

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

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

PWCR17002916

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, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 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.

The key audit matters in relation to the consolidated financial statements for the year ended December 31, 2017 are outlined as follows:

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 based on the shipping reports provided by the hardware firm after the hardware products are sold. Given that the shipping reports are provided in various periods of time by the hardware firm, revenue is recognized primarily manually and leads to different cut-offs near the financial period-end. Additionally, 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 with hardware products sold as one of the key audit matters 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 with hardware products sold. This consisted of verifying the unit price, obtaining shipping reports which are provided by the hardware firm and ensuring that bundled revenue has been properly recorded.
2. Performed cut-off test on bundled revenue before the financial period-end, including verifying shipping reports, examining sales contracts, and confirming that bundled revenue are recorded in the proper period.

Impairment valuation of investments accounted for using equity method

Description

Please refer to Note 4(10) – financial assets impairment for the accounting policy on impairment valuation of investments accounted for using equity method, and Note 5(2) for accounting estimates and assumption uncertainty in relation to impairment valuation.

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

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 as one of the key audit matters 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 of 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:
 - (1) Verified that the future cash flows adopted in the appraisal report met Perfect Corp.'s operating plan.
 - (2) Evaluated 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.
 - (3) Examined the accuracy of the valuation model's calculations.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of CyberLink Corp. as of and for the years ended December 31, 2017 and 2016.

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 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 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 judgement 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.

Lin, Chun-Yao Wang, Chao-Ming

For and on behalf of PricewaterhouseCoopers, Taiwan

February 26, 2018

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, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 2,794,435	55	\$ 3,245,634	57
1110	Financial assets at fair value	6(2)(3)				
	through profit or loss - current		128,174	3	144,110	3
1147	Investments in debt instrument	6(3)(8) and 7				
	without active market - current		-	-	145,124	3
1150	Notes receivable, net	6(4)	6,075	-	17,409	-
1170	Accounts receivable, net	6(5)	51,234	1	81,844	1
1200	Other receivables		3,065	-	6,817	-
1210	Other receivables - related parties	7	11,628	-	4,381	-
1220	Current income tax assets		10,826	-	6,946	-
130X	Inventories		7,020	-	5,586	-
1470	Other current assets		14,814	-	34,310	1
11XX	Current Assets		<u>3,027,271</u>	<u>59</u>	<u>3,692,161</u>	<u>65</u>
Non-current assets						
1523	Available-for-sale financial assets	6(6)				
	- non-current		50,299	1	68,400	1
1543	Financial assets measured at cost	6(7)				
	- non-current		123,606	2	57,598	1
1550	Investments accounted for using	6(3)(8)				
	equity method		170,781	3	13,952	-
1600	Property, plant and equipment,	6(9)				
	net		453,673	9	464,190	8
1760	Investment property, net	6(10)	1,257,763	25	1,268,672	23
1840	Deferred income tax assets	6(24)	46,567	1	62,239	1
1900	Other non-current assets		<u>5,871</u>	<u>-</u>	<u>15,301</u>	<u>1</u>
15XX	Non-current assets		<u>2,108,560</u>	<u>41</u>	<u>1,950,352</u>	<u>35</u>
1XXX	Total assets		<u>\$ 5,135,831</u>	<u>100</u>	<u>\$ 5,642,513</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, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2170	Accounts payable	6(11)	\$ 136,854	3	\$ 182,331	3
2200	Other payables	6(12)	566,495	11	624,605	11
2220	Other payables - related parties	7	2,122	-	-	-
2230	Income tax payable		27,435	-	49,066	1
2300	Other current liabilities		54,123	1	80,477	2
21XX	Current Liabilities		<u>787,029</u>	<u>15</u>	<u>936,479</u>	<u>17</u>
Non-current liabilities						
2550	Provisions-non-current	6(13)	446,846	9	452,746	8
2570	Deferred income tax liabilities	6(24)	1,739	-	2,936	-
2600	Other non-current liabilities	6(14)	58,661	1	54,018	1
25XX	Non-current liabilities		<u>507,246</u>	<u>10</u>	<u>509,700</u>	<u>9</u>
2XXX	Total Liabilities		<u>1,294,275</u>	<u>25</u>	<u>1,446,179</u>	<u>26</u>
Equity						
Equity attributable to shareholders of the parent						
Capital Stock						
3110	Common stock		871,307	17	968,945	17
Capital surplus						
3200	Capital surplus		1,062,577	20	1,617,914	29
Retained earnings						
3310	Legal reserve		1,097,515	21	1,067,165	19
3350	Unappropriated earnings	6(24)	897,417	18	839,184	15
Other equity interest						
3400	Other equity interest		(72,904) (1)		13,386	-
3500	Treasury shares	6(16)	(14,356) (-)		(310,260) (6)	
31XX	Equity attributable to shareholders of the parent		<u>3,841,556</u>	<u>75</u>	<u>4,196,334</u>	<u>74</u>
3XXX	Total equity		<u>3,841,556</u>	<u>75</u>	<u>4,196,334</u>	<u>74</u>
Significant contingent liabilities and unrecognized contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 5,135,831</u>	<u>100</u>	<u>\$ 5,642,513</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)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Net revenue	7	\$ 1,704,178	100	\$ 1,895,941	100
5000 Operating costs	6(22)	(203,270)	(12)	(259,962)	(13)
5900 Gross profit		1,500,908	88	1,635,979	87
5920 Realized profit from sales		4,777	-	4,777	-
5950 Gross profit from operations		1,505,685	88	1,640,756	87
Operating expenses	6(14)(22)(23) and 7				
6100 Selling expenses		(448,756)	(26)	(434,011)	(23)
6200 General and administrative expenses		(117,525)	(7)	(122,690)	(7)
6300 Research and development expenses		(350,596)	(21)	(347,474)	(18)
6000 Total operating expenses		(916,877)	(54)	(904,175)	(48)
6900 Operating income		588,808	34	736,581	39
Non-operating income and expenses					
7010 Other income	6(10)(20) and 7	112,183	7	110,832	6
7020 Other gains and losses	6(2)(21)	(117,025)	(7)	(54,223)	(3)
7060 Share of loss of associates and joint ventures accounted for using equity method	6(8)			(217,471)	(13)
7000 Total non-operating income and expenses				(222,313)	(13)
7900 Income before income tax				(366,495)	21
7950 Income tax expense	6(24)	(124,938)	(7)	(200,484)	(11)
8200 Net income		<u><u>\$ 241,557</u></u>	<u><u>14</u></u>	<u><u>\$ 303,496</u></u>	<u><u>16</u></u>
Other comprehensive income (loss)					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 (Losses) gains on remeasurements of defined benefit plans	6(14)	(\$ 6,098)	-	\$ 5,563	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)			1,037	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss				(5,061)	-
Items may be reclassified to profit or loss subsequently				4,617	-
8361 Exchange differences arising on translation of foreign operations	6(19)	(73,440)	(4)	(6,748)	-
8362 Unrealized gains on valuation of available-for-sale financial assets	6(6)(19)	(13,017)	(1)	8,322	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method	6(8)(19)			28	-
8360 Items may be reclassified to profit or loss subsequently				(86,429)	(5)
8500 Total comprehensive income		<u><u>\$ 150,067</u></u>	<u><u>9</u></u>	<u><u>\$ 306,450</u></u>	<u><u>16</u></u>
Net income, attributable to:					
8610 Shareholders of the parent		<u><u>\$ 241,557</u></u>	<u><u>14</u></u>	<u><u>\$ 303,496</u></u>	<u><u>16</u></u>
Total comprehensive income attributable to:					
8710 Shareholders of the parent		<u><u>\$ 150,067</u></u>	<u><u>9</u></u>	<u><u>\$ 306,450</u></u>	<u><u>16</u></u>
Earnings per share	6(25)				
9750 Basic earnings per share		<u><u>\$ 2.72</u></u>		<u><u>\$ 3.15</u></u>	
9850 Diluted earnings per share		<u><u>\$ 2.67</u></u>		<u><u>\$ 3.08</u></u>	

