

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2018 AND 2017

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.

CYBERLINK CORP. AND SUBSIDIARIES

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2018, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the companies that are required to be included in the consolidated financial statements of affiliates, are the same as the company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Cyberlink Corp.

Huang, Jau-Hsiung

February 26, 2019

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR18003109

To the Board of Directors and Shareholders of CyberLink Corp.

Opinion

We have audited the accompanying consolidated balance sheets of CyberLink Corp. and subsidiaries (the “Group”) as at December 31, 2018 and 2017, 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 at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

Key audit matters for the Group's consolidated financial statements of the current period are stated 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 6(18) 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 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 report, 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 valuation model's calculations.

Fair value measurement of investments in unlisted stocks and bonds without active market

Description

Please refer to Note 4(7) for accounting policies on unlisted stocks and bonds investments without active market, Note 5(2) for the accounting estimates and assumption uncertainty in relation to the measurement of fair value, and Note 12(3) for details of fair value of financial assets.

Unlisted stocks and bonds investments without active market are recognized as financial assets at fair value through profit or loss, and any changes in the fair value of these financial assets are recognized in profit or loss.

Since the abovementioned fair value estimates are subject to management's judgement and involve many assumptions and estimates having high uncertainty. Thus, we consider that the measurement of fair value of unlisted stocks and bonds investments without active market 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 evaluated the Group's related policies and valuation process on the fair value measurement of unlisted stocks and bonds without active market.
2. Evaluated whether management adopted an adequate measurement method which was commonly adopted in the same industry and environment.
3. Obtained the valuation report from the expert appraiser, and performed the following procedures:
 - (1) Examined inputs and calculation formulas used in valuation methods, reviewed information and documents in respect of the relevance and the reliability of data source and agreed such data to their supporting documents.
 - (2) Evaluated the sensitivity analysis on assumptions and inputs executed by management to ensure that management has adequately managed the impact of the estimates and assumptions uncertainty on the measurement of fair value.

Other matter – Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of CyberLink Corp. as at and for the years ended December 31, 2018 and 2017.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Wang, Chao-Ming Lin, Chun-Yao

For and on behalf of PricewaterhouseCoopers, Taiwan

February 26, 2019

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
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets		Notes	December 31, 2018		December 31, 2017			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	797,699	16	\$	1,409,625	28
1110	Financial assets at fair value	12(4)						
	through profit or loss - current			-	-		128,174	3
1150	Notes receivable, net	6(4) and 12(4)		7,414	-		6,075	
1170	Accounts receivable, net	6(4) and 12(4)		122,148	2		51,234	1
1200	Other receivables			4,428	-		3,065	-
1210	Other receivables - related parties	7		4,409	-		11,628	-
1220	Current income tax assets			8,938	-		10,826	-
130X	Inventories			7,280	-		7,020	-
1476	Other current financial assets	6(1)(5) and 8		1,987,042	38		1,384,810	27
1479	Other current assets, others			18,513	1		14,814	-
11XX	Total current assets			2,957,871	57		3,027,271	59
Non-current assets								
1510	Financial assets at fair value	6(2)						
	through profit or loss - non-current			184,143	4		-	-
1517	Financial assets at fair value	6(3)						
	through other comprehensive income - non-current			1,032	-		-	-
1523	Available-for-sale financial assets	12(4)						
	- non-current			-	-		50,299	1
1543	Financial assets measured at cost	12(4)						
	- non-current			-	-		123,606	2
1550	Investments accounted for using equity method	6(6)		129,566	2		170,781	3
1600	Property, plant and equipment, net	6(7)		502,781	10		453,673	9
1760	Investment property, net	6(8)		1,361,834	26		1,257,763	25
1840	Deferred income tax assets	6(23)		46,722	1		46,567	1
1900	Other non-current assets			9,196	-		5,871	-
15XX	Total non-current assets			2,235,274	43		2,108,560	41
1XXX	Total assets		\$	5,193,145	100	\$	5,135,831	100

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity			December 31, 2018		December 31, 2017			
			Notes	AMOUNT	%	AMOUNT	%	
Current liabilities								
2130	Current contract liabilities	6(18)	\$	84,985	2	\$	-	-
2170	Accounts payable	6(9)		150,034	3		136,854	3
2200	Other payables	6(10)		488,921	9		566,495	11
2220	Other payables - related parties	7		1,045	-		2,122	-
2230	Income tax payable			27,076	1		27,435	-
2300	Other current liabilities			25,937	-		54,123	1
21XX	Total current liabilities			777,998	15		787,029	15
Non-current liabilities								
2550	Provisions-non-current	6(11)		498,131	10		446,846	9
2570	Deferred income tax liabilities	6(23)		1,011	-		1,739	-
2600	Other non-current liabilities	6(12)		75,485	1		58,661	1
25XX	Total non-current liabilities			574,627	11		507,246	10
2XXX	Total liabilities			1,352,625	26		1,294,275	25
Equity								
Equity attributable to shareholders of the parent								
Capital Stock		6(14)						
3110	Common stock			849,321	16		871,307	17
Capital surplus		6(15)						
3200	Capital surplus			940,029	18		1,062,577	20
Retained earnings		6(16)						
3310	Legal reserve			1,121,671	22		1,097,515	21
3320	Special reserve			72,904	1		-	-
3350	Unappropriated earnings			1,016,150	20		897,417	18
Other equity interest		6(17)						
3400	Other equity interest		(	88,831)	(2)	(	72,904)	(1)
3500	Treasury shares	6(14)	(	70,724)	(1)	(	14,356)	-
31XX	Equity attributable to shareholders of the parent			3,840,520	74		3,841,556	75
3XXX	Total equity			3,840,520	74		3,841,556	75
Significant contingent liabilities and unrecognized contract commitments		6(25), 7 and 9						
Significant events after the balance sheet date		6(14)						
3X2X	Total liabilities and equity		\$	5,193,145	100	\$	5,135,831	100

