per share.
- E. As of February 12, 2007, the board of directors had 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:

	<u>Amount of the actual earnings distribution approved by the board of directors and stockholders</u>
a) Appropriation of 2005 earnings	
Employees' stock bonus	
Number of shares (in thousands)	2,596
Amount	NT\$ 25,962 (US\$ 797)
Percentage of outstanding shares at December 31, 2005	2.53%
Employees' cash bonus	NT\$ 31,731 (US\$ 973)
Directors' and supervisors' remuneration	NT\$ 11,539 (US\$ 354)
b) Earnings per share (in dollars)	
Original earnings per common share	NT\$ 7.49
(Note a)	(US\$ 0.23)
Adjusted earnings per common share	NT\$ 6.78
(Note b)	(US\$ 0.21)

Note a: The amount is not adjusted for retained earnings capitalized in 2006.

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

13) Earnings per common share

For the year ended December 31, 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	\$1,047,436	\$ 901,536			
	(US\$ 32,136)	(US\$ 27,659)			
Basic earnings per share			102,301	<u>\$ 10.24</u>	<u>\$ 8.81</u>
				(US\$0.31)	(US\$0.27)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,611		
Diluted earnings per share	<u>\$1,047,436</u>	<u>\$ 901,536</u>	<u>103,912</u>	<u>\$ 10.08</u>	<u>\$ 8.68</u>
	(US\$ 32,136)	(US\$ 27,659)		(US\$0.31)	(US\$0.27)

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	\$ 725,849			
	(US\$ 25,034)	(US\$ 22,096)			
Basic earnings per share			101,410	<u>\$ 8.11</u>	<u>\$ 7.16</u>
				(US\$0.25)	(US\$0.22)
Effect of diluted common stock equivalent: Employees stock options	-	-	1,436		
Diluted earning per share	<u>\$ 822,356</u>	<u>\$ 725,849</u>	<u>102,846</u>	<u>\$ 8.00</u>	<u>\$ 7.06</u>
	(US\$ 25,034)	(US\$ 22,096)		(US\$0.24)	(US\$0.21)

The above weighted-average outstanding common shares have been adjusted retroactively in proportion to retained earnings and employees' bonus capitalized during the year ended December 31, 2006.

14) Personnel, depreciation and amortization expense

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

For the year ended December 31, 2006						
	<u>Operating costs</u>		<u>Operating expenses</u>		<u>Total</u>	
	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>
	(Unaudited) (Note 2)		(Unaudited) (Note 2)		(Unaudited) (Note 2)	
Personnel expenses						
Salaries	\$ -	\$ -	\$346,423	\$10,628	\$346,423	\$10,628
Insurance expense	-	-	29,017	890	29,017	890
Pension expense	-	-	12,374	380	12,374	380
Others	-	-	8,632	265	8,632	265
Depreciation	-	-	13,156	404	13,156	404
Amortization	-	-	26,535	814	26,535	814

For the year ended December 31, 2005						
	<u>Operating costs</u>		<u>Operating expenses</u>		<u>Total</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
	(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	-	-	8,010	244	8,010	244
Depreciation	-	-	12,192	371	12,192	371
Amortization	-	-	31,336	954	31,336	954

5. RELATED PARTY TRANSACTIONS

1) Name and relationship of related party

<u>Name</u>	<u>Relationship with the Company</u>
CyberLink Transdigital Inc. (CyberLink-NCR) (Note)	An investee company of CyberLink-B.V.I accounted for under the 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 are for comparison purposes only.

2) Significant transactions with related party

A. Sales

	<u>For the years ended December 31,</u>					
	<u>2006</u>			<u>2005</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>\$ 34,056</u>	<u>\$ 1,045</u>	<u>1</u>	<u>\$ 27,006</u>	<u>\$ 822</u>	<u>1</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>December 31,</u>					
	<u>2006</u>			<u>2005</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>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 10,056</u>	<u>\$ 306</u>	<u>3</u>

6. DETAILS OF PLEDGED ASSETS

None.