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Notes	Equity attributable to owners of the parent					Retained Earnings			Other equity interest			Treasury stocks	Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences arising on translation of foreign operations	Unrealized gain (losses) on available-for-sale financial assets						
Year 2016													
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 shares	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)	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,617</u>	<u>(9,985)</u>	<u>8,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,954</u>	
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>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,196,334</u>	
Year 2017													
Balance at January 1, 2017	\$ 968,945	\$ 1,617,914	\$ 1,067,165	\$ -	\$ 839,184	(\$ 33,890)	\$ 47,276	(\$ 310,260)	\$ -	\$ -	\$ -	\$ 4,196,334	
Distribution of 2016 earnings													
Legal reserve	6(18)	-	-	30,350	-	(30,350)	-	-	-	-	-	-	
Cash dividends	6(18)	-	-	-	-	(147,774)	-	-	-	-	-	(147,774)	
Net income for 2017		-	-	-	-	241,557	-	-	-	-	-	241,557	
Purchase of treasury shares	6(16)	-	-	-	-	-	-	-	(397,476)	(397,476)	(397,476)		
Retirement of treasury shares	6(16)	(100,650)	(592,730)	-	-	-	-	-	-	693,380	-		
Share-based payment transactions	6(15)(17)	-	16,807	-	-	-	-	-	-	-	-	16,807	
Employee stock options exercised	6(17)	3,012	11,687	-	-	-	-	-	-	-	-	14,699	
Change in net equity of associates accounted for using equity method	6(17)	-	8,899	-	-	(139)	-	-	-	-	-	8,760	
Other comprehensive loss for 2017	6(19)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,061)</u>	<u>(73,273)</u>	<u>(13,017)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(91,351)</u>	
Balance at December 31, 2017	<u>\$ 871,307</u>	<u>\$ 1,062,577</u>	<u>\$ 1,097,515</u>	<u>\$ -</u>	<u>\$ 897,417</u>	<u>(\$ 107,163)</u>	<u>\$ 34,259</u>	<u>(\$ 14,356)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,841,556</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)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 366,495	\$ 503,980
Adjustments			
Adjustments to reconcile profit (loss)			
Realized gain	6(8)	(4,777)	(4,777)
Gain on financial assets at fair value through profit or loss	6(2)(21)	(412)	(562)
Depreciation expense	6(9)(10)	22,885	22,486
Interest income	6(20)	(32,979)	(24,247)
Dividend income	6(20)	(2,458)	(5,423)
Employees' stock option cost	6(15)	16,805	22,312
Loss on disposal and scrapping of property, plant, and equipment	6(21)	37	2,058
Share of loss of associates and joint ventures accounted for using equity method	6(8)	217,471	289,210
Gain on disposal of investments	6(6)(21)	(9,004)	(19,605)
Impairment loss on financial assets	6(7)(21)	4,565	-
Overdue accounts payable transferred to revenue	6(20)	(3,784)	(4,201)
Overdue advance receipt transferred to revenue	6(20)	- (6,389)	(6,389)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		16,348	153,702
Notes receivable		11,334	(5,414)
Accounts receivable		27,237	49,651
Other receivables		5,613	(1,899)
Other receivables-related parties		(7,300)	1,723
Inventories		(1,434)	1,748
Other current assets		10,364	1,170
Other non-current assets		5,209	(5,209)
Changes in operating liabilities			
Accounts payable		(35,668)	(45,965)
Other payables		(36,059)	(41,877)
Other payables-related parties		2,122	(473)
Other current liabilities		(25,805)	(8,924)
Provisions		(5,900)	18,948
Other non-current liabilities		(328)	(242)
Cash inflow generated from operations		540,577	891,781
Interest received		32,914	24,077
Dividends received		410	1,228
Dividends paid		(147,774)	(387,180)
Income tax paid		(128,033)	(179,864)
Net cash flows from operating activities		<u>298,094</u>	<u>350,042</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, 2017	Year ended December 31, 2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments in debt instrument without active market		\$ - (\$ 145,124)	
Proceeds from disposal of available-for-sale financial assets		\$ 14,088	28,983
Acquisition of financial assets at cost		(67,095)	(1,000)
Acquisition of investments accounted for using equity method	6(8)	(223,661)	-
Proceeds from disposal of investments accounted for using equity method	7	-	283
Increase in prepayments for investments		- (4,000)	
Acquisition of property, plant, and equipment	6(9)	(11,221)	(12,503)
Proceeds from disposal of property, plant, and equipment		-	33
Increase in refundable deposits		(9) (2,223)	
Net cash flows used in investing activities		(287,898) (135,551)	
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in deposits received		(1,070)	801
Exercise of employee stock options		14,699	4,913
Acquisition of treasury shares	6(16)	(397,476)	(310,260)
Net cash flows used in financing activities		(383,847)	(304,546)
Effects of changes in exchange rates of foreign currency holdings		(77,548) (3,713)	
Net decrease in cash and cash equivalents		(451,199)	(93,768)
Cash and cash equivalents at beginning of year		3,245,634	3,339,402
Cash and cash equivalents at end of year		<u>\$ 2,794,435</u>	<u>\$ 3,245,634</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, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

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 26, 2018.

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”)

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

<u>New Standards, Interpretations and Amendments</u>	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortization’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. 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 complies with the standard accordingly.

B. 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 complies with the standard accordingly.

(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 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealized losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, 'Financial instruments'

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 amortized 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. 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 recognized 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 recognizes 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 recognizes 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: Recognize 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.