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Net revenue	6(18)	\$ 1,573,817	100	\$ 1,704,178	100
5000 Operating costs	6(21)	(188,570)	(12)	(203,270)	(12)
5900 Gross profit		1,385,247	88	1,500,908	88
5920 Realized profit from sales	6(6)	3,583	-	4,777	-
5950 Gross profit from operations		1,388,830	88	1,505,685	88
Operating expenses	6(12)(21)(22) and 7				
6100 Sales and marketing		(496,006)	(31)	(448,756)	(26)
6200 General and administrative		(124,179)	(8)	(117,525)	(7)
6300 Research and development		(345,218)	(22)	(350,596)	(21)
6000 Total operating expenses		(965,403)	(61)	(916,877)	(54)
6900 Operating income		423,427	27	588,808	34
Non-operating income and expenses					
7010 Other income	6(8)(19) and 7	141,585	9	112,183	7
7020 Other gains and losses	6(2)(20)	5,952	-	(117,025)	(7)
7060 Share of loss of associates and joint ventures accounted for using equity method	6(6)	(127,198)	(8)	(217,471)	(13)
7000 Total non-operating income and expenses		20,339	1	(222,313)	(13)
7900 Income before income tax		443,766	28	366,495	21
7950 Income tax expense	6(23)	(114,937)	(7)	(124,938)	(7)
8200 Net income		\$ 328,829	21	\$ 241,557	14

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

	Items	Notes	Year ended December 31			
			2018		2017	
			AMOUNT	%	AMOUNT	%
	Other comprehensive income(loss)					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Losses on remeasurements of defined benefit plans	6(12)	(\$ 8,753)	(1)	(\$ 6,098)	-
8316	Unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(3)(17)	(71)	-	-	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	6(6)	(75)	-	(139)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(23)	2,969	-	1,037	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		(5,930)	(1)	(5,200)	-
	Components of other comprehensive income that will be reclassified to profit or loss subsequently					
8361	Exchange differences arising on translation of foreign operations	6(17)	25,659	2	(73,440)	(4)
8362	Unrealized losses on valuation of available-for-sale financial assets	6(17)	-	-	(13,017)	(1)
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method	6(6)(17)	4,190	-	167	-
8360	Components of other comprehensive income that will be reclassified to profit or loss subsequently		29,849	2	(86,290)	(5)
8500	Total comprehensive income		<u>\$ 352,748</u>	<u>22</u>	<u>\$ 150,067</u>	<u>9</u>
8610	Net income, attributable to:					
	Shareholders of the parent		<u>\$ 328,829</u>	<u>21</u>	<u>\$ 241,557</u>	<u>14</u>
	Total comprehensive income, attributable to:					
8710	Shareholders of the parent		<u>\$ 352,748</u>	<u>22</u>	<u>\$ 150,067</u>	<u>9</u>
	Earnings per share	6(24)				
9750	Basic earnings per share		<u>\$ 3.88</u>		<u>\$ 2.72</u>	
9850	Diluted earnings per share		<u>\$ 3.80</u>		<u>\$ 2.67</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, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		Equity attributable to shareholders of the parent										
		Retained earnings					Other equity interest					
							Exchange differences arising on translation of foreign operations	Unrealized losses on financial assets measured at fair value through other comprehensive income	Unrealized gain (losses) on available-for-sale financial assets	Treasury shares	Total	
Notes	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings							
Year 2017												
		\$ 968,945	\$ 1,617,914	\$ 1,067,165	\$ -	\$ 839,184	(\$ 33,890)	\$ -	\$ 47,276	(\$ 310,260)	\$ 4,196,334	
		-	-	-	-	241,557	-	-	-	-	241,557	
	6(17)	-	-	-	-	(5,200)	(73,273)	-	(13,017)	-	(91,490)	
		-	-	-	-	236,357	(73,273)	-	(13,017)	-	150,067	
Distribution of 2016 earnings												
	6(16)	-	-	30,350	-	(30,350)	-	-	-	-	-	
	6(16)	-	-	-	-	(147,774)	-	-	-	-	(147,774)	
	6(14)	-	-	-	-	-	-	-	-	(397,476)	(397,476)	
	6(14)(15)	(100,650)	(592,730)	-	-	-	-	-	-	693,380	-	
	6(13)(15)	-	16,807	-	-	-	-	-	-	-	16,807	
	6(14)(15)	3,012	11,687	-	-	-	-	-	-	-	14,699	
	6(15)	-	8,899	-	-	-	-	-	-	-	8,899	
		\$ 871,307	\$ 1,062,577	\$ 1,097,515	\$ -	\$ 897,417	(\$ 107,163)	\$ -	\$ 34,259	(\$ 14,356)	\$ 3,841,556	
Year 2018												
		\$ 871,307	\$ 1,062,577	\$ 1,097,515	\$ -	\$ 897,417	(\$ 107,163)	\$ -	\$ 34,259	(\$ 14,356)	\$ 3,841,556	
	3(1) and 12(4)	-	-	-	-	36,193	-	(11,446)	(34,259)	-	(9,512)	
		871,307	1,062,577	1,097,515	-	933,610	(107,163)	(11,446)	-	(14,356)	3,832,044	
		-	-	-	-	328,829	-	-	-	-	328,829	
	6(17)	-	-	-	-	(5,859)	29,849	(71)	-	-	23,919	
		-	-	-	-	322,970	29,849	(71)	-	-	352,748	
Distribution of 2017 earnings												
	6(16)	-	-	24,156	-	(24,156)	-	-	-	-	-	
	6(16)	-	-	-	72,904	(72,904)	-	-	-	-	-	
	6(16)	-	-	-	-	(143,370)	-	-	-	-	(143,370)	
	6(14)	-	-	-	-	-	-	-	-	(254,110)	(254,110)	
	6(14)(15)	(29,990)	(167,752)	-	-	-	-	-	-	197,742	-	
	6(13)(15)	-	6,904	-	-	-	-	-	-	-	6,904	
	6(14)(15)	8,004	29,729	-	-	-	-	-	-	-	37,733	
	6(15)	-	8,571	-	-	-	-	-	-	-	8,571	
		\$ 849,321	\$ 940,029	\$ 1,121,671	\$ 72,904	\$ 1,016,150	(\$ 77,314)	(\$ 11,517)	\$ -	(\$ 70,724)	\$ 3,840,520	