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2006, except for those stated in Note 4(7), significant commitments and contingent liabilities were as follows:

CyberLink-USA and CyberLink-Japan leases certain office space. The total future minimum lease payments under the operating lease agreement amounted to NT\$8,303 (US\$255) and NT\$988 (US\$30), respectively. In 2006, CyberLink-USA and CyberLink-Japan paid , as lease expense, NT\$3,923 (US\$120) and NT\$2,420 (US\$74), respectively .

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 by 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

	December 31, 2006 (NT\$)			December 31, 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	\$ 1,280,409	\$ -	\$ 1,280,409	\$ 3,277,401	\$ 3,277,401
Financial assets at fair value through profit or loss	3,059,427	3,059,427	-	496,589	496,589
Liabilities					
Financial liabilities with fair values equal to book values	597,080	-	597,080	501,479	501,479

	December 31, 2006 (US\$)			December 31, 2005 (US\$)	
	(Unaudited – Note 2)			(Unaudited – Note 2)	
	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	\$ 39,283	\$ -	\$ 39,283	\$ 99,769	\$ 99,769
Financial assets and financial liabilities at fair value through profit or loss	93,862	93,862	-	15,117	15,117
Liabilities					
Financial liabilities with fair values equal to book values	18,319	-	18,319	15,265	15,265

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

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.

3) For the year ended December 31, 2006, total interest income for financial assets or financial liabilities that are not at fair value through profit or loss amounted to \$28,216 (US\$866).

4) 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 seeks the balance of risk and liquidity in attaining the best strategy.

5) Information of financial risk

A. Cash and cash equivalents

a) Market risk

Cash and cash equivalents 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 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. 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 these 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 near 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.

C. Accounts and notes receivable

a) Market risk

Accounts and notes receivable 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 receivables are reputable international business institutions. 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.

D. Accounts and notes payable

a) Market risk

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

b) Credit risk

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

c) Liquidity risk

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

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

		For the years ended December 31,			
		2006		2005	
Transactions	Subsidiaries	Amount		Amount	
		NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)	
		(Note 2)		(Note 2)	
A) Elimination of long-term investments and stockholders' equity	CyberLink-USA	\$ 171,175	\$ 5,252	\$ 127,035	\$ 3,867
	CyberLink-B.V.	-	-	6,189	188
	CyberLink-B.V.I	114,197	3,504	58,367	1,777
	CyberLink-Investment Tse-Lien	21,033	645	20,881	636
	CyberLink-B.V.I to CyberLink - Japan	-	-	969	29
	CyberLink-Investment to Tse-Lien	5,068	155	9,751	297
	CyberLink-Investment to Tse-Lien	984	29	-	-
B) Elimination of balance sheet accounts					
Accounts receivable	CyberLink-USA	83,318	2,556	56,795	1,729
	CyberLink-B.V.	39,311	1,206	41,224	1,255
	CyberLink-Japan	37,090	1,138	33,884	1,031
Other receivables	CyberLink-USA	4,028	124	6,581	200
	CyberLink-B.V.	39,261	1,205	21,701	661
	CyberLink-Japan	716	22	256	8
Other liabilities	CyberLink-B.V.	27,117	832	-	-
C) Elimination of income statement accounts					
Sales	CyberLink-USA	309,960	9,509	226,097	6,883
	CyberLink-B.V.	190,142	5,833	191,600	5,833
	CyberLink-Japan	79,660	2,444	54,396	1,656
	CyberLink-Old Japan	-	-	12,568	383

		For the years ended December 31,			
		2006		2005	
Transactions	Subsidiaries	Amount		Amount	
		NT\$	US\$	NT\$	US\$
		(Unaudited)		(Unaudited)	
		(Note 2)		(Note 2)	
Other income	CyberLink-USA	\$ 11,805	\$ 362	\$ 6,026	\$ 183
	CyberLink-B.V.	21,011	645	20,410	621
	CyberLink-Japan	1,909	59	-	-
Commission expense	CyberLink-B.V.	3,337	102	5,557	169
	CyberLink-Japan	78	2	102	3
Realized profit on intercompany transactions	CyberLink-USA	101	3	108	3
	CyberLink-B.V.	660	20	742	23
	CyberLink-Japan	26	1	-	-
	CyberLink-Old Japan	-	-	3,016	92
Unrealized profit on intercompany transactions	CyberLink-USA	85	3	101	3
	CyberLink-B.V.	552	17	660	20
	CyberLink-Japan	16	1	26	1

