

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
**DECEMBER 31, 2016 AND 2015**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR16002931

To the Board of Directors and Stockholders of CyberLink Corp.

### **Opinion**

We have audited the accompanying consolidated balance sheets of CyberLink Corp. and its subsidiaries (the “Group”) as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### **Basis for opinion**

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

## **Accuracy of revenue recognition timing from sale of software products bundled with hardware firm's products**

### Description

Please refer to Note 4(26) for description of accounting policy on operating revenue, and Note 14(3) for details of operating revenue.

The Group has two main sales types, namely sale of software products bundled with hardware firm's products and sale of software through internet. For the first type, the Group recognizes operating revenue according to shipping report provided by the hardware firm after hardware product sold. As a result, a timing difference between revenue recognition tie-in hardware product sold near the financial period-end, and the amount involved would have a material effect on the consolidated financial statements. Therefore, we consider that the accuracy of revenue recognition timing and tie-in hardware product sold as one of the key audit matter for this fiscal year's audit.

### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding and tested the effectiveness of internal control adopted by management for revenue recognition timing and tie-in hardware product sold. This consisted of verifying the unit price, obtaining shipping report which is provided by hardware firm and ensuring that bundled revenue has been properly recorded.
2. Performed cut-off test on bundled revenue around the financial period-end, including verifying shipping report, examining sales contract, and confirming that bundled revenue are recorded in the proper period.

## **Impairment valuation of investments accounted for using equity method and bond investment without active market**

### Description

Please refer to Note 4(10) – financial assets impairment and Note 4(17) – non-financial assets impairment for description of accounting policy on impairment valuation of equity method investment and bond investment without active market, and Note 5(2) for accounting estimates and assumption uncertainty in relation to impairment valuation.

The Group invested in Perfect Corp. on April 2015, afterwards the Group invested in convertible bonds issued by Perfect Corp. on November 2016. Perfect Corp. has been engaged in mobile APP research and development since establishment, and has been incurring operating losses which resulted in an impairment concern. Therefore, the Group used estimates of future cash flows and expert's appraisal report to evaluate investment impairment.

Since the abovementioned estimates of future cash flows on Perfect Corp. involve management's subjective judgement and assumptions, as well as estimates having high uncertainty; thus, we consider that the impairment valuation of investments accounted for using equity method and bond investment without active market as one of the key items for this fiscal year's audit.

#### How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding and assessed the Group's related policies on impairment valuation and procedures for impairment valuation, including gathering the related documents from internal and external sources, evaluating both long-term and short-term business forecast and the changes in the industry technology and so on.
2. Evaluated the reasonableness of assumptions and methods that management adopted to assess Perfect Corp.'s future cash flows.
3. Obtained the valuation report from the expert appraiser, and performed the following procedures:
  - (a) Verified that the future cash flows adopted in the appraisal report met Perfect Corp's operating plan.
  - (b) Evaluating the discount rate, expected growth rate and other key assumptions in the appraisal report, and compared with historical valuation outcome, overall economic condition, forecasting documents in related industry to verify the reasonableness.
  - (c) Examine the accuracy of valuation model's calculations.

#### **Other matter – Parent company only financial reports**

We have audited and expressed an unmodified opinion on the parent company only financial statements of CyberLink Corp. as of and for the years ended December 31, 2016 and 2015.

#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial

statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Group’s financial reporting process.

### **Auditor’s responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and

are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Wang, Chao-Ming    Chou, Chien-Hung

For and on behalf of PricewaterhouseCoopers, Taiwan

February 22, 2017

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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 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 independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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

Assets	Notes	December 31, 2016		December 31, 2015		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 3,245,634	57	\$ 3,339,402	55
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		144,110	3	297,250	5
1147	Investments in debt instrument	6(3) and 7				
	without active market - current		145,124	3	-	-
1150	Notes receivable, net	6(4)	17,409	-	11,995	-
1170	Accounts receivable, net	6(5)	81,844	1	133,663	2
1200	Other receivables		6,817	-	5,151	-
1210	Other receivables - related parties	7	4,381	-	6,136	-
1220	Current income tax assets		6,946	-	2,550	-
130X	Inventories		5,586	-	7,334	-
1470	Other current assets		34,310	1	35,705	1
11XX	<b>Current Assets</b>		<u>3,692,161</u>	<u>65</u>	<u>3,839,186</u>	<u>63</u>
<b>Non-current assets</b>						
1523	Available-for-sale financial	6(6)				
	assets-non-current		68,400	1	69,554	1
1543	Financial assets measured at cost-	6(7)				
	non-current		57,598	1	56,743	1
1550	Investments accounted for using	6(8)				
	equity method		13,952	-	292,783	5
1600	Property, plant and equipment,	6(9)				
	net		464,190	8	467,619	8
1760	Investment property, net	6(10)	1,268,672	23	1,279,583	21
1840	Deferred income tax assets	6(24)	62,239	1	66,771	1
1900	Other non-current assets		15,301	1	3,939	-
15XX	<b>Non-current assets</b>		<u>1,950,352</u>	<u>35</u>	<u>2,236,992</u>	<u>37</u>
1XXX	<b>Total assets</b>		<u>\$ 5,642,513</u>	<u>100</u>	<u>\$ 6,076,178</u>	<u>100</u>

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

Liabilities and Equity	Notes	December 31, 2016		December 31, 2015		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2170	Accounts payable	6(11)	\$ 182,331	3	\$ 234,279	4
2200	Other payables	6(12)	624,605	11	671,663	11
2220	Other payables - related parties	7	-	-	473	-
2230	Income tax payable		49,066	1	27,693	-
2300	Other current liabilities		80,477	2	95,803	2
21XX	<b>Current Liabilities</b>		<u>936,479</u>	<u>17</u>	<u>1,029,911</u>	<u>17</u>
<b>Non-current liabilities</b>						
2550	Provisions-non-current	6(13)	452,746	8	433,798	7
2570	Deferred income tax liabilities	6(24)	2,936	-	2,366	-
2600	Other non-current liabilities	6(14)	54,018	1	59,026	1
25XX	<b>Non-current liabilities</b>		<u>509,700</u>	<u>9</u>	<u>495,190</u>	<u>8</u>
2XXX	<b>Total Liabilities</b>		<u>1,446,179</u>	<u>26</u>	<u>1,525,101</u>	<u>25</u>
<b>Equity</b>						
<b>Equity attributable to shareholders of the parent</b>						
<b>Capital stock</b>						
3110	Common stock	6(16)	968,945	17	967,950	16
<b>Capital surplus</b>						
3200	Capital surplus	6(17)	1,617,914	29	1,582,662	26
<b>Retained earnings</b>						
3310	Legal reserve	6(18)	1,067,165	19	1,011,501	17
3320	Special reserve		-	-	57,652	1
3350	Unappropriated earnings	6(24)	839,184	15	916,263	15
<b>Other equity interest</b>						
3400	Other equity interest	6(19)	13,386	-	15,049	-
3500	Treasury shares	6(16)	( 310,260)	( 6)	-	-
31XX	<b>Equity Attributable to shareholders of the parent</b>		<u>4,196,334</u>	<u>74</u>	<u>4,551,077</u>	<u>75</u>
3XXX	<b>Total Equity</b>		<u>4,196,334</u>	<u>74</u>	<u>4,551,077</u>	<u>75</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 5,642,513</u>	<u>100</u>	<u>\$ 6,076,178</u>	<u>100</u>

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Year ended December 31

Items	Notes	2016		2015	
		AMOUNT	%	AMOUNT	%
4000 <b>Net revenue</b>	7	\$ 1,895,941	100	\$ 1,976,411	100
5000 <b>Operating costs</b>	6(22)	( 259,962)	( 13)	( 278,308)	( 14)
5900 <b>Gross profit</b>		1,635,979	87	1,698,103	86
5910 Unrealized profit from sales		-	-	( 14,332)	( 1)
5920 Realized profit from sales		4,777	-	1,194	-
5950 <b>Gross profit from operations</b>		1,640,756	87	1,684,965	85
<b>Operating expenses</b>	6(14)(22)(23) and 7				
6100 Selling expenses		( 434,011)	( 23)	( 504,397)	( 25)
6200 General & administrative expenses		( 122,690)	( 7)	( 143,703)	( 7)
6300 Research and development expenses		( 347,474)	( 18)	( 405,712)	( 21)
6000 <b>Total operating expenses</b>		( 904,175)	( 48)	( 1,053,812)	( 53)
6900 <b>Operating income</b>		736,581	39	631,153	32
<b>Non-operating income and expenses</b>					
7010 Other income	6(10)(20) and 7	110,832	6	144,576	7
7020 Other gains and losses	6(2)(21) and 7	( 54,223)	( 3)	51,169	3
7060 Share of loss of associates and joint ventures accounted for using equity method	6(8)	( 289,210)	( 15)	( 134,595)	( 7)
7000 <b>Total non-operating income and expenses</b>		( 232,601)	( 12)	61,150	3
7900 <b>Income before income tax</b>		503,980	27	692,303	35
7950 Income tax expense	6(24)	( 200,484)	( 11)	( 135,663)	( 7)
8200 <b>Net income</b>		\$ 303,496	16	\$ 556,640	28
<b>Other comprehensive income(loss)</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311 Gains on remeasurements of defined benefit plans	6(14)	\$ 5,563	-	\$ 20,403	1
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	( 946)	-	( 3,469)	-
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>		4,617	-	16,934	1
<b>Items may be reclassified to profit or loss subsequently</b>					
8361 Exchange differences arising on translation of foreign operations	6(19)	( 6,748)	-	26,674	1
8362 Unrealized gains on valuation of available-for-sale financial assets	6(6)(19)	8,322	-	38,954	2
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method	6(8)(19)	( 3,237)	-	7,073	1
8360 <b>Items may be reclassified to profit or loss subsequently</b>		( 1,663)	-	72,701	4
8500 <b>Total comprehensive income</b>		\$ 306,450	16	\$ 646,275	33
<b>Net income attributable to:</b>					
8610 Shareholders of the parent		\$ 303,496	16	\$ 556,640	28
<b>Total comprehensive income attributable to:</b>					
8710 Shareholders of the parent		\$ 306,450	16	\$ 646,275	33
<b>Earnings per share</b>	6(25)				
9750 <b>Basic earnings per share</b>		\$ 3.15		\$ 5.60	
9850 <b>Diluted earnings per share</b>		\$ 3.08		\$ 5.49	