Sales of goods with a right of return

IFRS 15 requires that, when products are sold with a right of return, the entity will recognize revenue in the amount of consideration to which the entity expects to be entitled. Revenue would not be recognized for products that the entity expects to be returned. The entity raises a refund liability and an asset representing its right to recover the products from the customer. The asset is presented separately from the refund liability.

C. 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.

The Group expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Group expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarized below:

Consolidated balance sheet

Affected items	2017 version IFRSs amount	Effect of adoption of new standards		2018 version IFRSs amount	Remark
		new standards	2018 version IFRSs amount		
<u>January 1, 2018</u>					
Financial assets at fair value through profit or loss	\$ 128,174	\$ 163,298	\$ 291,472		(b)
Accounts receivable	51,234	64,334	115,568		(d)
Available-for-sale financial assets	50,299	(50,299)	-		(b)
Financial assets at fair value through other comprehensive income	-	1,095	1,095		(a)
Financial assets at cost	123,606	(123,606)	-		(a) (b)
Total affected assets	\$ 353,313	\$ 54,822	\$ 408,135		
Contract liabilities - current	\$ -	\$ 108,900	\$ 108,900		(d) (e)
Other current liabilities	54,123	(44,566)	9,557		(e)
Total affected liabilities	54,123	64,334	118,457		
Unappropriated retained earnings	897,417	36,193	933,610		(b) (c)
Other equity interest	(72,904)	(45,705)	(118,609)		(a)(b)(c)
Total affected equity	824,513	(9,512)	815,001		
Total affected liabilities and equity	\$ 878,636	\$ 54,822	\$ 933,458		

Explanation:

- In accordance with IFRS 9, the Group expects to reclassify financial assets at cost in the amount of \$7,976, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income and decreasing other equity interest in the amounts of \$1,095 and \$6,881, respectively.
- In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets and financial assets at cost in the amounts of \$50,299 and \$115,630, respectively, by increasing financial assets at fair value through profit or loss, increasing retained earnings and decreasing other equity interest in the amounts of \$163,298, \$31,628 and \$34,259, respectively.

- (c) In line with the regulations under IFRS 9 on provision for impairment, other equity interest will have to be decreased by \$4,565 and retained earnings increased by \$4,565.
- (d) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognized as contract liabilities, but were previously presented as accounts receivable - allowance for sales returns and discounts in the balance sheet. As of January 1, 2018, the balance would amount to \$64,334.
- (e) Under IFRS 15, the contract liabilities were previously presented as current liabilities (advance sales receipts) in the balance sheet. As of January 1, 2018, the balance would amount to \$44,566.

(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 as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize 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.

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 recognized based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement 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 unrealized 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 recognized 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 recognized in profit or loss. All amounts previously recognized 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 recognized 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, 2017	December 31, 2016	
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 1
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%	Note 2

Note 1: In order to fulfill the 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) in November 2016, and the capital increase procedures have been completed.

Note 2: In August 2017, the subsidiary, CyberLink-USA, merged with its subsidiary, ImageChef, and the former is the surviving entity. The merger was registered in September 2017.

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 realized, 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 realized within twelve months from the balance sheet date;
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle 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 recognized and derecognized using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized 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 recognized 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 recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized 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 recognized 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 recognized at fair value and subsequently measured at amortized 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 recognized and derecognized using trade date accounting.
- c) Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortization of a premium or a discount on such assets is recognized 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 amortized 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 recognized 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized 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 recognized in profit or loss. Impairment

loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized 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 amortization) and current fair value, less any impairment loss on that financial asset previously recognized 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 recognized, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized 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 derecognizes 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 recognized 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 realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value should be based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expense.

(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 recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized 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 recognize 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 do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of

the associate, the Group recognizes change in ownership interests in the associate in ‘capital surplus’ in proportion to its ownership.

- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealized 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 recognized 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 recognized 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 recognized 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 derecognized. 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 recognized 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 recognizing 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 amortized historical cost would have been if the impairment had not been recognized.

(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 recognized initially at fair value and subsequently measured at amortized 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 derecognized when the obligation under the liability specified in the contract is discharged, cancelled, or expires.

(20) Provisions

Provisions are recognized 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 recognized as interest expense. Provisions are not recognized 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 recognized as expenses in that period when the employees render service.

B. Pensions

a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized 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 recognized 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 net defined benefit 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 recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

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

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal 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 recognized 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. Ultimately, the amount of compensation cost recognized 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 recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized 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 recognized, 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 realized or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognized 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, unrecognized and recognized 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 recognized amounts and there is an intention to settle on a net basis or realize 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 realize 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 is recognized 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 is recognized 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 recognized when the Group has delivered the software to the distributor or retailer. Revenue arising from the sales of software through internet should be recognized 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 recognized.
- 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

None.

(2) Critical accounting estimates and assumptions

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 is any indication that it might have been impaired and its carrying amount cannot be recovered. 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, 2017, the Group's investments accounted for under the equity method amounted to \$170,781.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and revolving funds	\$ 65	\$ 64
Checking accounts	211,887	141,118
Demand deposits	851,842	975,721
Time deposits	1,730,641	2,128,731
	<u>\$ 2,794,435</u>	<u>\$ 3,245,634</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

	December 31, 2017	December 31, 2016
Financial assets held for trading		
Money market funds	\$ 123,437	\$ 140,898
Non-hedging derivatives - stock options	1,852	-
Subtotal	125,289	140,898
Valuation adjustment	2,885	3,212
Total	<u>\$ 128,174</u>	<u>\$ 144,110</u>

A. The Group recognized net gains of \$412 and \$562 on financial assets held for trading for the years ended December 31, 2017 and 2016, respectively.

B. Please refer to Note 6(3) for information on derivatives – stock options.

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

	December 31, 2017	December 31, 2016
Corporate bonds	<u>\$ -</u>	<u>\$ 145,124</u>

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

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

C. In July 2017, the Group was proposed to convert all outstanding convertible bonds into preferred shares prior to July 31, 2017 by Perfect Corp. Therefore, Perfect Corp. would grant a warrant to the Group for purchase additional preferred shares, at certain quantity based on the previous purchase price with maturity date on May 31, 2018. On July 31, 2017, the Group converted the convertible bonds into 14,142 thousand preferred shares of Perfect Corp. (recognized as investments accounted for using equity method), which was authorized by the Board of Directors on July 17, 2017.