7) 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, 2006	Interest	Nature of lending (Note 2)	Amount	Reason for short-term finance capital	Allowance for doubtful accounts	Guarantee		The restricted amount to single counterparty (Note 3)
											Item	Value	
1	CyberLink International Technology Corp.	CyberLink Inc.	Other receivable	US\$ 200	US\$ 0	-	2	-	Operating working capital	-	-	-	US\$ 1,401

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 nature of lending is written below

1.transaction between inter companies: 1 2.Necessary for short-term financing: 2

Note 3: The maximum amount & lending to single individual company by subsidiaries are not to 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, 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	\$ 171,175	100.00	\$ 171,175
"	CyberLink Europe B.V.	"	"	1,500,000	-	100.00	-
"	CyberLink International Technology Corp.	"	"	2,000,000	114,197	100.00	114,197
"	CyberLink Investment Corp.	"	"	2,000,000	21,033	100.00	21,033
"	ABN Amro Select Bond Fund	None	Financial assets at fair value through profit or loss-current	18,644,380	211,306	-	211,306
"	ABN Amro Bond Fund	"	"	23,903,295	360,204	-	360,204
"	JF First Bond Fund	"	"	8,919,475	125,342	-	125,342
"	JF Taiwan Bond Fund	"	"	24,835,484	378,922	-	378,922
"	Dresdner Bond DAM Fund	"	"	28,668,873	332,198	-	332,198
"	HSBC Taiwan Money Management Band Fund	"	"	9,519,739	141,358	-	141,358
"	HSBC Taiwan Dragon Bond Fund	"	"	17,568,528	270,815	-	270,815
"	Fuh-Hwa Bond Fund	"	"	22,347,430	297,898	-	297,898
"	NITC Bond Fund	"	"	1,641,449	270,086	-	270,086
"	PCA Well Pool Fund	"	"	14,465,080	181,080	-	181,080
"	AIG Domestic Bond Fund	"	"	17,243,581	219,873	-	219,873
"	Prudential bond Fund	"	"	12,482,163	182,424	-	182,424
"	UPAMC James Bond Fund, etc	"	"		68,269	-	68,269
CyberLink Investment Corp.	ABN Amro Bond Fund	None	"	1,304,108	19,652	-	19,652
"	Tse-Lien Technology Corp.	A subsidiary of CyberLink Investment Corp.	Long-term equity investments accounted for under the equity method	100,000	984	100.00	984
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	5,068	100.00	5,068
"	DivXNetworks, Inc.	None	Financial assets carried at cost-non current	12,991	1,943	-	1,943

(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	\$ 5,252	100.00	\$ 5,252
"	CyberLink Europe B.V.	"	"	1,500,000	-	100.00	-
"	CyberLink International Technology Corp.	"	"	2,000,000	3,504	100.00	3,504
"	CyberLink Investment Corp.	"	"	2,000,000	645	100.00	645
"	ABN Amro Select Bond Fund	None	Financial assets at fair value through profit or loss-current	18,644,380	6,483	-	6,483
"	ABN Amro Bond Fund	"	"	23,903,295	11,051	-	11,051
"	JF First Bond Fund	"	"	8,919,475	3,845	-	3,845
"	JF Taiwan Bond Fund	"	"	24,835,484	11,626	-	11,626
"	Dresdner Bond DAM Fund	"	"	28,668,873	10,192	-	10,192
"	HSBC Taiwan Money Management Band Fund	"	"	9,519,739	4,337	-	4,337
"	HSBC Taiwan Dragon Bond Fund	"	"	17,568,528	8,308	-	8,308
"	Fuh-Hwa Bond Fund	"	"	22,347,430	9,139	-	9,139
"	NITC Bond Fund	"	"	1,641,449	8,286	-	8,286
"	PCA Well Pool Fund	"	"	14,465,080	5,555	-	5,555
"	AIG Domestic Bond Fund	"	"	17,243,581	6,746	-	6,746
"	Prudential bond Fund	"	"	12,482,163	5,597	-	5,597
"	UPAMC James Bond Fund, etc	"	"	-	2,094	-	2,094
CyberLink Investment Corp.	ABN Amro Bond Fund	None	"	1,304,108	603	-	603
"	Tse-Lien Technology Corp.	A subsidiary of CyberLink Investment Corp.	Long-term equity investments accounted for under the equity method	100,000	29	100.00	29
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	155	100.00	155
"	DivXNetworks, Inc.	None	Financial assets carried at cost-non current	12,991	59	-	-