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 443,766	\$ 366,495
Adjustments			
Adjustments to reconcile profit (loss)			
Realized gain	6(6)	(3,583)	(4,777)
Gain from reversal of bad debts	6(19)	(548)	-
Loss (gain) on financial assets at fair value through profit or loss	6(2)(20)	14,782	(412)
Depreciation expense	6(7)(8)	23,879	22,885
Interest income	6(19)	(45,606)	(32,979)
Dividend income	6(19)	(2,514)	(2,458)
Employees' stock option cost	6(13)	6,904	16,805
Loss on disposal and scrapping of property, plant, and equipment	6(20)	32	37
Share of loss of associates and joint ventures accounted for using equity method	6(6)	127,198	217,471
Gain on disposal of investments	6(20)	-	(9,004)
Impairment loss on financial assets	6(20)	-	4,565
Overdue accounts payable transferred to revenue	6(19)	(8,335)	(3,784)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets held for trading		-	16,348
Financial assets mandatorily measured at fair value through profit or loss		91,564	-
Notes receivable	(	1,309)	11,334
Accounts receivable	(	2,916)	27,237
Other receivables		2,630	5,613
Other receivable-related parties		7,239	(7,300)
Inventories	(	260)	(1,434)
Other current assets, others	(	3,654)	10,365
Other non-current assets	(	2,815)	5,209
Changes in operating liabilities			
Current contract liabilities	(	25,771)	-
Accounts payable		10,782	(35,668)
Other payables	(	77,059)	(36,059)
Other payables-related parties	(	1,094)	2,122
Other current liabilities		16,352	(25,805)
Provisions		51,285	(5,900)
Other non-current liabilities	(	441)	(328)
Cash inflow generated from operations		620,508	540,578
Interest received		43,690	32,914
Dividends received		442	410
Dividends paid	(	143,370)	(147,774)
Income tax paid	(	112,610)	(128,033)
Net cash flows from operating activities		408,660	298,095

(Continued)

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
(Increase) decrease in other financial assets		(\$ 597,433)	\$ 719,760
Proceeds from disposal of available-for-sale financial assets		-	14,088
Acquisition of financial assets at cost		-	(67,095)
Acquisition of investments accounted for using equity method	6(6)	(67,838)	(223,661)
Acquisition of property, plant, and equipment	6(7)	(170,254)	(11,221)
Increase in refundable deposits		(226)	(9)
Net cash flows (used in) from investing activities		(835,751)	431,862
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase (decrease) in deposits received		8,489	(1,070)
Exercise of employee stock options		37,733	14,699
Acquisition of treasury shares		(254,110)	(397,476)
Net cash flows used in financing activities		(207,888)	(383,847)
Effects of changes in exchange rates of foreign currency holdings		23,053	(53,894)
Net (decrease) increase in cash and cash equivalents		(611,926)	292,216
Cash and cash equivalents at beginning of year		1,409,625	1,117,409
Cash and cash equivalents at end of year		\$ 797,699	\$ 1,409,625

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

CYBERLINK CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(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, 2019.