(4) Notes receivable

	December 31, 2017	December 31, 2016
Notes receivable	\$ 6,105	\$ 17,439
Less: Allowance for bad debts	(30)	(30)
	<u>\$ 6,075</u>	<u>\$ 17,409</u>

(5) Accounts receivable

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 116,086	\$ 147,414
Less: Allowance for sales return and discounts	(64,334)	(65,052)
Less: Allowance for bad debts	(518)	(518)
	<u>\$ 51,234</u>	<u>\$ 81,844</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:

	December 31, 2017	December 31, 2016
Group 1	\$ 23	\$ 2,824
Group 2	49,613	59,735
Group 3	48,472	50,479
Group 4	6,414	8,245
Group 5	8,029	13,790
	<hr/>	<hr/>
	\$ 112,551	\$ 135,073

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 aging analysis of accounts receivable that were past due but not impaired is as follows:

	December 31, 2017	December 31, 2016
Up to 30 days	\$ 625	\$ 12,037
31 to 90 days	2,573	124
Over 91 days	337	180
	<hr/>	<hr/>
	\$ 3,535	\$ 12,341

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

Item	December 31, 2017	December 31, 2016
Non-current items:		
Private fund	\$ 16,040	\$ 21,124
Valuation adjustment	34,259	47,276
	<hr/>	<hr/>
	\$ 50,299	\$ 68,400

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 classified as available-for-sale financial assets.

B. The Group recognized \$4,013 in debit balance and \$27,829 in credit balance in other comprehensive income for fair value change and reclassified \$9,004 and \$19,507 both in credit balances from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.

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

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

Item	December 31, 2017	December 31, 2016
Unlisted stocks	\$ 61,076	\$ 57,598
Private fund	67,095	-
	128,171	57,598
Less : Accumulated impairment	(4,565)	-
Total	\$ 123,606	\$ 57,598

- A. Based on the Group's intention, its investment in unlisted stocks and private fund 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.
- C. For the year ended December 31, 2017, the Group recognized impairment loss of \$4,565 after assessing the continuous loss incurred to some of financial assets measured at cost.

(8) Investments accounted for using equity method

	2017	2016
At January 1	\$ 13,952	\$ 292,783
Transfer from investments in debt instrument without active market (Note)	136,935	-
Addition of investments	223,661	-
Disposal of investments	- (185)	185)
Share of loss of investments accounted for using equity method	(217,471)	(289,210)
Realized	4,777	4,777
Changes in capital surplus	8,899	9,024
Actuarial gains and losses	(139)	-
Changes in other equity items (Note 6(19))	167	(3,237)
At December 31	\$ 170,781	\$ 13,952

Note : Please refer to Note 6(3).

- 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, 2017	December 31, 2016		
Perfect Corp.	Cayman	48.67%	49.00%	Investments accounted for using equity method	Equity method

On July 31, 2017, the Group's shareholding ratio in Perfect Corp. declined from 49% to 48.62% after a conversion of convertible bonds into preferred shares. Subsequently, the ratio rose to 48.67% after acquiring 23,098 thousand preferred shares on October 18, 2017.

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

Balance sheet

	Perfect Corp.	
	December 31, 2017	December 31, 2016
Current assets	\$ 476,580	\$ 418,311
Non-current assets	<u>30,845</u>	<u>66,828</u>
Total assets	<u>507,425</u>	<u>485,139</u>
Current liabilities	(138,958)	(408,134)
Non-current liabilities	(1,120)	(776)
Total liabilities	(140,078)	(408,910)
Total net assets	<u>\$ 367,347</u>	<u>\$ 76,229</u>
Share in associate's net assets (Note)	<u>\$ 178,788</u>	<u>\$ 37,352</u>

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

Statement of comprehensive income

	Perfect Corp.	
	Year ended	Year ended
	December 31, 2017	December 31, 2016
Revenue	\$ 150,030	\$ 36,347
Loss for the year from continuing operations	(466,758)	(611,892)
Other comprehensive income (loss), net of tax	<u>58</u>	<u>(6,606)</u>
Total comprehensive loss	<u>(\$ 466,700)</u>	<u>(\$ 618,498)</u>

(9) Property, plant, and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Total
<u>At January 1, 2017</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>
<u>2017</u>						
Opening net book amount	\$ 268,327	\$ 180,565	\$ 9,901	\$ 1,365	\$ 4,032	\$ 464,190
Additions	-	6,054	4,900	267	-	11,221
Costs of disposal	-	(1,334)	(3,516)	(1,856)	(925)	(7,631)
Accumulated depreciation on disposal	-	1,334	3,516	1,819	925	7,594
Depreciation expense	-	(5,694)	(4,699)	(528)	(1,055)	(11,976)
Net exchange differences	(3,678)	(5,971)	(17)	(59)	-	(9,725)
Closing net book amount	<u>\$ 264,649</u>	<u>\$ 174,954</u>	<u>\$ 10,085</u>	<u>\$ 1,008</u>	<u>\$ 2,977</u>	<u>\$ 453,673</u>
<u>At December 31, 2017</u>						
Cost	\$ 264,649	\$ 218,980	\$ 24,338	\$ 4,271	\$ 5,955	\$ 518,193
Accumulated depreciation	-	(44,026)	(14,253)	(3,263)	(2,978)	(64,520)
	<u>\$ 264,649</u>	<u>\$ 174,954</u>	<u>\$ 10,085</u>	<u>\$ 1,008</u>	<u>\$ 2,977</u>	<u>\$ 453,673</u>

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Total
<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>

(10) Investment property

	Land	Buildings	Total
<u>At January 1, 2017</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>2017</u>			
Opening net book amount	\$ 799,024	\$ 469,648	\$ 1,268,672
Costs of disposal	-	(126)	(126)
Accumulated depreciation on disposal	-	126	126
Depreciation expense	-	(10,909)	(10,909)
Closing net book amount	<u>\$ 799,024</u>	<u>\$ 458,739</u>	<u>\$ 1,257,763</u>
<u>At December 31, 2017</u>			
Cost	\$ 799,024	\$ 555,953	\$ 1,354,977
Accumulated depreciation	-	(97,214)	(97,214)
	<u>\$ 799,024</u>	<u>\$ 458,739</u>	<u>\$ 1,257,763</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>

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

	Year ended December 31, 2017	Year ended December 31, 2016
Rental income from the lease of the investment property	\$ 53,648	\$ 55,253
Direct operating expenses arising from the investment property that generated rental income during the year	\$ 13,675	\$ 13,444
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ 908	\$ 1,144

B. The fair value of the investment property held by the Group as of December 31, 2017 and 2016 was \$1,772,533 and \$1,904,022, respectively, which was estimated based on market trading prices of similar property in the areas nearby.