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

**CYBERLINK CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Equity attributable to shareholders of the parent									
	Notes	Retained Earnings				Other equity interest			Treasury shares	Total
		Common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences arising on translation of foreign operations	Unrealized gain (losses) on available-for-sale financial assets		
<b>Year 2015</b>										
Balance at January 1, 2015		\$ 1,002,192	\$ 1,782,414	\$ 940,803	\$ 73,164	\$ 1,099,648	(\$ 57,652)	\$ -	\$ -	\$ 4,840,569
Reversal of special reserve		-	-	-	( 15,512 )	15,512	-	-	-	-
Distribution of 2014 earnings:										
Legal reserve	6(18)	-	-	70,698	-	( 70,698 )	-	-	-	-
Cash dividends	6(18)	-	-	-	-	( 701,773 )	-	-	-	( 701,773 )
Net income for 2015		-	-	-	-	556,640	-	-	-	556,640
Purchase of treasury share	6(16)	-	-	-	-	-	-	-	( 292,931 )	( 292,931 )
Retirement of treasury share	6(16)(17)	( 43,790 )	( 249,141 )	-	-	-	-	-	292,931	-
Share-based payment transactions	6(15)(17)	-	9,420	-	-	-	-	-	-	9,420
Employee stock options exercised	6(17)	9,548	39,716	-	-	-	-	-	-	49,264
Change in net equity of associates accounted for using equity method	6(17)	-	253	-	-	-	-	-	-	253
Other comprehensive income for 2015	6(19)	-	-	-	-	16,934	33,747	38,954	-	89,635
Balance at December 31, 2015		<u>\$ 967,950</u>	<u>\$ 1,582,662</u>	<u>\$ 1,011,501</u>	<u>\$ 57,652</u>	<u>\$ 916,263</u>	<u>(\$ 23,905)</u>	<u>\$ 38,954</u>	<u>\$ -</u>	<u>\$ 4,551,077</u>
<b>Year 2016</b>										
Balance at January 1, 2016		\$ 967,950	\$ 1,582,662	\$ 1,011,501	\$ 57,652	\$ 916,263	(\$ 23,905)	\$ 38,954	\$ -	\$ 4,551,077
Reversal of special reserve		-	-	-	( 57,652 )	57,652	-	-	-	-
Distribution of 2015 earnings:										
Legal reserve	6(18)	-	-	55,664	-	( 55,664 )	-	-	-	-
Cash dividends	6(18)	-	-	-	-	( 387,180 )	-	-	-	( 387,180 )
Net income for 2016		-	-	-	-	303,496	-	-	-	303,496
Purchase of treasury share	6(16)	-	-	-	-	-	-	-	( 310,260 )	( 310,260 )
Share-based payment transactions	6(15)(17)	-	22,310	-	-	-	-	-	-	22,310
Employee stock options exercised	6(17)	995	3,918	-	-	-	-	-	-	4,913
Change in net equity of associates accounted for using equity method	6(17)	-	9,024	-	-	-	-	-	-	9,024
Other comprehensive income for 2016	6(19)	-	-	-	-	4,617	( 9,985 )	8,322	-	2,954
Balance at December 31, 2016		<u>\$ 968,945</u>	<u>\$ 1,617,914</u>	<u>\$ 1,067,165</u>	<u>\$ -</u>	<u>\$ 839,184</u>	<u>(\$ 33,890)</u>	<u>\$ 47,276</u>	<u>(\$ 310,260)</u>	<u>\$ 4,196,334</u>

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

CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>Year ended</u> <u>December 31, 2016</u>	<u>Year ended</u> <u>December 31, 2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 503,980	\$ 692,303
Adjustments			
Adjustments to reconcile profit (loss)			
(Realized) unrealized gain	6(8)	( 4,777 )	38,794
Gain on financial assets at fair value through profit or loss	6(2)(21)	( 562 )	( 756 )
Depreciation expense	6(9)(10)	22,486	21,766
Amortization expense		-	31
Interest income	6(20)	( 24,247 )	( 27,501 )
Dividend income	6(20)	( 5,423 )	( 4,332 )
Employees' stock option cost	6(15)	22,312	9,405
Loss on disposal and scrapping of property, plant and equipment	6(21)	2,058	122
Share of loss of associates and joint ventures accounted for using equity method	6(8)	289,210	134,595
(Gain) loss on disposal of investments	6(6)(21) and 7	( 19,605 )	98
Overdue advance receipt transferred to revenue	6(20)	( 6,389 )	-
Overdue accounts payable transferred to revenue	6(20)	( 4,201 )	-
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		153,702	( 79,540 )
Notes receivable		( 5,414 )	( 262 )
Accounts receivable		49,651	30,206
Other receivables		( 1,899 )	13,550
Other receivables-related parties		1,723	( 6,136 )
Inventories		1,748	145
Other current assets		1,170	12,697
Other non-current assets		( 5,209 )	4,466
Changes in operating liabilities			
Notes payable		-	( 181 )
Accounts payable		( 45,965 )	( 39,897 )
Other payables		( 41,877 )	( 44,638 )
Other payables-related parties		( 473 )	473
Other current liabilities		( 8,924 )	4,094
Provisions		18,948	44,999
Other non-current liabilities		( 242 )	159
Cash inflow generated from operations		891,781	804,660
Interest received		24,077	28,156
Dividends received		1,228	785
Dividends paid		( 387,180 )	( 701,765 )
Income tax paid		( 179,864 )	( 150,794 )
Net cash flows from (used in) operating activities		<u>350,042</u>	<u>( 18,958 )</u>

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CYBERLINK CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of investments in debt instrument without active market		(\$ 145,124 )	\$ -
Proceeds from disposal of available-for-sale financial assets		28,983	-
Acquisition of financial assets at cost		( 1,000 )	-
Acquisition of investments accounted for using equity method	6(8)	-	( 458,846 )
Proceeds from disposal of investments accounted for using equity method	7	283	-
Proceeds from disposal of subsidiaries (net of cash of subsidiaries)		-	( 102 )
Increase in prepayments for investments		( 4,000 )	-
Acquisition of property, plant, and equipment	6(9)	( 12,503 )	( 32,263 )
Proceeds from disposal of property, plant and equipment		33	-
(Increase) decrease in refundable deposits		( 2,223 )	210
Net cash flows used in investing activities		( 135,551 )	( 491,001 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in deposits received		801	1,857
Exercise of employee stock options		4,913	49,264
Payments to acquire treasury shares	6(16)	( 310,260 )	( 292,931 )
Net cash flows used in financing activities		( 304,546 )	( 241,810 )
Effects of changes in exchange rates of foreign currency holdings		( 3,713 )	29,993
Net decrease in cash and cash equivalents		( 93,768 )	( 721,776 )
Cash and cash equivalents at beginning of year		3,339,402	4,061,178
Cash and cash equivalents at end of year		<u>\$ 3,245,634</u>	<u>\$ 3,339,402</u>

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

CYBERLINK CORP. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

CyberLink Corp. (the “Company”) was incorporated under the Company Law of the Republic of China (R.O.C.) in August 1990. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the design and sale of 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.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on February 22, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016
Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment.	

A. Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure. The Group will proceed in accordance with the standards.

B. Annual improvements to IFRSs 2010-2012 cycle

IFRS 2, 'Share-based payment'

The amendment clarifies the definition of a 'vesting condition' includes only service condition and performance condition. The amendment revises the definition of 'service condition', 'performance condition' and 'market condition'. The Group will proceed in accordance with the standards.

C. Annual improvements to IFRSs 2011-2013 cycle

IAS 40, 'Investment property'

This amendment clarifies that preparers should refer to the guidance in IFRS 3 to determine whether the acquisition of a property is an asset acquisition or a business combination, and refer to the guidance in IAS 40 to distinguish between owner-occupied property and investment property. The Group will proceed in accordance with the standards.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 ' Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating result based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

- A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'  
The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Besides, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- B. IFRS 9, 'Financial instruments'
- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.