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 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset 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 subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4)B.

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) 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.

- (b) The Group has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Consolidated balance sheet

<u>Affected items</u>	<u>Book value under previous revenue standard</u>	<u>Adjustment for initial application of IFRS 15</u>	<u>Adjusted amount after IFRS 15 adoption</u>	<u>Remark</u>
<u>January 1, 2018</u>				
Accounts receivable	\$ 51,234	\$ 64,334	\$ 115,568	(i)
Current contract liabilities	\$ -	\$ 108,900	\$ 108,900	(i)(ii)
Other current liabilities	54,123	(44,566)	9,557	(ii)
	<u>\$ 54,123</u>	<u>\$ 64,334</u>	<u>\$ 118,457</u>	

i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

- (i) Under IFRS 15, liabilities in relation to expected volume discounts and refunds to customers are recognized as refund liabilities (shown as current 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 amounted to \$64,334.
- (ii) Under IFRS 15, liabilities are recognized as contract liabilities, but were previously presented as other current liabilities (advance sales receipts) in the balance sheet. As of January 1, 2018, the balance amounted to \$44,566.

ii. Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

(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 2019 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
IFRS 16, 'Leases'	January 1, 2019
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.

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.

The Group expects to recognize the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), on January 1, 2019, it is expected that 'right-of-use asset' and lease liability will both be increased by \$8,071.

(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
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
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 17, 'Insurance contracts'	January 1, 2021

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

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”, 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) Financial assets at fair value through other comprehensive income/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 judgment 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.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(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, 2018	December 31, 2017	
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%	Note 2
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	Sales of computer software	100%	100%	

Note 1: In order to fulfill subsidiary's operating needs, the Group increased the capital of its subsidiary, CyberLink-B.V.I, by cash amounting to US\$9 million (approximately NT\$277,200 thousand) in August 2018, and the capital increase procedures have been completed.

Note 2: The Company merged with its subsidiary, CyberLink Investment, as resolved by the meeting of the Board of Director in May 2018, the Company was the surviving company, the effective date was on July 1, 2018 and had been registered in September 2018.

- 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 issue 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 that are not measured at amortized cost or fair value through other comprehensive income.
- 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. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(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. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. 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	30~50 years
Buildings improvements	5 years
Machinery and equipment	3 years
Office equipment	4~8 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 39~50 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) Accounts payable

- A. Accounts payable are liabilities for purchases of goods or services and accounts payable are those resulting from operating and non-operating activities.
- B. The short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(19) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either discharged or 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. Remeasurements 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 expense and liability, 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 paid 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-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 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 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 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 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 tax asset is realized or the deferred tax liability is settled.

- D. Deferred 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 utilized. At each balance sheet date, unrecognized and recognized deferred 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 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 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. The sales usually are made with a credit term of 30 to 90 days. As the time interval between the transfer of committed goods and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- B. It is the Group's policy to sell its products to the end customer with a right of return. Therefore, a refund liability (shown as current contract liabilities) are recognized for the products expected to be returned. Accumulated experience is used to estimate such returns using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each balance sheet date.

- C. 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.
- D. 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

A. Financial assets - fair value measurement of unlisted stocks and bonds without active market

The fair value of unlisted stocks and bonds held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks and bonds. Please refer to Note 12(3) for the financial instruments fair value information.

As of December 31, 2018, the carrying amounts of unlisted stocks and bonds without active market were \$59,295 and \$125,880, respectively.

B. 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, 2018, the Group's investments accounted for under the equity method amounted to \$129,566.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 64	\$ 65
Checking accounts	113,173	211,887
Demand deposits	530,862	855,433
Time deposits	153,600	342,240
	<u>\$ 797,699</u>	<u>\$ 1,409,625</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. For a subsidy program provided by Industrial Development Bureau, Ministry of Economic Affairs, the Company applied for a letter of performance guarantee issued by the bank in September 2018, and pledged equivalent amount of USD time deposits as collateral. As of December 31, 2018, cash and cash equivalents amounting to \$35,032 were pledged to others as collateral, and were classified as other current financial assets.

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

<u>Items</u>	<u>December 31, 2018</u>
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Private fund	\$ 119,540
Unlisted stocks	<u>48,535</u>
Subtotal	168,075
Valuation adjustment	<u>16,068</u>
Total	<u>\$ 184,143</u>

- A. Amounts recognized in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Year ended December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Money market funds	\$ 451
Private fund	(23,019)
Unlisted stocks	<u>7,786</u>
	<u>(\$ 14,782)</u>

- B. The Group has no financial assets at fair value through profit or loss pledged to others.
- C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).
- D. Information on financial assets at fair value through profit or loss as of December 31, 2017 is provided in Note 12(4).