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

January 1, 2006 – December 31, 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 (Note)	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	\$ 196,273	-	\$ -	\$ -	\$ -	24,835	\$ 378,922
"	ABN Amro Select Bond Fund	"	-	-	14,156	158,248	9,264	106,530	4,775	54,000	53,472	528	18,645	211,306
"	ABN Amro Bond Fund	"	-	-	4,937	73,367	18,966	286,837	-	-	-	-	23,903	360,204
"	PCA Well Pool Fund	"	-	-	-	-	19,673	245,673	5,208	65,000	64,593	407	14,465	181,080
"	HSBC Taiwan Money Management Bond Fund	"	-	-	-	-	9,520	141,358	-	-	-	-	9,520	141,358
"	NITC Bond Fund	"	-	-	-	-	1,641	270,086	-	-	-	-	1,641	270,086
"	HSBC Taiwan Dragon Bond Fund	"	-	-	-	-	17,569	270,815	-	-	-	-	17,569	270,815
"	INVESCO Bond Fund	"	-	-	-	-	20,352	300,000	20,352	301,256	300,000	1,256	-	-
"	Prudential Bond Fund	"	-	-	-	-	12,482	182,424	-	-	-	-	12,482	182,424
"	Dresdner Bond DAM Fund	"	-	-	-	-	28,669	332,198	-	-	-	-	28,669	332,198
"	Fuh-Hwa Bond Fund	"	-	-	-	-	22,347	297,898	-	-	-	-	22,347	297,898
"	Fuh-Hwa Albatross Bond Fund	"	-	-	-	-	26,388	295,900	26,388	296,600	295,900	700	-	-
"	UPAMC Janes Bond Fund	"	-	-	-	-	19,571	300,166	17,884	275,000	274,137	863	1,687	26,029
"	AIG Domestic Bond Fund	"	-	-	-	-	17,636	224,862	393	5,000	4,989	11	17,243	219,873

Note: including valuation amount

January 1, 2006 – December 31, 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	\$ 5,604	12,701	\$ 6,022	-	\$ -	\$ -	\$ -	24,835	\$ 11,626
"	ABN Amro Select Bond Fund	"	-	-	14,156	4,855	9,264	3,268	4,775	1,656	1,640	16	18,645	6,483
"	ABN Amro Bond Fund	"	-	-	4,937	2,251	18,966	8,800	-	-	-	-	23,903	11,051
"	PCA Well Pool Fund	"	-	-	-	-	19,673	7,537	5,208	1,994	1,982	12	14,465	5,555
"	HSBC Taiwan Money Management Bond Fund	"	-	-	-	-	9,520	4,337	-	-	-	-	9,520	4,337
"	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	9,204	20,352	9,242	9,204	38	-	-
"	Pradential Bond Fund	"	-	-	-	-	12,482	5,597	-	-	-	-	12,482	5,597
"	Dresdner Bond DAM Fund	"	-	-	-	-	28,669	10,192	-	-	-	-	28,669	10,192
"	Fuh-Hwa Bond Fund	"	-	-	-	-	22,347	9,139	-	-	-	-	22,347	9,139
"	Fuh-Hwa Albatross Bond Fund	"	-	-	-	-	26,388	9,078	26,388	9,100	9,078	22	-	-
"	UPAMC Janes Bond Fund	"	-	-	-	-	19,571	9,209	17,884	8,437	8,410	27	1,687	799
"	AIG Domestic Bond Fund	"	-	-	-	-	17,636	6,899	393	154	153	1	17,243	6,746

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 – December 31, 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\$309,960 (US\$ 9,509)	16	Note	The same as those with third-parties	Note	NT\$ 83,318 (US\$ 2,556)	20
	CyberLink Europe B.V.	"	"	NT\$190,142 (US\$ 5,833)	10	Note	"	Note	NT\$ 39,311 (US\$ 1,206)	9

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: None.