(11) Accounts payable

	December 31, 2017	December 31, 2016
Royalty expense	\$ 134,043	\$ 178,634
Others	2,811	3,697
	<u><u>\$ 136,854</u></u>	<u><u>\$ 182,331</u></u>

(12) Other payables

	December 31, 2017	December 31, 2016
Royalty collection	\$ 292,414	\$ 343,732
Employees' compensation and directors' and supervisors' remuneration	71,459	72,739
Employees' rewards	69,632	71,039
Payroll	66,283	67,942
Promotional fees	29,846	28,102
Professional service fees	9,848	9,574
Commission expense	2,714	11,032
Other accrued expenses	15,642	14,620
Other payables	8,657	5,825
	<u><u>\$ 566,495</u></u>	<u><u>\$ 624,605</u></u>

(13) Provisions

	Cost of software		
	Royalty	bug-fixing	Total
At January 1, 2017	\$ 446,106	\$ 6,640	\$ 452,746
Additional provisions	29,604	-	29,604
Unused amounts reversed	- (	676) (	676)
Exchange differences	(34,828)	-	(34,828)
At December 31, 2017	<u><u>\$ 440,882</u></u>	<u><u>\$ 5,964</u></u>	<u><u>\$ 446,846</u></u>
Cost of software			
	Royalty	bug-fixing	Total
	\$ 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><u>\$ 446,106</u></u>	<u><u>\$ 6,640</u></u>	<u><u>\$ 452,746</u></u>

Analysis of total provisions:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Non-current	<u>\$ 446,846</u>	<u>\$ 452,746</u>

A. Royalty

The Group estimates the possible royalty expenses based on the industry characteristics, other known events and management's judgement and recognizes 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 December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover the deficit by next March.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 74,897)	(\$ 67,918)
Fair value of plan assets	<u>26,564</u>	<u>25,354</u>
Net defined benefit liability	<u>(\$ 48,333)</u>	<u>(\$ 42,564)</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, 2017			
Balance at January 1	(\$ 67,918)	\$ 25,354	(\$ 42,564)
Interest (expense) income	(1,016)	385	(631)
	(68,934)	25,739	(43,195)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(135)	(135)
Change in demographic assumptions	(1,622)	-	(1,622)
Change in financial assumptions	(2,639)	-	(2,639)
Experience adjustments	(1,702)	-	(1,702)
	(5,963)	(135)	(6,098)
Pension fund contribution	-	960	960
Balance at December 31	(\$ 74,897)	\$ 26,564	(\$ 48,333)
	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)
	(73,674)	24,587	(49,087)
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
	5,756	(193)	5,563
Pension fund contribution	-	960	960
Balance at December 31	(\$ 67,918)	\$ 25,354	(\$ 42,564)

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, 2017 and 2016 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, 2017	Year ended December 31, 2016
Discount rate	1.25%	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, 2017				
Effect on present value of defined benefit obligation	(\$ 2,707)	\$ 2,837	\$ 2,781	(\$ 2,669)
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 2,581)	\$ 2,709	\$ 2,662	(\$ 2,550)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. 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.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

f) Expected contributions to the defined benefit pension plans of the company for the year ending December 31, 2018 amounts to \$960.

g) As of December 31, 2017, the weighted average duration of the retirement plan is 15 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$ 363
1-2 year(s)	559
3-5 years	3,434
Over 5 years	84,717
	<hr/>
	\$ 89,073

B. a) Effective July 1, 2005, the Company has 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 contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are 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, 2017 and 2016 were \$16,850 and \$16,461, respectively.

c) The pension costs under local pension regulations of the foreign subsidiaries for the years ended December 31, 2017 and 2016 were \$3,889 and \$4,611, 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, 2017 and 2016, 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%
	“ 2015.8.25	5,000	7 years	3 years’ service: exercise 75% 4 years’ service: exercise 100% the same as above

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

	2017		2016	
	No. of options (in thousands)	Weighted - average exercise price (in dollars)	No. of options (in thousands)	Weighted - average exercise price (in dollars)
Options outstanding at January 1	5,600	\$ 50.57	6,868	\$ 60.68
Options exercised	(301)	48.81	(100)	49.38
Options forfeited	(147)	49.60	(1,168)	90.40
Options outstanding at December 31	<u>5,152</u>	<u>49.21</u>	<u>5,600</u>	<u>50.57</u>
Options exercisable at December 31	<u>2,799</u>		<u>600</u>	

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2017 and 2016 was \$49.21 and \$50.57 (in dollars), respectively.

D. As of December 31, 2017 and 2016, the range of exercise prices of stock options outstanding was \$45.70 ~ \$49.60 and \$47.00 ~ \$51.00 (in dollars), respectively; the weighted-average remaining contractual period was 0.64~4.65 years and 1.64~5.65 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	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		Year ended	
	December 31, 2017		December 31, 2016	
Equity settled		\$ 16,805		\$ 22,312

(16) Share capital / Events after the balance sheet date

A. As of December 31, 2017, 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 \$871,307 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:

	2017	2016
At January 1	96,895	96,795
Employee stock options exercised	301	100
Shares retired	(10,065)	-
At December 31	87,131	96,895

B. Treasury shares

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

			December 31, 2017
Name of company holding the shares	Reason for reacquisition	Number of shares (in thousands)	Carrying amount
The Company	Maintain the Company's credit and shareholders' interest	216	\$ 14,356
		December 31, 2016	
Name of company holding the shares	Reason for reacquisition	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 Act, 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 realized capital surplus.

c) Pursuant to the R.O.C. Securities and Exchange Act, 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 Act, 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) For the years ended December 31, 2017 and 2016, the Company has completed the repurchase of treasury shares as of June 9, 2017 and December 26, 2016, respectively. The repurchased shares totaled 5,486 and 4,579 thousands shares, and the registration of retirement of shares has been completed on August 29 and March 23, 2017, respectively.

f) On December 12, 2017, the Board of Directors resolved to repurchase the Company's shares from stock exchange market from December 13, 2017 to February 12, 2018, aiming to enhance the Company's credit rating and the stockholders' equity. The Company expected to repurchase 3,000 thousand shares with NT\$50~NT\$75 per share. As of February 12, 2018, the repurchased treasury shares amounted to 2,999 thousand with a consideration totaling \$197,819.

(17) Capital surplus

Pursuant to the R.O.C. Company Act, 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 Act requires that the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2017				
	Expired				
	Share premium	Employee stock options	employee stock options in portion to the Group's	Net change in equity of associates	Total
At January 1	\$ 1,506,779	\$ 45,292	\$ 56,566	\$ 9,277	\$ 1,617,914
Employee stock options exercised	15,930	(4,243)	-	-	11,687
Share-based payment transactions	-	16,807	-	-	16,807
Recognition of change in equity of associates in portion to the Group's	-	-	-	2,592	2,592
Retirement of treasury shares	(592,730)	-	-	-	(592,730)
Others	-	-	-	6,307	6,307
At December 31	<u>\$ 929,979</u>	<u>\$ 57,856</u>	<u>\$ 56,566</u>	<u>\$ 18,176</u>	<u>\$ 1,062,577</u>
	2016				
	Expired				
	Share premium	Employee stock options	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>

(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.