(3) Financial assets at fair value through other comprehensive income — non-current

Items	December 31, 2018
Unlisted stocks	\$ 12,680
Valuation adjustment	(11,648)
	<u>\$ 1,032</u>

- A. The Group has elected to classify unlisted stock investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$1,032 as at December 31, 2018.
- B. Amount recognized in other comprehensive loss in relation to the financial assets at fair value through other comprehensive loss is listed below:

	Year ended December 31, 2018
<u>Equity instruments at fair value through other comprehensive loss</u>	
Fair value change recognized in other comprehensive loss	(\$ 71)

- C. As at December 31, 2018, without taking into account other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$1,032.
- D. The Group has no financial assets at fair value through other comprehensive income pledged to others.
- E. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).
- F. Information on available-for-sale financial assets and financial assets measured at cost as of December 31, 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

	December 31, 2018
Notes receivable	\$ 7,414
Accounts receivable	<u>\$ 122,148</u>

- A. The ageing analysis of accounts receivable and notes receivable that were past due but not impaired is as follows:

	December 31, 2018	
	Accounts receivable	Notes receivable
Not past due	\$ 117,949	\$ 7,414
Up to 30 days	3,095	-
31 to 90 days	824	-
Over 91 days	280	-
	<u>\$ 122,148</u>	<u>\$ 7,414</u>

The above ageing analysis was based on past due date.

- B. As at December 31, 2018, without taking into other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes and accounts receivable were \$7,414 and \$122,148, respectively.
- C. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).
- D. Information on accounts and notes receivable as of December 31, 2017 is provided in Note 12(4).

(5) Other current financial assets

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Time deposits with maturity over three months	\$ 1,952,010	\$ 1,384,810
Pledged time deposits	35,032	-
	<u>\$ 1,987,042</u>	<u>\$ 1,384,810</u>

Details of the Group's other current financial assets pledged to others as collateral are provided in Note 8.

(6) Investments accounted for using equity method

	<u>2018</u>	<u>2017</u>
At January 1	\$ 170,781	\$ 13,952
Transfer from non-hedging derivatives - stock warrant	1,876	-
Transfer from investments in debt instrument without active market	-	136,935
Addition of investments	67,838	223,661
Share of loss of investments accounted for using equity method	(127,198)	(217,471)
Realized gains	3,583	4,777
Changes in capital surplus (Note 6(15))	8,571	8,899
Actuarial gains and losses	(75)	(139)
Changes in other equity items (Note 6(17))	4,190	167
At December 31	<u>\$ 129,566</u>	<u>\$ 170,781</u>

In November 2016, the Group invested in convertible bonds expected to expire on August 31, 2017, amounting to \$145,124 issued by Perfect Corp. In July 2017, the Group was offered to convert all outstanding convertible bonds into preferred shares prior to July 31, 2017 by Perfect Corp. Therefore, Perfect Corp. would grant a stock warrant to the Group for the purchase of additional preferred shares, at a 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 (recognized as investments in debt instruments without active market) 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, amounting to \$136,935. The Group's shareholding ratio in Perfect Corp. declined from 49% to 48.62% and obtained the stock warrant. Subsequently, the ratio rose from 48.62% to 48.67% after acquiring 23,098 thousand preference shares on October 18, 2017. However, Perfect Corp. reissued stock warrant with same conditions to replace the initial stock warrant, which are exercisable by November 30, 2018, to coordinate with

the next fundraising plan as resolved at the meeting of the Board of Directors at the end of May 2018. The Group exercised the stock warrant on November 19, 2018 and participated in the acquisition of the preferred shares issued by Perfect Corp. The investment amounted to \$67,838 consisting of 7,071 thousand shares (recognized as investments by accounted for using equity method) and the shareholding ratio declined from 48.67% to 48.52%.

A. The basic information of the associate is as follows:

Company name	Principal place of business	Shareholding ratio		Nature of relationship	Method of Measurement
		December 31, 2018	December 31, 2017		
Perfect Corp.	Cayman	48.52%	48.67%	Investments accounted for using equity method	Equity method

B. The summarized financial information of the associate is as follows:

Balance sheet

	Perfect Corp.	
	December 31, 2018	December 31, 2017
Current assets	\$ 437,126	\$ 476,580
Non-current assets	12,487	30,845
Total assets	449,613	507,425
Current liabilities	(181,307)	(138,958)
Non-current liabilities	(1,270)	(1,120)
Total liabilities	(182,577)	(140,078)
Total net assets	\$ 267,036	\$ 367,347
Share in associate's net assets (Note)	\$ 129,566	\$ 178,788

Note: On December 31, 2017, difference between the book value is due to the unrealized gain.

Statement of comprehensive income

	Perfect Corp.	
	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	\$ 333,062	\$ 150,030
Loss for the period from continuing operations	(269,789)	(466,758)
Other comprehensive (loss) income, net of tax	(1,058)	12,883
Total comprehensive loss	(\$ 270,847)	(\$ 453,875)