- (b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- C. Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’
- The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognized either in full or partially depending on the nature of the assets sold or contributed:
- (a) If sales or contributions of assets that constitute a ‘business’, the full gain or loss is recognized;
- (b) If sales or contributions of assets that do not constitute a ‘business’, the partial gain or loss is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.
- D. IFRS 15, ‘Revenue from contracts with customers’
- IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11 ‘Construction contracts’, IAS 18 ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.
- The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:
- Step 1: Identify contracts with customer.
- Step 2: Identify separate performance obligations in the contract(s).
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price.
- Step 5: Recognise revenue when the performance obligation is satisfied.
- Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
- E. Amendments to IFRS 15, ‘Clarifications to IFRS 15 Revenue from Contracts with Customers’ The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

F. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

G. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

H. IFRIC 22, 'Foreign currency transactions and advance consideration'

The Interpretation states that the date of the transaction for a foreign currency-denominated contract should be the date of initial recognition of the non-monetary asset or non-monetary liability arising from the receipt or payment of the advance consideration.

The Group is assessing the potential impact of the new standards, interpretations and amendments above. The impact will be disclosed when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- b) Available-for-sale financial assets measured at fair value.
- c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

- b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Major Operating Activities	Ownership (%)		Description
			December 31, 2016	December 31, 2015	
CyberLink Corp.	CyberLink.Com Corp. (CyberLink-USA)	Sales of computer software	100%	100%	
CyberLink Corp.	CyberLink Europe B.V. (CyberLink-B.V.)	Sales of computer software	100%	100%	
CyberLink Corp.	CyberLink International Technology Corp. (CyberLink-B.V.I)	Investment activities	100%	100%	Note
CyberLink Corp.	CyberLink Investment Corp. (CyberLink Investment)	Investment activities	100%	100%	
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	Sales of computer software	100%	100%	
CyberLink.Com Corp.	ImageChef Incorporated (ImageChef)	Digital information supply services	100%	100%	

Note: In order to fulfil subsidiary's operating needs, the Group increased the capital of its subsidiary, CyberLink-B.V.I, by cash amounting to US\$10 million (approximately NT\$315,550 thousand) and US\$20 million (approximately NT\$626,325 thousand) in November 2016 and April 2015, respectively, and the capital increase procedures have been completed.

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

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions:None.

F. Subsidiaries that have non-controlling interests that are material to the Group : None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars (NT\$), which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- c) All resulting exchange differences are recognised in other comprehensive income.

(5) 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 realised, or are intended to be sold or consumed within the normal operating cycle;
  - b) Assets held mainly for trading purposes;
  - c) Assets that are expected to be realised 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 that are expected to be settled within the normal operating cycle;
  - b) Liabilities arising mainly from trading activities;
  - c) Liabilities that are to be settled 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. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issuance of equity instruments do not affect its classification.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be

settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Loans and receivables

A. Accounts receivable

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

B. Investments in debt instrument without active market

(a) Investments in debt instrument without active market are loans and receivables not originated by the entity. They are bond investments with fixed or determinable payments that are not quoted in an active market, and also meet all of the following conditions:

- i. Not designated on initial recognition as at fair value through profit or loss;
- ii. Not designated on initial recognition as available-for-sale;
- iii. Not for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

(b) On a regular way purchase or sale basis, investments in debt instrument without active market are recognised and derecognised using trade date accounting.

(c) Investments in debt instrument without active market are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(10) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

- a) Significant financial difficulty of the issuer or debtor;
- b) A breach of contract, such as a default or delinquency in interest or principal payments;
- c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- e) The disappearance of an active market for that financial asset because of financial difficulties;
- f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

- g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

a) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(12) Leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(13) Inventories

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

(14) Investments accounted for using equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity that are not recognised in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognises change in ownership interests in the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives.



Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	50 years
Machinery and equipment	3 years
Office equipment	5 years
Transportation equipment	5 years

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 50 years.

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as effect of discounting is immaterial.

(19) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged, cancelled, or expires.

(20) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(21) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' bonus and directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(22) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(23) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(24) Share capital

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(25) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(26) Revenue recognition

- A. The Group sells computer software products. Revenue is measured at the fair value of the consideration received or receivable taking into account of value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities.
- B. Revenue arising from the sales of goods should be recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is

probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- C. Revenue arising from the sales of software products to hardware firm to be bundled with its hardware products should be recognised when the Group has delivered the software to the hardware firm, or based on the sales report provided by the hardware firm periodically to the Group in regards to the sales of its hardware products bundled with the software produced by the Group. Sales report is usually provided to the Group in the next quarter of its hardware sales. Revenue arising from the sales of software to distributor or retailer should be recognised when the Group has delivered the software to the distributor or retailer. Revenue arising from the sales of software through internet should be recognised based on the sales report provided by the internet service provider, which is usually provided to the Group in the next month after the sales of the software.
- D. The Group occasionally provides debug program to customers, which can be downloaded through the internet for free. This service is not an obligation of the sale nor does it increase the main functions of the product. Therefore, service costs and liabilities relating to this service are accrued upon the sale of the product; this service would not affect the amount of revenue of the product.
- E. The Group offers customers price discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for allowance for sales returns and discounts are recorded when the sales are recognised.
- F. Cost of goods sold comprises packaging cost, production cost, royalty paid to third party, provision for royalty liability, inventory valuation and obsolescence loss, etc.

#### (27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

### 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; the related information is addressed below:

#### (1) Critical judgements in applying the Group's accounting policies

##### A. Financial assets-impairment of equity investments

The Group follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term

business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

B. Investment property

The Group uses a portion of the property for its own use and another portion to earn rentals or for capital appreciation. The portion of the property used to earn rentals or for capital appreciation is classified as investment property.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of investments accounted for using equity method

The Group assesses the impairment of an investment accounted for using equity method as soon as there any indication that it might have been impaired and its carrying amount cannot be recoverable. The Group assesses the recoverable amounts of an investment accounted for under the equity method based on the present value of the Group's share of expected future cash flows of the investee, and analyses the reasonableness of related assumptions.

As of December 31, 2016, the Group's investments accounted for under the equity method amounted to \$13,952.

B. Impairment assessment of financial assets without active markets

When there is an impairment indication that a financial instrument is impaired so the carrying amount of such investment may not be recoverable, the Group would assess the impairment loss of the investment accordingly. For a financial asset without an active market, the Group assesses its impairment based on the present value of estimated future cash flows from the expected cash dividends and disposal value discounted using the market rate of return at the balance sheet date for a similar financial instrument to determine its recoverable amount as well as by analysing the reasonableness of the related assumptions used.

As of December 31, 2016, the carrying amount of financial assets without active markets was \$145,124.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash on hand and revolving funds	\$ 64	\$ 267
Checking accounts	141,118	80,400
Demand deposits	975,721	1,014,425
Time deposits	<u>2,128,731</u>	<u>2,244,310</u>
	<u>\$ 3,245,634</u>	<u>\$ 3,339,402</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Financial assets held for trading	\$ 140,898	\$ 294,309
Money market funds	3,212	2,941
Valuation adjustment	<u>\$ 144,110</u>	<u>\$ 297,250</u>

The Group recognized net gains of \$562 and \$756 on financial assets held for trading for the years ended December 31, 2016 and 2015, respectively.

(3) Investments in debt instrument without active markets – current

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Corporate bonds	<u>\$ 145,124</u>	<u>\$ -</u>

A. The counterparties of the Group's investments have good credit quality.

B. The Group has no investments in debt instrument without active markets pledged to others.

(4) Notes receivable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes receivable	\$ 17,439	\$ 12,025
Less: allowance for bad debts	( 30)	( 30)
	<u>\$ 17,409</u>	<u>\$ 11,995</u>

(5) Accounts receivable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 147,414	\$ 183,682
Less: allowance for sales return and discounts	( 65,052)	( 49,501)
Less: allowance for bad debts	( 518)	( 518)
	<u>\$ 81,844</u>	<u>\$ 133,663</u>

A. The Group's accounts receivable that were neither past due nor impaired were in the following categories based on the Group's Credit Quality Control Policy:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Group 1	\$ 2,824	\$ 30,110
Group 2	59,735	65,740
Group 3	50,479	50,855
Group 4	8,245	12,423
Group 5	13,790	11,505
	<u>\$ 135,073</u>	<u>\$ 170,633</u>

Group 1: Accounts receivable from customers in Mainland China.

Group 2: Accounts receivable from customers in the United States.

Group 3: Accounts receivable from customers in Japan.

Group 4: Accounts receivable from customers in Taiwan.

Group 5: Accounts receivable from customers in other areas.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Up to 30 days	\$ 12,037	\$ 11,407
31 to 90 days	124	1,642
Over 91 days	180	-
	<u>\$ 12,341</u>	<u>\$ 13,049</u>

In general, the credit term for customers is 30 days after monthly billings and is 45~90 days after monthly billings for some customers. Allowance for bad debts is estimated based on aging analysis of accounts receivable, historical experiences and customers' current financial conditions.