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.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

C. 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.

D. On June 20, 2017 and June 23, 2016, the appropriation of 2016 and 2015 earnings had been resolved at the stockholders' meeting as follows:

	Year ended		Year ended	
	December 31, 2016		December 31, 2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 30,350		\$ 55,664	
Cash dividends	147,774	\$1.60	387,180	\$4.00
	<u>\$ 178,124</u>		<u>\$ 442,844</u>	

(19) Other equity items

	2017		
	Available-for-sale Investment	Currency translation	Total
At January 1	\$ 47,276	(\$ 33,890)	\$ 13,386
Revaluation	(13,017)	-	(13,017)
-Group			
Currency translation		73,440	(73,440)
-Group			
-Associates		167	167
At December 31	<u>\$ 34,259</u>	<u>(\$ 107,163)</u>	<u>(\$ 72,904)</u>
	2016		
	Available-for-sale Investment	Currency translation	Total
At January 1	\$ 38,954	(\$ 23,905)	\$ 15,049
Revaluation	8,322	-	8,322
-Group		6,748	(6,748)
Currency translation		3,237	(3,237)
-Group			
-Associates			
At December 31	<u>\$ 47,276</u>	<u>(\$ 33,890)</u>	<u>\$ 13,386</u>

(20) Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Rental income	\$ 67,519	\$ 66,827
Interest income from bank deposits	32,979	24,247
Dividend income	2,458	5,423
Overdue accounts payable transferred to revenue	3,784	4,201
Overdue advance receipt transferred to revenue	-	6,389
Others	<u>5,443</u>	<u>3,745</u>
	<u>\$ 112,183</u>	<u>\$ 110,832</u>

(21) Other gains and losses

	Year ended December 31, 2017	Year ended December 31, 2016
Net currency exchange losses	(\$ 107,125)	(\$ 57,579)
Net gains on financial assets at fair value through profit or loss	412	562
Impairment loss on financial assets	(4,565)	-
Loss on disposal of property, plant and equipment	(37)	(2,058)
Gains on disposals of investments	9,004	19,605
Others	(14,714)	(14,753)
	<u>(\$ 117,025)</u>	<u>(\$ 54,223)</u>

(22) Costs and expenses by nature

	Year ended December 31, 2017	Year ended December 31, 2016
Cost of goods sold	\$ 13,437	\$ 18,279
Employee benefit expenses	623,799	627,399
Royalty cost	189,182	241,968
Promotional fees	121,788	91,390
Professional service fees	64,100	73,601
Product selling fees	27,109	27,848
Depreciation of property, plant and equipment	11,976	11,575
Others	68,756	72,077
Total cost of sales and operating expenses	<u>\$ 1,120,147</u>	<u>\$ 1,164,137</u>

(23) Employee benefit expenses

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	\$ 531,322	\$ 528,550
Labor and health insurance fees	43,278	42,291
Pension costs	21,370	21,791
Employee stock options	16,805	22,312
Other personnel expenses	11,024	12,455
	<u>\$ 623,799</u>	<u>\$ 627,399</u>

A. In accordance with 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, 2017 and 2016, employees' compensation was accrued at \$32,973 and \$41,249, respectively; while directors' and supervisors' remuneration was accrued at \$3,323 and \$4,097, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 8.94% and 0.90% 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 \$32,973 and \$4,507, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2016 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2016 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, 2017	Year ended December 31, 2016
Current tax:		
Current tax expense recognized for the current period	\$ 87,685	\$ 119,721
Prior year income tax underestimation	8,742	57,769
Tax on undistributed surplus earnings	<u>12,999</u>	<u>18,838</u>
Total current tax	<u>109,426</u>	<u>196,328</u>
Deferred tax:		
Origination and reversal of temporary differences	5,264	4,156
Impact of change in tax rate (Note)	<u>10,248</u>	-
Total deferred tax	<u>15,512</u>	<u>4,156</u>
Income tax expense recognized in profit or loss	<u>\$ 124,938</u>	<u>\$ 200,484</u>

Note: The U.S. President enacted the business tax cut from 35% to 21% on December 22, 2017.

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2017	Year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate	\$ 73,552	\$ 94,535
Effects from items disallowed by tax regulation	46,223	60,240
Tax on undistributed surplus earnings	12,999	18,838
Effect from investment tax credits	(26,826)	(30,898)
Impact of change in the tax rate on temporary differences between current year and the year realized	10,248	-
Prior year income tax under estimation	8,742	57,769
Income tax expense	<u>\$ 124,938</u>	<u>\$ 200,484</u>

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

	Year ended December 31, 2017			
	Recognized in			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
– Deferred tax assets:				
Unrealized profit on intercompany sales	\$ 9,080	(\$ 661)	\$	- \$ 8,419
Unrealized profit on allowance for sales	42,964	(15,520)		- 27,444
Unrealized exchange losses	749	(749)		- -
Unrealized loss on decline in market value	-	226		- 226
Unused compensated absences	2,446	110		- 2,556
Cost of software bug-fixing	1,129	(115)		- 1,014
Actuarial gains and losses on pensions	<u>5,871</u>	<u>-</u>	<u>1,037</u>	<u>6,908</u>
Subtotal	<u>62,239</u>	<u>(16,709)</u>	<u>1,037</u>	<u>46,567</u>
– Deferred tax liabilities:				
Differences of depreciation	(2,936)	1,680		- (1,256)
Unrealized exchange gains	- (483)			- (483)
Subtotal	<u>(2,936)</u>	<u>1,197</u>	<u>-</u>	<u>(1,739)</u>
Total	<u>\$ 59,303</u>	<u>(\$ 15,512)</u>	<u>\$ 1,037</u>	<u>\$ 44,828</u>

	Year ended December 31, 2016			
	Recognized in			
	<u>January 1</u>	<u>Recognized in profit or loss</u>	<u>other comprehensive income</u>	<u>December 31</u>
Temporary differences:				
– Deferred tax assets:				
Unrealized profit on intercompany sales	\$ 18,337	(\$ 9,257)	\$	- \$ 9,080
Unrealized 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	66,771	(3,586)	(946)	62,239
– Deferred tax liabilities:				
Differences of depreciation	(2,366)	(570)	-	(2,936)
Total	\$ 64,405	(\$ 4,156)	(\$ 946)	\$ 59,303

D. As of December 31, 2017, the Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

E. Unappropriated retained earnings:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Earnings generated in and before 1997	\$ 9,932	\$ 9,932
Earnings generated in and after 1998	887,485	829,252
	\$ 897,417	\$ 839,184

F. As of December 31, 2017 and 2016, the balance of the imputation tax credit account was \$166,333 and \$119,741, respectively. The creditable tax rate was 19.02% for the year ended December 31, 2016.