(7) Property, plant, and equipment

	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Others	Total
<u>At January 1, 2018</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>\$ -</u>	<u>\$ 453,673</u>
<u>2018</u>							
Opening net book amount	\$ 264,649	\$ 174,954	\$ 10,085	\$ 1,008	\$ 2,977	\$ -	\$ 453,673
Additions (Note 1)	126,931	32,836	7,318	439	-	2,730	170,254
Costs of disposal	-	(533)	(4,694)	(335)	-	-	(5,562)
Accumulated depreciation on disposal	-	533	4,694	303	-	-	5,530
Transfer (Note 2)	(43,188)	(69,054)	-	-	-	(2,730)	(114,972)
Depreciation expense	-	(6,648)	(4,921)	(417)	(992)	-	(12,978)
Net exchange differences	3,883	2,909	14	30	-	-	6,836
Closing net book amount	<u>\$ 352,275</u>	<u>\$ 134,997</u>	<u>\$ 12,496</u>	<u>\$ 1,028</u>	<u>\$ 1,985</u>	<u>\$ -</u>	<u>\$ 502,781</u>
<u>At December 31, 2018</u>							
Cost	\$ 352,275	\$ 177,675	\$ 27,045	\$ 4,507	\$ 5,955	\$ -	\$ 567,457
Accumulated depreciation	-	(42,678)	(14,549)	(3,479)	(3,970)	-	(64,676)
	<u>\$ 352,275</u>	<u>\$ 134,997</u>	<u>\$ 12,496</u>	<u>\$ 1,028</u>	<u>\$ 1,985</u>	<u>\$ -</u>	<u>\$ 502,781</u>

Note 1: On June 6, 2018, the Company's indirect subsidiary, CyberLink-Japan, entered into a real estate purchase agreement with Loadstar Capital for the purchase of land and buildings in 1-chome Shibadaimon, Minato-ku, Tokyo, Japan, the total agreement amount is JPY 583,250 thousand (equivalent to NTD 162,266 thousand). On September 13, 2018, the transfer of the transaction had been registered and the balance of payment had been paid up.

Note 2: In December 2018, the Company's subsidiary, CyberLink-USA, transferred the land and buildings (including accumulated depreciation) to 'Investment property' since Cyberlink-USA intended to lease out the land and buildings.

	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>

(8) Investment property

	Land	Buildings	Total
<u>At January 1, 2018</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>2018</u>			
Opening net book amount	\$ 799,024	\$ 458,739	\$ 1,257,763
Transfer (Note)	45,369	69,603	114,972
Depreciation expense	-	(10,901)	(10,901)
Closing net book amount	<u>\$ 844,393</u>	<u>\$ 517,441</u>	<u>\$ 1,361,834</u>
<u>At December 31, 2018</u>			
Cost	\$ 844,393	\$ 633,248	\$ 1,477,641
Accumulated depreciation	-	(115,807)	(115,807)
	<u>\$ 844,393</u>	<u>\$ 517,441</u>	<u>\$ 1,361,834</u>

Note: Please refer to Note 6(7) for information on transfer of 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>

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

	Year ended December 31, 2018	Year ended December 31, 2017
Rental income from investment property	\$ 52,979	\$ 53,648
Direct operating expenses arising from the investment property that generated rental income during the year	\$ 12,714	\$ 13,675
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ 1,752	\$ 908

B. The fair value of the investment property held by the Group as of December 31, 2018 and 2017 was \$2,124,000 and \$1,772,533, respectively, which was estimated based on market trading prices of similar property in the areas nearby.

(9) Accounts payable

	December 31, 2018	December 31, 2017
Royalty expense	\$ 144,216	\$ 134,043
Others	5,818	2,811
	<u>\$ 150,034</u>	<u>\$ 136,854</u>

(10) Other payables

	December 31, 2018	December 31, 2017
Royalty collection	\$ 237,542	\$ 292,414
Payroll	67,564	66,283
Employees' compensation and directors' and supervisors' remuneration	65,685	71,459
Employees' rewards	53,945	69,632
Promotional fees	32,610	29,846
Professional service fees	10,076	9,848
Commission expense	1,990	2,714
Other accrued expenses	19,347	15,642
Other payables	162	8,657
	<u>\$ 488,921</u>	<u>\$ 566,495</u>

(11) Provisions

	Royalty	Cost of software bug-fixing	Total
At January 1, 2018	\$ 440,882	\$ 5,964	\$ 446,846
Additional provisions	36,858	-	36,858
Unused amounts reversed	-	(456)	(456)
Exchange differences	14,883	-	14,883
At December 31, 2018	<u>\$ 492,623</u>	<u>\$ 5,508</u>	<u>\$ 498,131</u>

	Royalty	Cost of software 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>\$ 440,882</u>	<u>\$ 5,964</u>	<u>\$ 446,846</u>

Analysis of total provisions:

	December 31, 2018	December 31, 2017
Non-current	<u>\$ 498,131</u>	<u>\$ 446,846</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.

(12) Pensions

- A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, 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 Act. 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 for the deficit by next March.