C. The Group does not hold any collateral security.

(6) Available-for-sale financial assets - non – current

<u>Item</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Non-current items:		
Private fund	\$ 21,124	\$ 30,600
Valuation adjustment	47,276	38,954
	<u>\$ 68,400</u>	<u>\$ 69,554</u>

A. For the Group's private fund investment, the only share invested started to be listed in the Taiwan Stock Exchange since the fourth quarter of 2015. As the stock has quoted market price, it was reclassified from financial assets measured at cost to available-for-sale financial assets.

B. The Group recognised \$27,829 and \$38,954 in other comprehensive income for fair value change and reclassified \$19,507 and \$0 from equity to profit or loss for the years ended December 31, 2016 and 2015, respectively.

C. The Group has no available-for-sale financial assets pledged to others.

(7) Financial assets measured at cost - non – current

<u>Item</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unlisted stocks	<u>\$ 57,598</u>	<u>\$ 56,743</u>

A. Based on the Group's intention, its investment in unlisted stocks should be classified as 'available-for-sale financial assets'. However, as the investments are not traded in an active market, and neither sufficient related industry information nor similar companies' financial information can be obtained, the fair value of the investments in unlisted stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.

B. The Group has no financial assets measured at cost pledged to others.

(8) Investments accounted for using equity method

	<u>2016</u>	<u>2015</u>
At January 1	\$ 292,783	\$ -
Addition of investments	-	458,846
Disposal of investments	( 185)	-
Share of loss of investments accounted for using equity method	( 289,210)	( 134,595)
Realised (unrealised)	4,777	( 38,794)
Changes in capital surplus	9,024	253
Changes in other equity items (Note 6(19))	( 3,237)	7,073
At December 31	<u>\$ 13,952</u>	<u>\$ 292,783</u>

A. The basic information of the associates that are material to the Group is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Methods of Measurement
		December 31, 2016	December 31, 2015		
Perfect Corp.	Cayman	49%	49%	Investments accounted for using equity method	Equity method

In order to respond to market development trend, the Board of Directors has resolved that the Company acquire 147,000,000 ordinary shares at US\$0.1 per share issued by Perfect Corp. through the subsidiary, CyberLink-B.V.I. The total investment amount is US\$14,700 thousand and the shareholding ratio is 49%.

B. The summarized financial information of the associate that is material to the Group is as follows:

Balance sheet

	Perfect Corp.	
	December 31, 2016	December 31, 2015
Current assets	\$ 418,311	\$ 653,302
Non-current assets	66,828	96,640
Total assets	485,139	749,942
Current liabilities	( 408,134)	( 72,477)
Non-current liabilities	( 776)	( 776)
Total liabilities	( 408,910)	( 73,253)
Total net assets	\$ 76,229	\$ 676,689
Share in associate's net assets (Note)	\$ 37,352	\$ 331,577

Note: Difference between the book value is due to the unrealised gain.

Statement of comprehensive income

	Perfect Corp.	
	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	\$ 36,347	\$ 2,309
Loss for the period from continuing operations	( 611,892)	( 274,684)
Other comprehensive income, net of tax	( 6,606)	14,435
Total comprehensive loss	(\$ 618,498)	(\$ 260,249)



(9) Property, plant, and equipment

	<u>Land</u>	<u>Building</u>	<u>Machinery</u>	<u>Office equipment</u>	<u>Transportation equipment</u>	<u>Total</u>
<u>At January 1, 2016</u>						
Cost	\$ 269,183	\$ 218,655	\$ 21,212	\$ 6,909	\$ 7,427	\$ 523,386
Accumulated depreciation	-	( 35,631)	( 12,417)	( 5,424)	( 2,295)	( 55,767)
	<u>\$ 269,183</u>	<u>\$ 183,024</u>	<u>\$ 8,795</u>	<u>\$ 1,485</u>	<u>\$ 5,132</u>	<u>\$ 467,619</u>
<u>2016</u>						
Opening net book amount	\$ 269,183	\$ 183,024	\$ 8,795	\$ 1,485	\$ 5,132	\$ 467,619
Additions	-	6,479	5,368	656	-	12,503
Costs of disposal	-	( 3,266)	( 3,595)	( 1,377)	( 547)	( 8,785)
Accumulated depreciation on disposal	-	1,236	3,592	1,319	547	6,694
Depreciation expense	-	( 5,570)	( 4,225)	( 680)	( 1,100)	( 11,575)
Net exchange differences	( 856)	( 1,338)	( 34)	( 38)	-	( 2,266)
Closing net book amount	<u>\$ 268,327</u>	<u>\$ 180,565</u>	<u>\$ 9,901</u>	<u>\$ 1,365</u>	<u>\$ 4,032</u>	<u>\$ 464,190</u>
<u>At December 31, 2016</u>						
Cost	\$ 268,327	\$ 220,580	\$ 23,019	\$ 6,142	\$ 6,880	\$ 524,948
Accumulated depreciation	-	( 40,015)	( 13,118)	( 4,777)	( 2,848)	( 60,758)
	<u>\$ 268,327</u>	<u>\$ 180,565</u>	<u>\$ 9,901</u>	<u>\$ 1,365</u>	<u>\$ 4,032</u>	<u>\$ 464,190</u>

	Land	Building	Machinery	Office equipment	Transportation equipment	Total
<u>At January 1, 2015</u>						
Cost	\$ 267,441	\$ 188,714	\$ 23,362	\$ 6,744	\$ 7,427	\$ 493,688
Accumulated depreciation	-	( 31,306)	( 14,264)	( 5,198)	( 1,114)	( 51,882)
	<u>\$ 267,441</u>	<u>\$ 157,408</u>	<u>\$ 9,098</u>	<u>\$ 1,546</u>	<u>\$ 6,313</u>	<u>\$ 441,806</u>
<u>2015</u>						
Opening net book amount	\$ 267,441	\$ 157,408	\$ 9,098	\$ 1,546	\$ 6,313	\$ 441,806
Additions	-	27,750	3,852	661	-	32,263
Costs of disposal	-	( 643)	( 6,052)	( 619)	-	( 7,314)
Accumulated depreciation on disposal	-	643	6,052	497	-	7,192
Depreciation expense	-	( 4,875)	( 4,158)	( 632)	( 1,181)	( 10,846)
Net exchange differences	1,742	2,741	3	32	-	4,518
Closing net book amount	<u>\$ 269,183</u>	<u>\$ 183,024</u>	<u>\$ 8,795</u>	<u>\$ 1,485</u>	<u>\$ 5,132</u>	<u>\$ 467,619</u>
<u>At December 31, 2015</u>						
Cost	\$ 269,183	\$ 218,655	\$ 21,212	\$ 6,909	\$ 7,427	\$ 523,386
Accumulated depreciation	-	( 35,631)	( 12,417)	( 5,424)	( 2,295)	( 55,767)
	<u>\$ 269,183</u>	<u>\$ 183,024</u>	<u>\$ 8,795</u>	<u>\$ 1,485</u>	<u>\$ 5,132</u>	<u>\$ 467,619</u>

(10) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>At January 1, 2016</u>			
Cost	\$ 799,024	\$ 556,079	\$ 1,355,103
Accumulated depreciation	-	( 75,520)	( 75,520)
	<u>\$ 799,024</u>	<u>\$ 480,559</u>	<u>\$ 1,279,583</u>
<u>2016</u>			
Opening net book amount	\$ 799,024	\$ 480,559	\$ 1,279,583
Depreciation expense	-	( 10,911)	( 10,911)
Closing net book amount	<u>\$ 799,024</u>	<u>\$ 469,648</u>	<u>\$ 1,268,672</u>
<u>At December 31, 2016</u>			
Cost	\$ 799,024	\$ 556,079	\$ 1,355,103
Accumulated depreciation	-	( 86,431)	( 86,431)
	<u>\$ 799,024</u>	<u>\$ 469,648</u>	<u>\$ 1,268,672</u>
	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>At January 1, 2015</u>			
Cost	\$ 799,024	\$ 556,079	\$ 1,355,103
Accumulated depreciation	-	( 64,600)	( 64,600)
	<u>\$ 799,024</u>	<u>\$ 491,479</u>	<u>\$ 1,290,503</u>
<u>2015</u>			
Opening net book amount	\$ 799,024	\$ 491,479	\$ 1,290,503
Depreciation expense	-	( 10,920)	( 10,920)
Closing net book amount	<u>\$ 799,024</u>	<u>\$ 480,559</u>	<u>\$ 1,279,583</u>
<u>At December 31, 2015</u>			
Cost	\$ 799,024	\$ 556,079	\$ 1,355,103
Accumulated depreciation	-	( 75,520)	( 75,520)
	<u>\$ 799,024</u>	<u>\$ 480,559</u>	<u>\$ 1,279,583</u>

A. Rental income from the lease of the investment property and direct operating expenses arising from the investment property are shown below:

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
Rental income from the lease of the investment property	<u>\$ 55,253</u>	<u>\$ 48,666</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 13,444</u>	<u>\$ 12,145</u>
Direct operating expenses arising from the investment property that did not generate rental income during the period	<u>\$ 1,144</u>	<u>\$ 1,972</u>

B. The fair value of the investment property held by the Group as of December 31, 2016 and 2015 was \$1,904,022 and \$2,153,308, respectively, which was estimated based on market trading prices of similar property in the areas nearby.