(25) Earnings per share

Year ended December 31, 2017			
	Amount after tax	Weighted average outstanding shares (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 241,557	88,930	\$ 2.72
<u>Diluted earnings per share</u>			
Profit attributable to the ordinary shareholders of the parent	\$ 241,557	88,930	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	743	
Employees' bonus	-	649	
Profit attributable to the ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 241,557	90,322	\$ 2.67
Year ended December 31, 2016			
	Amount after tax	Weighted average outstanding shares (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 303,496	96,455	\$ 3.15
<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	-	682	
Profit attributable to the ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 303,496	98,660	\$ 3.08

(26) Operating leases

A. Lessor

The Group's investment assets of two short sections numbered 229 in Xihu Section in Neihu 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 2014 and the third quarter of 2024, and attached renewal options at end of the lease period. Recognized rental income of \$61,350 and \$60,657 were for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 49,254	\$ 59,055
Later than one year but not later than five years	69,877	66,192
Later than five years	8,509	-
	<u>\$ 127,640</u>	<u>\$ 125,247</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 recognized rental expenses of \$5,957 and \$7,475 for the years ended December 31, 2017 and 2016, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Not later than one year	\$ 2,400	\$ 6,008
Later than one year but not later than five years	-	2,503
	<u>\$ 2,400</u>	<u>\$ 8,511</u>

(27) Supplemental cash flow information

Investing activities with no cash flow effects:

	<u>Year ended</u>	<u>Year ended</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Convertible bonds being converted to investments accounted for using equity method	<u>\$ 136,935</u>	<u>\$ -</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Perfect Corp.	Associates
Perfect Mobile Corp.(Taiwan)	Associates (Subsidiary of Perfect Corp.)
Perfect Corp.(Japan)	"
Perfect Mobile Corp.	"

(2) Significant related party transactions and balances

A. Operating revenue

	Year ended December 31, 2017	Year ended December 31, 2016
Sales of goods:		
Associates	\$ -	\$ 3,280

- (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 Appraisement. The total transaction amount was \$29,250, and unrealized gain recognized proportionately to shareholding ratio was \$14,332. As of December 31, 2017, realized profit amounted to \$10,749.

B. Other receivables

	December 31, 2017	December 31, 2016
Rent income:		
Associates	\$ 539	\$ 539
Payment on behalf of others		
Perfect Mobile Corp.(Taiwan)	9,529	3,022
Associates	1,560	820
	<u>\$ 11,628</u>	<u>\$ 4,381</u>

C. Other payables

	December 31, 2017	December 31, 2016
Payment on behalf of others		
Associates	\$ 2,122	\$ -

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

		Year ended December 31, 2016	
	Accounts	Disposal proceeds	Gain on disposal
Associates	Gains on disposal of investments	\$ 283	\$ 98

A subsidiary sold 0.125% of Perfect Mobile Corp. (Taiwan)'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

		Year ended December 31, 2016	
	Accounts	Objects	Consideration
Perfect Corp.	Investments in debt instrument without active market - current	Convertible bonds	\$ 145,124

In November 2016, a subsidiary invested in convertible bonds amounting to \$145,124 issued by associates. The bonds were converted into 14,142 thousand preferred shares of Perfect Corp. Please refer to Note 6(3) for details.

c) Disposal of other assets

		Year ended December 31, 2015	
	Accounts	Disposal proceeds	Gain on disposal
Perfect Corp.	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 Appraisement. The total transaction amount was \$65,000, gain on disposal was \$65,000, and unrealized gain recognized proportionately to shareholding ratio was \$30,965. As of December 31, 2017, realized profit amounted to \$26,542.

E. Other income

	Year ended December 31, 2017	Year ended December 31, 2016
Associates	\$ 6,169	\$ 6,170

The Company 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. In April 2017, the lease terms were renewed till May 2019. 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, 2017	December 31, 2016
Not later than one year	\$ 6,158	\$ 2,566
Later than one year but not later than five years	2,566	-
	<u>\$ 8,724</u>	<u>\$ 2,566</u>

F. Others – Options

Please refer to Note 6(3).

(3) Key management compensation

	Year ended December 31, 2017	Year ended December 31, 2016
Short-term employee benefits	\$ 54,393	\$ 56,899
Post-employment benefits	502	512
Other long-term benefits	61	49
	<u>\$ 54,956</u>	<u>\$ 57,460</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED 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

Except for Note 6(16), the other significant events after the balance sheet date are detailed below.

The amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, and became effective from January 1, 2018. The significant effects on the Group include:

- (1) Under the amendments to the Income Tax Act, the Group's applicable income tax rate will be raised from 17% to 20%. This will increase the Group's deferred tax assets and deferred tax liabilities as at January 1, 2018 by 3%. The current income tax expense is expected to be decreased/increased accordingly.
- (2) With the abolishment of imputation tax system, the balance of the imputation tax credit account will be zero on January 1, 2018.

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:

Currency	December 31, 2017			Year ended December 31, 2017		
				Sensitivity analysis		
	Foreign amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 61,280	\$ 29.76	\$1,823,693	1%	\$18,237	\$ -
EUR:NTD	1,563	35.57	55,596	1%	556	
GBP:NTD	788	40.11	31,607	1%	316	
USD:JPY	11,474	112.64	341,466	1%	3,415	-
USD:EUR	954	0.84	28,391	1%	284	-
<u>Non – monetary items</u>						
USD:NTD	5,739	29.76	170,781	1%	-	1,708
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	4,639	29.76	138,057	1%	1,381	-
USD:JPY	5,598	112.64	166,596	1%	1,666	-
USD:EUR	70	0.84	2,083	1%	21	-

December 31, 2016				Year ended December 31, 2016		
Currency	Foreign amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity analysis		
				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	\$ -
EUR:NTD	1,068	33.90	36,205	1%	362	
GBP:NTD	684	39.61	27,093	1%	271	
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	-

iii. The total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016, amounted to loss of \$107,125 and \$57,579, 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, 2017 and 2016 would have decreased/increased by \$1,263 and \$1,441, 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 decreased/increased by \$503 and \$684, 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, 2017 and 2016, 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 aging 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 asset 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, 2017 and 2016, the Group held money market position of \$2,708,805 and \$3,248,562, respectively that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2017	Between 2		
	Within 1 years	and 5 years	Over 5 years
Accounts payable	\$ 136,854	\$ -	\$ -
Other payables (including related parties)	568,617	-	-
Other financial liabilities	3,330	6,164	834

Non-derivative financial liabilities:

December 31, 2016	Between 2		
	Within 1 years	and 5 years	Over 5 years
Accounts payable	\$ 182,331	\$ -	\$ -
Other payables	624,605	-	-
Other financial liabilities	2,565	8,889	-

(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. The fair value of the Group's investment in certain derivative instruments is included in Level 3.

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, 2017 and 2016 is as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ 126,322	\$ -	\$ -	\$ 126,322
Non-hedging derivatives	-	-	1,852	1,852
Available-for-sale financial assets				
Equity securities	50,299	-	-	50,299
Total	<u>\$ 176,621</u>	<u>\$ -</u>	<u>\$ 1,852</u>	<u>\$ 178,473</u>
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
<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	68,400	-	-	68,400
Total	<u>\$ 212,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,510</u>

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

a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

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

b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.