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	(\$ 85,312)	(\$ 74,897)
Fair value of plan assets	<u>28,668</u>	<u>26,564</u>
Net defined benefit liability	<u>(\$ 56,644)</u>	<u>(\$ 48,333)</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Year ended December 31, 2018			
Balance at January 1	(\$ 74,897)	\$ 26,564	(\$ 48,333)
Interest (expense) income	(934)	<u>336</u>	(598)
	<u>(75,831)</u>	<u>26,900</u>	<u>(48,931)</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	728	728
Change in demographic assumptions	(1,669)	-	(1,669)
Change in financial assumptions	(2,809)	-	(2,809)
Experience adjustments	(5,003)	-	(5,003)
	<u>(9,481)</u>	<u>728</u>	<u>(8,753)</u>
Pension fund contribution	-	<u>1,040</u>	<u>1,040</u>
Balance at December 31	<u>(\$ 85,312)</u>	<u>\$ 28,668</u>	<u>(\$ 56,644)</u>

	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)

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization 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 utilization 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 assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Discount rate	1.00%	1.25%
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, 2018				
Effect on present value of defined benefit obligation	(\$ 2,751)	\$ 2,877	\$ 2,820	(\$ 2,712)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 2,707)	\$ 2,837	\$ 2,781	(\$ 2,669)

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, 2019 amounts to \$960.
- (g) As of December 31, 2018, the weighted average duration of the retirement plan is 14 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	532
1-2 year(s)		531
3-5 years		5,498
Over 5 years		90,056
	\$	<u>96,617</u>

- 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, 2018 and 2017 were \$17,679 and \$16,850, respectively.
- (c) The pension costs under local pension regulations of the foreign subsidiaries for the years ended December 31, 2018 and 2017 were \$4,789 and \$3,889, respectively.

(13) Share-based payment

A. As of December 31, 2018 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	2015.8.25	5,000	7 years	2 years' service: exercise 50% 3 years' service: exercise 75% 4 years' service: exercise 100%

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

	2018		2017	
	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	5,152	\$ 49.21	5,600	\$ 50.57
Options exercised	(800)	47.14	(301)	48.81
Options forfeited	(68)	49.60	(147)	49.60
Options expired	(56)	45.70	-	-
Options outstanding at December 31	<u>4,228</u>	48.40	<u>5,152</u>	49.21
Options exercisable at December 31	<u>3,085</u>		<u>2,799</u>	

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2018 and 2017 was \$48.40 and \$49.21(in dollars), respectively.

D. As of December 31, 2018 and 2017, the range of exercise prices of stock options outstanding was \$48.40 and \$45.70~\$49.60 (in dollars), respectively; the weighted-average remaining contractual period was 3.65 years and 0.64~4.65 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	2015.8.25	54	54	23.95%	4.875	0.00%	0.81%	12.1117

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

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

	Year ended December 31, 2018	Year ended December 31, 2017
Equity settled	\$ 6,904	\$ 16,805

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

A. As of December 31, 2018, 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 \$849,321 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:

	2018	2017
At January 1	87,131	96,895
Employee stock options exercised	800	301
Shares retired	(2,999)	(10,065)
At December 31	84,932	87,131

B. Treasury shares

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

Name of company holding the shares	Reason for reacquisition	December 31, 2018	
		Number of shares (in thousands)	Carrying amount
The Company	Maintain the Company's credit and shareholders' interest	1,039	\$ 70,724

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

(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) On November 6, 2018 the Board of Directors resolved to repurchase the Company's shares from stock exchange market from November 7, 2018 to January 6, 2019, aiming to enhance the Company's credit rating and the stockholders' equity. The Company expected to repurchase 2,000 thousand shares with NT\$50~NT\$80 per share. As of January 6, 2019, the repurchased treasury shares amounted to 1,394 thousand with a consideration totaled \$95,531.
- (f) For the years ended December 31, 2018, 2017 and 2016, the repurchased shares totaled 2,999 thousand, 5,486 thousand and 4,579 thousand shares, respectively, and the registrations of retirement of shares have been completed on March 26, 2018, August 29 and March 23, 2017, respectively.

(15) 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.

	2018				
	Share premium	Employee stock options	Expired employee stock options in portion to the Group's	Net change in equity of associates	Total
At January 1	\$ 929,979	\$ 57,856	\$ 56,566	\$ 18,176	\$1,062,577
Employee stock options exercised	43,494	(13,765)	-	-	29,729
Share-based payment transactions	-	6,904	-	-	6,904
Expired employee stock options in portion to the Group's	-	(3,079)	3,079	-	-
Recognition of change in equity of associates in portion to the Group's	-	-	-	4,080	4,080
Retirement of treasury shares	(167,752)	-	-	-	(167,752)
Others	-	-	-	4,491	4,491
At December 31	<u>\$ 805,721</u>	<u>\$ 47,916</u>	<u>\$ 59,645</u>	<u>\$ 26,747</u>	<u>\$ 940,029</u>

	2017				
	Share	Employee	Expired	Net change	Total
	premium	stock	employee stock	in equity	
		options	options in portion	of associates	
			to the Group's		
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>

(16) 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 19, 2018 and June 20, 2017, the appropriation of 2017 and 2016 earnings had been resolved at the stockholders' meeting as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 24,156		\$ 30,350	
Special reserve	72,904		-	
Cash dividends	143,370	\$1.70	147,774	\$1.60
	<u>\$ 240,430</u>		<u>\$ 178,124</u>	