(11) Accounts payable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Royalty expense	\$ 178,634	\$ 226,560
Others	3,697	7,719
	<u>\$ 182,331</u>	<u>\$ 234,279</u>

(12) Other payables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Royalty collection	\$ 343,732	\$ 340,864
Employees' compensation and directors' and supervisors' remuneration	72,739	110,805
Employees' rewards	71,039	66,075
Payroll	67,942	66,141
Promotional fees	28,102	44,431
Commission expense	11,032	6,889
Professional service fees	9,574	15,786
Other accrued expenses	14,620	17,486
Other payables	5,825	3,186
	<u>\$ 624,605</u>	<u>\$ 671,663</u>

(13) Provisions

	<u>Royalty</u>	<u>Cost of software bug-fixing</u>	<u>Total</u>
At January 1, 2016	\$ 426,873	\$ 6,925	\$ 433,798
Additional provisions	30,776	-	30,776
Used during the period	( 4,203)	-	( 4,203)
Unused amounts reversed	-	( 285)	( 285)
Exchange differences	( 7,340)	-	( 7,340)
At December 31, 2016	<u>\$ 446,106</u>	<u>\$ 6,640</u>	<u>\$ 452,746</u>
		<u>Cost of software bug-fixing</u>	<u>Total</u>
At January 1, 2015	\$ 380,909	\$ 7,890	\$ 388,799
Additional provisions	30,847	-	30,847
Unused amounts reversed	-	( 965)	( 965)
Exchange differences	15,117	-	15,117
At December 31, 2015	<u>\$ 426,873</u>	<u>\$ 6,925</u>	<u>\$ 433,798</u>

Analysis of total provisions:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Non-current	\$ 452,746	\$ 433,798

A. Royalty

The Group estimates the possible royalty expenses based on the industry characteristics, other known events and management's judgement and recognises such expenses within 'cost of goods sold' when related product is sold. Any changes in industry circumstances might affect the provision for royalty liabilities. Provisions shall be paid when patent owner claims for payment.

B. Cost of software bug-fixing

The Group provides software bug-fixing program for free from time to time. The Group estimates relevant debug-fixing cost and liabilities and accounts for it as common product warranty obligations.

(14) Pensions

A. a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

b) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	(\$ 67,918)	(\$ 72,587)
Fair value of plan assets	<u>25,354</u>	<u>24,219</u>
Net defined benefit liability	<u>(\$ 42,564)</u>	<u>(\$ 48,368)</u>

c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	(\$ 72,587)	\$ 24,219	(\$ 48,368)
Interest (expense) income	( 1,087)	368	( 719)
	<u>( 73,674)</u>	<u>24,587</u>	<u>( 49,087)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	( 193)	( 193)
Change in demographic assumptions	( 111)	-	( 111)
Experience adjustments	5,867	-	5,867
	<u>5,756</u>	<u>( 193)</u>	<u>5,563</u>
Pension fund contribution	-	960	960
Balance at December 31	<u>(\$ 67,918)</u>	<u>\$ 25,354</u>	<u>(\$ 42,564)</u>
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	(\$ 91,032)	\$ 22,539	(\$ 68,493)
Interest (expense) income	( 1,818)	460	( 1,358)
	<u>( 92,850)</u>	<u>22,999</u>	<u>( 69,851)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	140	140
Change in demographic assumptions	( 110)	-	( 110)
Change in financial assumptions	( 5,420)	-	( 5,420)
Experience adjustments	25,793	-	25,793
	<u>20,263</u>	<u>140</u>	<u>20,403</u>
Pension fund contribution	-	1,080	1,080
Balance at December 31	<u>(\$ 72,587)</u>	<u>\$ 24,219</u>	<u>(\$ 48,368)</u>

d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final

financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in, accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

- e) The principal actuarial assumptions used were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Discount rate	1.50%	1.50%
Future salary increases	3.00%	3.00%

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 2,581)	\$ 2,709	\$ 2,662	(\$ 2,550)
December 31, 2015				
Effect on present value of defined benefit obligation	(\$ 2,781)	\$ 2,921	\$ 2,870	(\$ 2,748)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

- f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2017 amounts to \$960.
- g) As of December 31, 2016, the weighted average duration of that retirement plan is 15 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	306
1-2 year(s)		469
3-5 years		2,552
Over 5 years		81,771
	<u>\$</u>	<u>85,098</u>

- B. a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute 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 paid monthly or in lump sum upon termination of employment.
- b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2016 and 2015 were \$16,461 and \$18,442, respectively.
- c) The pension costs under local pension regulations of the foreign subsidiaries for the years ended December 31, 2016 and 2015 were \$4,611 and \$4,013, respectively.
- d) Cyberlink Investment has no employees and does not have any retirement plan.

(15) Share-based payment

A. For the years ended December 31, 2016 and 2015, the Company’s share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	2011.8.22	2,405	7 years	2 years’ service: exercise 50% 3 years’ service: exercise 75% 4 years’ service: exercise 100%
”	2015.8.25	5,000	7 years	the same as above

B. Details of the share-based payment arrangements are as follows:

	December 31, 2016		December 31, 2015	
	No. of options (in thousands)	Weighted - average exercise (in dollars)	No. of options (in thousands)	Weighted - average exercise (in dollars)
Options outstanding at beginning of the period	6,868	\$ 60.68	2,822	\$ 76.02
Options granted	-	-	5,000	54.00
Options exercised	( 100)	49.38	( 954)	51.59
Options forfeited	( 1,168)	90.40	-	-
Options outstanding at December 31	<u>5,600</u>	50.57	<u>6,868</u>	60.68
Options exercisable at December 31	<u>600</u>		<u>1,868</u>	

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2016 and 2015 was \$50.57 and \$60.68 (in dollars), respectively.



D. As of December 31, 2016 and 2015, the range of exercise prices of stock options outstanding was \$47.0~\$51.0 and \$49.8~\$95.8 (in dollars), respectively; the weighted-average remaining contractual period was 1.64~5.65 years and 0.88~6.65 years, respectively.

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	2011.8.22	\$ 61	\$ 61	38.58%	4.875	0.00%	1.05%	21.1605
Employee stock options	2015.8.25	54	54	23.95%	4.875	0.00%	0.81%	12.1117

Note: Expected price volatility rate was estimated by using the stock prices of the most recent period with length of this period approximate to the length of the stock options' expected life and the standard deviation of return on the stock during this period.

F. Expenses incurred on share-based payment transactions are shown below:

	Year ended December 31, 2016	Year ended December 31, 2015
Equity settled	\$ 22,312	\$ 9,405

G. The Company's Board of Directors has resolved on March 19, 2015 for the first issuance of employee stock option certificates on 2015, amounting to 5 million units. The subscription price is the common stock's closing price on issuance date. This issuance has been approved by the competent authorities on April 14, 2015.

#### (16) Share capital

A. As of December 31, 2016, the Company's authorized capital was \$1,610,000, consisting of 161,000 thousand shares of ordinary stock (including 21,000 thousand shares reserved for employee stock options), and the paid-in capital was \$968,945 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number (Shares in thousands) of the Company's ordinary shares outstanding are as follows:

	2016	2015
At January 1	96,795	100,219
Employee stock options exercised	100	955
Shares retired	-	(4,379)
At December 31	96,895	96,795

B. Treasury shares

- a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Name of company holding the shares	Reason for reacquisition	December 31, 2016	
		Number of shares (in thousands )	Carrying amount
The Company	Maintain the Company's credit and shareholders' interest	4,579	\$ 310,260

- b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.
- e) The Company has completed the treasury share which repurchase on the year ended December 31, 2016 as of December 26, 2016, but, have not retired yet as of the last day of any significant field work. The repurchased shares totaled 4,379 thousand shares which were repurchased in 2015, amounting to \$292,931 and the registration of retirement of shares has been completed on December 20, 2015.

(17) Capital reserve

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

	2016				
	Share premium	Employee stock options	Expired employee stock options in portion to the Group's	Net change in equity of associates	Total
At January 1	\$1,500,864	\$ 81,545	\$ -	\$ 253	\$1,582,662
Employee stock options exercised	5,915	( 1,997)	-	-	3,918
Share-based payment transactions	-	22,310	-	-	22,310
Expired employee stock options in portion to the Group's	-	( 56,566)	56,566	-	-
Recognition of change in equity of associates in portion to the Group's	-	-	-	9,024	9,024
At December 31	<u>\$1,506,779</u>	<u>\$ 45,292</u>	<u>\$ 56,566</u>	<u>\$ 9,277</u>	<u>\$1,617,914</u>

  

	2015				
	Share premium	Employee stock options	Expired employee stock options in portion to the Group's	Net change in equity of associates	Total
At January 1	\$1,690,890	\$ 91,524	\$ -	\$ -	\$1,782,414
Employee stock options exercised	59,115	( 19,399)	-	-	39,716
Share-based payment transactions	-	9,420	-	-	9,420
Disposal of treasury shares ( 249,141)	-	-	-	-	( 249,141)
Recognition of change in equity of associates in portion to the Group's	-	-	-	253	253
At December 31	<u>\$1,500,864</u>	<u>\$ 81,545</u>	<u>\$ -</u>	<u>\$ 253</u>	<u>\$1,582,662</u>

(18) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, net of tax, shall first be used to offset prior year's operating losses (including adjustment amount of undistributed earnings), then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance, and setting aside or reversal for special reserve in accordance with the securities and Exchange Act. The Board of Directors should present the distribution of the remaining earnings along with undistributed earnings at beginning of periods (including adjustment amount of undistributed earnings) for the approval of the shareholders.
- B. The Company's dividend policy is aligned with the development plan for the present and the future taking into consideration investment environment, capital requirement, domestic and overseas competition condition and profit of shareholders. Annual distribution of stockholders'

bonus, should not be less than 50% of current distributable earnings, and may be in the form of stock dividend and cash dividend. Presently, the distribution of cash dividend should not be less than 20% of annual dividend appropriations, however, if the Company has significant plans for capital expenditures, after approval at the shareholders' meeting, cash dividends can be distributed lower than 20% of annual dividends appropriations.

- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- E. On June 23, 2016 and June 24, 2015, the appropriation of 2015 and 2014 earnings had been resolved at the stockholders' meeting as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Amount	Dividends per share ( in dollars )	Amount	Dividends per share ( in dollars )
Legal reserve	\$ 55,664		\$ 70,698	
Cash dividends	387,180	\$4.00	701,773	\$7.00
	<u>\$ 442,844</u>		<u>\$ 772,471</u>	

(19) Other equity items

	2016		
	Available-for-sale Investment	Currency translation	Total
At January 1	\$ 38,954	(\$ 23,905)	\$ 15,049
Revaluation			
–Group	8,322	-	8,322
Currency translation			
–Group	-	( 6,748)	( 6,748)
–Associates	-	( 3,237)	( 3,237)
At December 31	<u>\$ 47,276</u>	<u>(\$ 33,890)</u>	<u>\$ 13,386</u>
	2015		
	Available-for-sale Investment	Currency translation	Total
At January 1	\$ -	(\$ 57,652)	(\$ 57,652)
Revaluation			
–Group	38,954	-	38,954
Currency translation			
–Group	-	26,674	26,674
–Associates	-	7,073	7,073
At December 31	<u>\$ 38,954</u>	<u>(\$ 23,905)</u>	<u>\$ 15,049</u>

(20) Other income

	Year ended December 31, 2016	Year ended December 31, 2015
Rental income	\$ 66,827	\$ 57,442
Interest income from bank deposits	24,247	27,501
Overdue advance receipt transferred to revenue	6,389	-
Overdue accounts payable transferred to revenue	4,201	-
Dividend income	5,423	4,332
Others (Note)	3,745	55,301
	<u>\$ 110,832</u>	<u>\$ 144,576</u>

Note: Details of the Company's disposal of intangible assets in May 2015 are provided in Note 7.

(21) Other gains and losses

	Year ended December 31, 2016	Year ended December 31, 2015
Net currency exchange (losses) gains	(\$ 57,579)	\$ 67,259
Net gains on financial assets at fair value through profit or loss	562	756
Loss on disposal of property, plant and equipment	( 2,058)	( 122)
Gains (losses) on disposals of investments	19,605	( 98)
Others	( 14,753)	( 16,626)
	<u>(\$ 54,223)</u>	<u>\$ 51,169</u>

(22) Costs and expenses by nature

	Year ended December 31, 2016	Year ended December 31, 2015
Cost of goods sold	\$ 18,279	\$ 15,640
Employee benefit expenses	627,399	715,346
Royalty cost	241,968	263,632
Promotional fees	91,390	120,519
Professional service fees	73,601	85,248
Product selling fees	27,848	41,645
Depreciation of property, plant and equipment	11,575	10,846
Others	72,077	79,244
Total cost of sales and operating expenses	<u>\$ 1,164,137</u>	<u>\$ 1,332,120</u>

(23) Employee benefit expenses

	Year ended December 31, 2016	Year ended December 31, 2015
Wages and salaries	\$ 528,550	\$ 621,476
Labor and health insurance fees	42,291	47,765
Pension costs	21,791	23,814
Employee stock options	22,312	9,405
Other personnel expenses	12,455	12,886
	<u>\$ 627,399</u>	<u>\$ 715,346</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 3.0% for employees' compensation and shall not be higher than 1.5% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at \$41,249 and \$50,098, respectively; directors' and supervisors' remuneration was accrued at \$4,097 and \$7,515, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 7.61% and 0.76% of distributable profit of current year as of the end of reporting period. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$41,249 and \$4,097, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2015 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2015 financial statements. Above-mentioned employees' bonus are released by cash. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Income tax

A. Income tax expense

Components of income tax expense:

	Year ended December 31, 2016	Year ended December 31, 2015
Current tax:		
Current tax expense recognised for the current period	\$ 119,721	\$ 165,108
Prior year income tax underestimation	57,769	1,367
Tax on undistributed surplus earnings	18,838	-
Total current tax	<u>196,328</u>	<u>166,475</u>
Deferred tax:		
Origination and reversal of temporary differences	4,156	( 30,812)
Total deferred tax	<u>4,156</u>	<u>( 30,812)</u>
Income tax expense recognised in profit or loss	<u>\$ 200,484</u>	<u>\$ 135,663</u>

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2016	Year ended December 31, 2015
Tax calculated based on profit before tax and statutory tax rate	\$ 94,535	\$ 129,097
Effects from items disallowed by tax regulation	60,240	43,868
Tax on undistributed surplus earnings	18,838	-
Effect from tax credit of investment	( 30,898)	( 38,669)
Prior year income tax under estimation	57,769	1,367
Income tax expense	<u>\$ 200,484</u>	<u>\$ 135,663</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	Year ended December 31, 2016			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
— Deferred tax assets:				
Unrealised profit on intercompany sales	\$ 18,337	(\$ 9,257)	\$ -	\$ 9,080
Unrealised profit on allowance for sales	34,240	8,724	-	42,964
Unrealized exchange losses	4,244	( 3,495)	-	749
Unused compensated absences	1,956	490	-	2,446
Cost of software bug-fixing	1,177	( 48)	-	1,129
Actuarial gains and losses on pensions	6,817	-	( 946)	5,871
Subtotal	<u>66,771</u>	<u>( 3,586)</u>	<u>( 946)</u>	<u>62,239</u>
— Deferred tax liabilities:				
Differences of depreciation	( 2,366)	( 570)	-	( 2,936)
Total	<u>\$ 64,405</u>	<u>( \$ 4,156)</u>	<u>( \$ 946)</u>	<u>\$ 59,303</u>

	Year ended December 31, 2015			
	<u>January 1</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
– Deferred tax assets:				
Unrealised profit on intercompany sales	\$ 12,150	\$ 6,187	\$ -	\$ 18,337
Unrealised profit on allowance for sales	18,401	15,839	-	34,240
Unrealized exchange losses	-	4,244	-	4,244
Unused compensated absences	2,527	( 571)	-	1,956
Cost of software bug-fixing	1,342	( 165)	-	1,177
Actuarial gains and losses on pensions	10,286	-	( 3,469)	6,817
Subtotal	<u>44,706</u>	<u>25,534</u>	<u>( 3,469)</u>	<u>66,771</u>
– Deferred tax liabilities:				
Unrealised exchange gain	( 6,956)	6,956	-	-
Differences of depreciation	( 688)	( 1,678)	-	( 2,366)
Subtotal	<u>( 7,644)</u>	<u>5,278</u>	<u>-</u>	<u>( 2,366)</u>
Total	<u>\$ 37,062</u>	<u>\$ 30,812</u>	<u>(\$ 3,469)</u>	<u>\$ 64,405</u>

D. As of December 31, 2016 the Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

E. Unappropriated retained earnings:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Earnings generated in and before 1997	\$ 9,932	\$ 9,932
Earnings generated in and after 1998	829,252	906,331
	<u>\$ 839,184</u>	<u>\$ 916,263</u>

F. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was \$119,741 and \$58,789, respectively. The creditable tax rate was 8.35% for 2015 and is 19.65% for 2016.

G. On February 19, 2016, the Company's income tax returns of 2013 have been assessed and approved by National Taxation Bureau of the Northern Area, Ministry of Finance. Imputation tax credit for offshore income was decreased from \$53,667 to \$0. However, the Company disagreed with the assessment, and has applied for a review of the assessment on April 12, 2016. The Company received the notice for correction assessment on November 18, 2016, and the imputation offshore income tax was reduced from its original filing amount of \$53,667 to \$28,667.