E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2017 and 2016, 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: Please refer to Note 6(2) (3).
- 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 recognizes 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, 2017		
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 645,179	\$ 1,058,999	\$ 1,704,178
Segment Operating Income	\$ 203,202	\$ 385,606	\$ 588,808
	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

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, 2017 and 2016 is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
America	\$ 773,927	\$ 113,889	\$ 856,132	\$ 125,165
Japan	474,173	2,327	522,286	2,815
Taiwan	60,500	1,595,025	71,694	1,609,949
Others	395,578	195	445,829	142
	\$ 1,704,178	\$ 1,711,436	\$ 1,895,941	\$ 1,738,071

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, 2017 and 2016 is as follows:

Year ended December 31, 2017		
	Revenue	Operating segment
Customer A	\$ 609,628	Media Experience and Entertainment and Others
Year ended December 31, 2016		
	Revenue	Operating segment
Customer A	\$ 779,951	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, 2017

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, 2017				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	8,387,031	126,322	-	126,322	-
CyberLink Investment Corp.	SKYMIZER TAIWAN INC.	None	Financial assets carried at cost - non-current	40,000	4,000	2.26%	-	-
CyberLink Investment Corp.	Fuh Hwa New Intelligence Fund	None	Financial assets carried at cost - non-current	3,000,000	30,000	1.90%	-	-
CyberLink Investment Corp.	Fuh Hwa Tung-ta Fund	None	Available-for-sale financial assets - non-current	1,603,910	50,299	1.56%	50,299	-
CyberLink International Technology Corp.	Preferred stock of Cidana Inc.	None	Financial assets carried at cost - non-current	500,000	-	3.56%	-	Note 5
CyberLink International Technology Corp.	Preferred stock of LOFTechnology, Inc.	None	Financial assets carried at cost - non-current	100,000	US 100 (in thousands of dollars)	0.57%	-	-
CyberLink International Technology Corp.	CCV Fund I LP	None	Financial assets carried at cost - non-current	-	US 1,246 (in thousands of dollars)	11.31%	-	-

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 amortized 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.

Note 5: The Group recognized impairment loss of US150 in thousands of dollars for the year ended December 31, 2017.

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, 2017

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, 2017		Addition (Note 3)		Disposal (Note 3)		Balance as at December 31, 2017	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Gain (loss) on disposal	Number of shares	Amount
CyberLink International Technology Corp.	Stock of Perfect Corp.	Investments accounted for using equity method	Capital increase by cash	Associates	147,000,000	\$ 37,352	37,240,729	\$ 360,596 (Note 5)	-	(\$ 219,160) (Note 6)	184,240,729	\$ 178,788

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: It includes preferred shares converted from convertible bonds, equivalent to \$136,935.

Note 6: It refers to gain or loss on the investment and changes in equity of associates.

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, 2017

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			Notes/accounts receivable (payable)		
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of consolidated total notes/accounts receivable (payable)	Footnote
CyberLink Corp.	CyberLink.Com Corp.	The Company's subsidiary	Sales	\$ 178,155	13%	Note	Same with third parties	Note	\$ 24,707	39%	-
CyberLink Corp.	CyberLink Inc.	The Company's subsidiary	Sales	174,172	13%	Note	Same with third parties	Note	23,818	38%	-

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, 2017

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	\$ 178,155	Note 4	10.5%
				Receivables	28,430	Note 4, 5	0.6%
0	CyberLink Corp.	CyberLink Inc.	1	Sales revenue	174,172	Note 4	10.2%
				Receivables	25,521	Note 4, 5	0.5%
0	CyberLink Corp.	CyberLink Europe B.V.	1	Sales revenue	75,792	Note 4	4.4%

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, 2017

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, 2017				Investment income (loss) recognized by the Company for the year ended December			
				Balance as at December 31, 2017		Balance as at December 31, 2016		Number of shares	Ownership (%)	Book value	2017 (Note 2(2))	31, 2017 (Note 2(3))	Footnote
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327		\$ 136,327		4,000,000	100%	\$ 430,869	\$ 6,007	\$ 6,007	Direct subsidiary
CyberLink Corp.	CyberLink Europe B.V.	Netherlands	Sale of software	124,710		124,710		3,000,000	100%	37,217 (	8,006) (	8,006)	Direct subsidiary
CyberLink Corp.	CyberLink International Technology Corp.	B.V.I.	Investment activities	1,006,696		1,006,696		32,000,000	100%	435,273 (	235,382) (	224,765)	Direct subsidiary
CyberLink Corp.	CyberLink Investment Corp.	Taiwan	Investment activities	220,000		220,000		12,000,000	100%	226,588	6,015	6,015	Direct subsidiary
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	25,236 (USD 848 in thousands of dollars)		27,348 (USD 848 in thousands of dollars)		1,900	100%	208,647 (USD 7,011 in thousands of dollars)	11,184	-	Indirect subsidiary
CyberLink International Technology Corp.	Perfect Corp.	Cayman	Investment activities	790,128 (USD 26,550 in thousands of dollars)		474,075 (USD 14,700 in thousands of dollars)		184,240,729	48.67%	178,788 (USD 6,008 in thousands of dollars)	(466,758) (USD 15,339 in thousands of dollars)	-	Investment accounted for using equity method

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, 2017' 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, 2017' column should fill in amount of net profit (loss) of the investee for this period.
- (3) The 'Investment income (loss) recognized by the Company for the year ended December 31, 2017' column should fill in the Company (public company) recognized investment income (loss) of its direct subsidiary and recognized investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognized 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 recognized by regulations.

CyberLink Corp.

Information on investments in Mainland China

Year ended December 31, 2017

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 1)	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China/			Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company		Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote									
				Taiwan to Mainland China as of January 1, 2017		Remitted back to Taiwan		Mainland China for the year ended December 31, 2017																	
				Remitted to Mainland China	Remitted back to Taiwan	Net income of investee as of December 31, 2017		Ownership held by the Company (direct or indirect)																	
Perfect (Shanghai) Co., Ltd.	Trading of computer peripheral and software	\$ 54,372 (USD 1,827 in thousands of dollars)	(2)	\$ 22,469 (USD 755 in thousands of dollars)	\$ 4,166 (USD 140 in thousands of dollars)	\$ -	\$ 26,635 (USD 895 in thousands of dollars)	(USD 12,762)	48.67%	\$ 6,235	\$ 2,468	\$ -	Note 4												

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
CyberLink Corp.	\$ 26,635 (USD 895 in thousands of dollars)	\$ 26,338 (USD 885 in thousands of dollars)	\$ 2,304,934

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) recognized by the Company for the year ended December 31, 2017' 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.

Note 5: The application in the Investment Commission of MOEA can be filed in six months after the remittance where the accumulated investment is within US\$1,000.