2) Relevant information regarding investee companies as of December 31, 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
				December 31, 2006	December 31, 2005	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100.00	\$ 171,175	\$ 45,038	\$ 45,038	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	11,874	11,874	1,500,000	100.00	-	(32,290)	(32,290)	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	64,821	64,821	2,000,000	100.00	114,197	56,187	56,187	"
"	CyberLink Investment Corp.	Taipei	"	20,000	20,000	2,000,000	100.00	21,033	152	152	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	-	1,000	-	-	-	(92)	(76)	Note
CyberLink Investment Corp.	Tse-Lien Technology Corp.	Taipei	Sale of software	1,000	-	100,000	100.00	984	(92)	(16)	A subsidiary of CyberLink Investment Corp.
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	US\$ 478	US\$ 478	1,000	100.00	US\$ 155	(US\$ 141)	(US\$ 141)	A subsidiary of CyberLink International Technology Corp.

Note: The Company sold all shares of Tse-Lien to CyberLink Investment in November, 2006.

(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, 2006	December 31, 2005	Shares	Percentage (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 4,182	\$ 4,150	4,000,000	100.00	\$ 5,252	\$ 1,382	\$ 1,382	A subsidiary of the Company
"	CyberLink Europe B.V.	Europe	"	364	361	1,500,000	100.00	-	(991)	(991)	"
"	CyberLink International Technology Corp.	British Virgin Islands	Investment activities	1,989	1,973	2,000,000	100.00	3,504	1,724	1,724	"
"	CyberLink Investment Corp.	Taipei	"	614	609	2,000,000	100.00	645	5	5	"
"	Tse-Lien Technology Corp.	Taipei	Sale of software	-	30	-	-	-	(3)	(2)	Note
CyberLink Investment Corp.	Tse-Lien Technology Corp.	Taipei	Sale of software	31	-	100,000	100.00	29	(3)	(1)	A subsidiary of CyberLink Investment Corp.
CyberLink International Technology Corp.	CyberLink Inc.	Japan	"	478	478	1,000	100.00	155	(141)	(141)	A subsidiary of CyberLink International Technology Corp.

Note: The Company sold all shares of Tse-Lien to CyberLink Investment in November, 2006.

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

4) Transactions of intercompanies

January 1, 2006 ~ December 31, 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	\$ 309,960	\$ 9,509	Sales to Subsidiary are at normal selling price and are collected 90 days after the delivery of goods are made.	10
			"	Accounts receivable	83,318	2,556		2
"	"	CyberLink Europe B.V.	"	Sales revenue	190,142	5,833		6
			"	Accounts receivable	39,311	1,206		1
"	"	CyberLink Inc.	"	Sales revenue	79,660	2,444		3
			"	Accounts receivable	37,090	1,138		1

January 1, 2005 ~ December 31, 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	\$ 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	

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.

- 3) Information about the Company's export sales: For the years ended December 31, 2006 and 2005, the Company's export sales were NT\$2,523,172 (US\$77,410) and NT\$2,059,293 (US\$62,688), respectively. The information on export sales are as follows:

	<u>2006</u>		<u>2005</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
America	\$1,363,298	\$ 41,825	\$ 935,291	\$ 28,472
Asia	634,012	19,451	601,293	18,304
Europe	360,422	11,058	387,046	11,782
Others	<u>165,440</u>	<u>5,076</u>	<u>135,663</u>	<u>4,130</u>
	<u>\$2,523,172</u>	<u>\$ 77,410</u>	<u>\$2,059,293</u>	<u>\$ 62,688</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>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Customer A	NT\$ 882,390	29%	NT\$800,341	33%
	(US\$ 27,071)		(US\$ 24,364)	
Customer B	316,611		-	-
	(US\$ 9,713)	10%		
	NT\$1,199,001	<u>39%</u>	NT\$800,341	<u>33%</u>
	(<u>US\$ 36,784</u>)		(<u>US\$ 24,364</u>)	