(25) Earnings per share

	<u>Year ended December 31, 2016</u>		
	<u>Amount after tax</u>	<u>Weighted average outstanding shares (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	<u>\$ 303,496</u>	<u>96,455</u>	<u>\$ 3.15</u>
<u>Diluted earnings per share</u>			
Profit attributable to the ordinary shareholders of the parent	\$ 303,496	96,455	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	1,523	
Employees' bonus	<u>-</u>	<u>682</u>	
Profit attributable to the ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 303,496</u>	<u>98,660</u>	<u>\$ 3.08</u>

	<u>Year ended December 31, 2015</u>		
	<u>Amount after tax</u>	<u>Weighted average outstanding shares (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	<u>\$ 556,640</u>	<u>99,353</u>	<u>\$ 5.60</u>
<u>Diluted earnings per share</u>			
Profit attributable to the ordinary shareholders of the parent	\$ 556,640	99,353	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	777	
Employees' bonus	<u>-</u>	<u>1,322</u>	
Profit attributable to the ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 556,640</u>	<u>101,452</u>	<u>\$ 5.49</u>

(26) Operating leases

A. Lessor

The Group's investment assets of two short sections numbered 229 in Xihu Section in Nei-Hu District of Taipei City, from 1F to 9F, Building-B of "Sun-Tech Plaza" located in Nei-Hu District of Taipei City, from 5F to 6F, Building of "Jiang-Ling Information" located in Xindian District of New Taipei City and offices located in San Jose in California State are leased to others under non-cancellable operating lease agreements. These leases have terms expiring between 2013 and the third quarter of 2021, and attached renewal options at end of the lease period. Recognised rental income of \$60,657 and \$53,823 were for the years ended December 31, 2016 and 2015, respectively. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than one year	\$ 59,055	\$ 43,964
Later than one year but not later than five years	66,192	69,277
	<u>\$ 125,247</u>	<u>\$ 113,241</u>

B. Lessee

Subsidiaries lease offices under non-cancellable operating lease agreements. The leases have terms expiring between 2016 and second quarter of 2018, and all these lease agreements are renewable at the end of the lease period. Some leases increase with the changes of local price indexes. Subsidiaries recognised rental expenses of \$7,475 and \$5,634 for the years ended December 31, 2016 and 2015, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Not later than one year	\$ 6,008	\$ 1,868
Later than one year but not later than five years	2,503	-
	<u>\$ 8,511</u>	<u>\$ 1,868</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions and balances

A. Operating revenue

	<u>Year ended</u> <u>December 31, 2016</u>	<u>Year ended</u> <u>December 31, 2015</u>
Sales of goods:	\$ -	\$ 29,250
-Associates		
Sales of services:		
-Associates	3,280	-
	<u>\$ 3,280</u>	<u>\$ 29,250</u>

- (a) The Company offers the commodity consultation service to related parties, the transaction price was negotiated with counterparty and the payment is collected in accordance with the contract, goods are sold based on the price lists in force and terms that would be available to third parties.
- (b) The Company has authorized the source code of U to associates starting from September 2015. Prices were based on appraisal reports issued by China Evergreen Technology Co., Ltd. and China Intangible Asset Appraisal. The total transaction amount was \$29,250, and unrealised gain recognised proportionately to shareholding ratio was \$14,332. As of December 31, 2016, realized profit amounted to \$5,972.

B. Other receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Rent income:		
-Associates	\$ 539	\$ 539
Payment on behalf of others		
-Associates	<u>3,842</u>	<u>5,597</u>
	<u>\$ 4,381</u>	<u>\$ 6,136</u>

C. Other payables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other payables:		
-Associates	<u>\$ -</u>	<u>\$ 473</u>

Other payables mainly are payments that were paid and received on behalf of others.

D. Property transactions

a) Disposal of investments accounted for using equity method

	<u>Accounts</u>	<u>Year ended December 31, 2016</u>	
		<u>Disposal proceeds</u>	<u>Loss on disposal</u>
Associates	Gains on disposal of investments	<u>\$ 283</u>	<u>\$ 98</u>

A subsidiary sold 0.125% of Perfect Mobile Corp.'s whole ownership to associates, the transaction price was negotiated with counterparty and the payment is collected in accordance with the contract.

b) Acquisition of financial assets

	<u>Accounts</u>	<u>Objects</u>	<u>Year ended</u>
			<u>December 31, 2016</u>
			<u>Consideration</u>
Associates	Investments in debt instrument without active market - current	Convertible bonds	<u>\$ 145,124</u>

A subsidiary invested in convertible bonds issued by associates, amounting to \$145,124, with expected maturity date on August 31, 2017.

c) Disposal of intangible assets

	Accounts	Year ended December 31, 2015	
		Disposal proceeds	Gain on disposal
Associates	Other income	\$ 65,000	\$ 34,035

The Company sold intangible assets to associates in May 2015. Prices are based on appraisal reports issued by China Evergreen Technology Co., Ltd. and China Intangible Asset Appraisal. The total transaction amount was \$65,000, gain on disposal was \$65,000, and unrealised gain recognised proportionately to shareholding ratio was \$30,965 As of December 31, 2016, realized profit amounted to \$15,925.

d) Disposal of subsidiaries

	Objects	Year ended December 31, 2015	
		Disposal proceeds	Gain on disposal
Associates	Perfect (Shanghai) Co., Ltd.	\$ 2,593	\$ 98

In order to expand the market in China, the Group invested US\$82 thousand (approximately NT\$2,531 thousand) to establish Perfect-Shanghai in April 2015, and the registration has been completed. However, the Group sold the entire ownership in Perfect-Shanghai to associates in July 2015.

E. Other income

	Year ended December 31, 2016	Year ended December 31, 2015
	Associates	\$ 6,170

The Group leases offices in 14F of the corporate office building in Xindian District, New Taipei City to associates. The lease terms are between June 2015 and May 2017. Rental prices are based on the lease contracts and collection term is on a monthly basis. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2016	December 31, 2015
Not later than one year	\$ 2,566	\$ 6,158
Later than one year but not later than five years	-	2,566
	\$ 2,566	\$ 8,724

(2) Key management compensation

	Year ended December 31, 2016	Year ended December 31, 2015
Short-term employee benefits	\$ 56,899	\$ 86,803
Post-employment benefits	512	1,047
Other long-term benefits	49	77
	<u>\$ 57,460</u>	<u>\$ 87,927</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

The Group's commitments are disclosed in Notes 6(26) and 7.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives of capital management are to ensure the Group's sustainable operation and to maintain an optimal capital structure to reduce the cost of capital and provide returns for shareholders. In order to maintain or adjust to optimal capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

(2) Financial instruments

A. Fair value information of financial instrument

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables (including related parties), other financial assets, accounts payable, other payables (including related parties) and other financial liabilities) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

i. The objective of the Group's financial risk management is to manage the foreign exchange risk, interest rate risk, credit risk and liquidity risk arising from business activities. To minimize financial risk, the Group identifies, evaluates and hedges the market uncertainty, so as to reduce the potential adverse effects of market changes on the Group's financial performance.

ii. The Group's business involves some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, JPY, and EUR). Significant financial assets and liabilities denominated in foreign currencies are as follows:

	Decembr 31, 2016			Year ended Decembr 31, 2016		
	Foreign amount (USD in thousands)	Exchang rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 60,612	\$32.25	\$1,954,737	1%	\$19,547	\$ -
USD:JPY	11,246	117.02	362,684	1%	3,627	-
USD:EUR	1,108	0.95	35,733	1%	357	-
<u>Non – monetary items</u>						
USD:NTD	433	32.25	13,952	1%	-	140
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	5,770	32.25	186,083	1%	1,861	-
USD:JPY	6,195	117.02	199,789	1%	1,998	-
USD:EUR	157	0.95	5,063	1%	51	-

Decembr 31, 2015				Year ended Decembr 31, 2015		
				Sensitivity analysis		
Currency	Foreign amount (USD in thousands)	Exchang rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprenensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 63,614	\$32.83	\$2,088,448	1%	\$20,884	\$ -
USD:JPY	10,711	120.39	351,642	1%	3,516	-
USD:EUR	1,381	0.91	45,338	1%	453	-
<u>Non – monetary items</u>						
USD:NTD	8,918	32.83	292,783	1%	-	2,928
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	6,527	32.83	214,281	1%	2,143	-
USD:JPY	6,395	120.39	209,948	1%	2,099	-
USD:EUR	142	0.91	4,662	1%	47	-

iii. The total exchange gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015, amounted to loss \$57,579 and profit \$67,259, respectively.

#### Price risk

- i. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. The Group's *investments* in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by \$1,441 and \$2,973, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$684 and \$696, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

### Interest rate risk

- i. The Group's interest-bearing assets are mainly cash and cash equivalents. The Group expects no significant cash flow interest rate risk on these assets as their maturity is within 12 months.
- ii. The Group did not use any financial instruments to hedge interest rate risk.
- iii. There was no borrowing as of December 31, 2016 and 2015, and thus there was no interest rate risk arising from borrowing.

### b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.
- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The credit quality information of financial assets that are neither past due nor impaired is provided in Note 6.
- iv. The ageing analysis of financial assets that were past due but not impaired is provided in Note 6(5). For accounts receivable that were overdue, the Group did not provide impairment if their credit quality was not changed significantly and if they were still collectible.
- v. The individual analysis of financial assets that have been impaired is provided in the statement for each type of financial assets in Note 6.

### c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.



- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, and marketable securities. The selected instruments should either have appropriate maturity or sufficient liquidity to meet the above mentioned forecasts and provide sufficient cash balance. As at December 31, 2016 and 2015, the Group held money market position of \$3,248,562 and \$3,555,985, respectively that are expected to readily generate cash inflows for managing liquidity risk.
- iii. Based on contractual payments, the Group's non-derivative financial liabilities are all current financial liabilities.

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(10).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in beneficiary certificates and listed stocks are included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

C. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets at December 31, 2016 and 2015 is as follows:

December 31, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 144,110	\$ -	\$ -	\$ 144,110
Available-for-sale financial assets				
Equity securities	<u>68,400</u>	<u>-</u>	<u>-</u>	<u>68,400</u>
Total	<u>\$ 212,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,510</u>

December 31, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 297,250	\$ -	\$ -	\$ 297,250
Available-for-sale financial assets				
Equity securities	<u>69,554</u>	<u>-</u>	<u>-</u>	<u>69,554</u>
Total	<u>\$ 366,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 366,804</u>

D. The methods and assumptions the Group used to measure fair value are as follows:

	<u>Listed shares</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Net asset value

E. For the years ended December 31, 2016 and 2015, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

### 13. SUPPLEMENTARY DISCLOSURES

#### 1) Significant transactions information

A. Lending to others: None.

B. Provision of endorsements and guarantees to others: None.

C. Holding of marketable securities at the end of the period (not including subsidiaries and associates): Please refer to table 1.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 2.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 3.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

#### 2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT REPORTING

1) General information

The Group recognises the reportable segments based on the reporting information used by the Chief Operating Decision-maker. The Chief Operating Decision-maker operates the business and evaluates performance by products. Its main business activities are related to the sale of video entertainment and media creation software. Information about operating results of other products is provided under the column heading “Media Creation and Others”.

2) Measurement of segment information

A. The accounting policies for operating segments are the same as those summarized in Note 2 of the financial statements.

B. The Company uses segment revenue and operating income as the basis for evaluating performance and has eliminated the impact of inter-segment transactions.

3) Information about segments

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Year ended December 31, 2016		
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 812,401	\$ 1,083,540	\$ 1,895,941
Segment Operating Income	\$ 291,265	\$ 445,316	\$ 736,581

  

	Year ended December 31, 2015		
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 821,900	\$ 1,154,511	\$ 1,976,411
Segment Operating Income	\$ 236,579	\$ 394,574	\$ 631,153

4) Reconciliation for segment profit or loss

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

5) Information on products and services

Please refer to Note 14(3).

6) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

	<u>Year ended December 31, 2016</u>		<u>Year ended December 31, 2015</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
America	\$ 856,132	\$ 125,165	\$ 881,954	\$ 126,089
Japan	522,286	2,815	479,808	2,127
Taiwan	71,694	1,609,949	76,312	1,618,807
Others	445,829	142	538,337	179
	<u>\$ 1,895,941</u>	<u>\$ 1,738,071</u>	<u>\$ 1,976,411</u>	<u>\$ 1,747,202</u>

Geographical information on the revenue shows the location in which sales were generated. Non-current assets refer to property, plant and equipment, investment property and other assets, but excluded financial instruments, deferred tax assets and refundable deposits.

7) Major customer information

Major customer information of the Group for the years ended December 31, 2016 and 2015 is as follows:

	<u>Year ended December 31, 2016</u>	
	<u>Revenue</u>	<u>Operating segment</u>
Customer A	\$ 779,951	Media Experience and Entertainment and Others
	<u>Year ended December 31, 2015</u>	
	<u>Revenue</u>	<u>Operating segment</u>
Customer A	\$ 747,958	Media Experience and Entertainment and Others

CyberLink Corp.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

Year ended December 31, 2016

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2016				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
CyberLink Corp.	Stock of One-Blue, LLC	Director of the investee company	Financial assets carried at cost - non-current	-	\$ 48,535	16.67%	\$ -	
CyberLink Investment Corp.	Geothings Technology Co.,Ltd	None	Financial assets carried at cost - non - current	100,000	1,000	4.47%	-	
CyberLink Investment Corp.	Yuanta Wan Tai Money Market Fund	None	Financial assets at fair value through profit or loss - current	9,600,470	144,110	-	144,110	
CyberLink Investment Corp.	Fuh Hwa Tung-ta Fund	None	Non-current available-for-sale financial assets	2,112,443	68,400	1.10%	68,400	
CyberLink International Technology Corp.	Preferred stock of Cidana Inc.	None	Financial assets carried at cost - non-current	500,000	US\$ 150 (in thousand of dollars)	2.69%	-	
CyberLink International Technology Corp.	Preferred stock of LOFTechnology, Inc.	None	Financial assets carried at cost - non-current	100,000	US\$ 100 (in thousand of dollars)	1.25%	-	
CyberLink International Technology Corp.	Perfect Corp.'s convertible corporate bonds	Investments accounted for using equity method	Investments in debt instrument without active markets-current	-	US\$ 4,500 (in thousand of dollars)	45.00%	-	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

CyberLink Corp.

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

Year ended December 31, 2016

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2016		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2016		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
CyberLink Corp.	Stock of CyberLink International Technology Corp.	Investments accounted for using equity method	Capital increase by cash	Subsidiary	22,000,000	\$ 652,455	10,000,000	\$ 315,550	-	\$ -	(\$ 286,145) (Note 5)	\$ -	32,000,000	\$ 681,860

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: The amount is investment gain (loss) and the adjustment recognised based on shareholding ratio of long-term equity investment.

CyberLink Corp.  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Year ended December 31, 2016

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions (Note)		Notes/accounts receivable (payable)			Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of consolidated total notes/accounts receivable (payable)		
CyberLink Corp.	CyberLink.Com Corp.	The Company's subsidiary	Sales	\$ 184,182	12%	Note	Same with third parties	Note	\$ 23,021	26%	-	
CyberLink Corp.	CyberLink Inc.	The Company's subsidiary	Sales	211,189	14%	Note	Same with third parties	Note	29,175	33%	-	

Note: Prices to subsidiaries are based on normal transactions and sales are collected 30 days after the completion of sales.

CyberLink Corp.  
 Significant inter-company transactions during the reporting periods  
 Year ended December 31, 2016

Table 4

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	\$ 184,182	Note 4	9.7%
				Receivables	27,114	Note 4, 5	0.5%
0	CyberLink Corp.	CyberLink Inc.	1	Sales revenue	211,189	Note 4	11.1%
				Receivables	31,243	Note 4, 5	0.6%
0	CyberLink Corp.	CyberLink Europe B.V.	1	Sales revenue	78,817	Note 4	4.2%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

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

Note 5: Receivables include accounts receivable and other receivables.

Note 6: Transaction amounts over \$10,000 are disclosed; transactions are disclosed from asset and revenue sides.



CyberLink Corp.  
Information on investees  
Year ended December 31, 2016

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2016			Net profit (loss) of the investee for the year ended December 31, 2016 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2(3))	Footnote
				Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares	Ownership (%)	Book value			
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100%	\$ 475,024	(\$ 17,161)	(\$ 17,161)	Direct subsidiary
CyberLink Corp.	CyberLink Europe B.V.	Netherlands	Sale of software	124,710	124,710	3,000,000	100%	43,260	( 9,061)	( 9,061)	Direct subsidiary
CyberLink Corp.	CyberLink International Technology Corp.	B.V.I.	Investment activities	1,006,696	691,146	32,000,000	100%	681,860	( 313,328)	( 302,711)	Direct subsidiary
CyberLink Corp.	CyberLink Investment Corp.	Taiwan	Investment activities	220,000	220,000	12,000,000	100%	233,590	19,838	19,838	Direct subsidiary
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	27,348	27,840	1,900	100%	205,626	10,934	-	Indirect subsidiary
				(USD 848 in thousand of dollars)	(USD 848 in thousand of dollars)			(USD 6,376 in thousand of dollars)	(USD 339 in thousand of dollars)		
CyberLink International Technology Corp.	Perfect Corp.	Cayman	Investment activities	474,075	482,601	147,000,000	49%	37,352	( 611,892)	-	Investment accounted for using equity method
				(USD 14,700 in thousand of dollars)	(USD 14,700 in thousand of dollars)			(USD 1,158 in thousand of dollars)	(USD 18,961 in thousand of dollars)		
CyberLink.Com Corp.	ImageChef Incorporated	America	Digital information supply services	34,604	35,227	7,749,447	100%	14,867	2,881	-	Indirect subsidiary
				(USD 1,073 in thousand of dollars)	(USD 1,073 in thousand of dollars)			(USD 461 in thousand of dollars)	(USD 89 in thousand of dollars)		

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2016' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss) of the investee for the year ended December 31, 2016' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognised by the Company for the year ended December 31, 2016' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

CyberLink Corp.

Information on investments in Mainland China

Year ended December 31, 2016

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee as of December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016 (Note 2(2)B)	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Perfect (Shanghai) Co., Ltd.	Trading of computer peripheral and software	\$ 49,665 (USD 1,540 in thousand of dollars)	(2)	\$ 2,645 (USD 82 in thousand of dollars)	\$ 21,704 (USD 673 in thousand of dollars)	\$ -	\$ 24,349 (USD 755 in thousand of dollars)	(\$ 32,843)	49%	(\$ 16,092)	\$ 4,588	\$ -	Note 4
<u>Company name</u>	<u>2016</u>	<u>Investment amount approved by the Commission of the Ministry of Economic Affairs (MOEA)</u>	<u>Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA</u>										
CyberLink Corp.	\$ 24,349 (USD 755 in thousand of dollars)	\$ 25,736 (USD 798 in thousand of dollars)	\$ 2,517,801										

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others.

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2016' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
  - A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: Through investing in CyberLink International Technology Corp.