(17) Other equity items

	2018		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	\$ 34,259	(\$ 107,163)	(\$ 72,904)
Effect of retrospective application and retrospective restatement	(45,705)	-	(45,705)
Balance at January 1 after adjustments	(11,446)	(107,163)	(118,609)
Revaluation			
–Group	(71)	-	(71)
Currency translation			
–Group	-	25,659	25,659
–Associates	-	4,190	4,190
At December 31	<u>(\$ 11,517)</u>	<u>(\$ 77,314)</u>	<u>(\$ 88,831)</u>
	2017		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	\$ 47,276	(\$ 33,890)	\$ 13,386
Revaluation			
–Group	(13,017)	-	(13,017)
Currency translation			
–Group	-	(73,440)	(73,440)
–Associates	-	167	167
At December 31	<u>\$ 34,259</u>	<u>(\$ 107,163)</u>	<u>(\$ 72,904)</u>

(18) Operating revenue

	Year ended December 31, 2018
Revenue from contracts with customers	<u>\$ 1,573,817</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

	Taiwan		America		Japan			
	Media		Media		Media			
Year ended	Experience	Media	Experience	Media	Experience	Media	Other	
December 31, 2018	and	Creation	and	Creation	and	Creation	region	Total
	Entertainment	and Others	Entertainment	and Others	Entertainment	and Others		
Segment revenue	<u>\$ 10,670</u>	<u>\$ 50,921</u>	<u>\$ 263,958</u>	<u>\$ 455,903</u>	<u>\$ 225,837</u>	<u>\$ 276,421</u>	<u>\$ 290,107</u>	<u>\$1,573,817</u>

B. Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	December 31, 2018
Contract liabilities:	
Refund liabilities	\$ 65,138
Advance sales receipts	<u>19,847</u>
	<u>\$ 84,985</u>

(19) Other income

	Year ended December 31, 2018	Year ended December 31, 2017
Rental income	\$ 67,385	\$ 67,519
Interest income from bank deposits	45,606	32,979
Grant income	12,119	212
Overdue accounts payable transferred to revenue	8,335	3,784
Litigation settlement income	4,690	-
Dividend income	2,514	2,458
Income from reversal of bad debts	548	-
Others	<u>388</u>	<u>5,231</u>
	<u>\$ 141,585</u>	<u>\$ 112,183</u>

(20) Other gains and losses

	Year ended December 31, 2018	Year ended December 31, 2017
Currency exchange gains (losses)	\$ 35,661	(\$ 107,125)
Net(losses) gains on financial assets at fair value through profit or loss	(14,782)	412
Loss on disposal of property, plant and equipment	(32)	(37)
Gains on disposals of investments	-	9,004
Impairment loss on financial assets	-	(4,565)
Others	(14,895)	(14,714)
	<u>\$ 5,952</u>	<u>(\$ 117,025)</u>

(21) Costs and expenses by nature

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of goods sold	\$ 13,401	\$ 13,437
Employee benefit expenses	609,945	623,799
Royalty cost	160,255	189,182
Promotional fees	133,218	121,788
Product selling fees	66,007	27,109
Professional service fees	62,398	64,100
Depreciation of property, plant and equipment	12,978	11,976
Others	95,771	68,756
Total cost of sales and operating expenses	<u>\$ 1,153,973</u>	<u>\$ 1,120,147</u>

(22) Employee benefit expenses

	Year ended December 31, 2018	Year ended December 31, 2017
Wages and salaries	\$ 519,080	\$ 529,131
Labor and health insurance fees	44,770	43,278
Pension costs	23,066	21,370
Employee stock options	6,904	16,805
Director's remuneration	3,729	2,219
Other personnel expenses	12,396	10,996
	<u>\$ 609,945</u>	<u>\$ 623,799</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, 2018 and 2017, employees' compensation and directors' and supervisors' remuneration were accrued as follows. The aforementioned amounts were recognized in salary expenses:

	Year ended December 31, 2018	Year ended December 31, 2017
Employees' compensation	\$ 23,752	\$ 32,973
Directors' and supervisors' remuneration	4,439	3,323
	<u>\$ 28,191</u>	<u>\$ 36,296</u>

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 5.25% and 0.98% 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 \$23,752 and \$4,439, respectively, and the employees' compensation will be distributed in the form of cash.

For 2017, the employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors amounted to \$32,973 and \$4,507, respectively. The difference of \$0 and \$1,184 between the amounts resolved by the Board of Directors and the amounts recognized in the 2017 financial statements, mainly resulting from the differences between the estimates and the amounts resolved at the Board meeting, had been adjusted in the profit or loss of 2018. Above mentioned employees' compensation are released by cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2018	Year ended December 31, 2017
Current tax:		
Current tax expense recognized for the current period	\$ 103,096	\$ 87,685
Prior year income tax underestimation	9,755	8,742
Tax on undistributed surplus earnings	-	12,999
Total current tax	<u>112,851</u>	<u>109,426</u>
Deferred tax:		
Origination and reversal of temporary differences	4,277	5,264
Impact of change in tax rate	(2,191)	10,248
Total deferred tax	<u>2,086</u>	<u>15,512</u>
Income tax expense recognized in profit or loss	<u>\$ 114,937</u>	<u>\$ 124,938</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Remeasurement of defined benefit obligations	\$ 1,751	\$ 1,037
Impact of change in tax rate	<u>1,218</u>	<u>-</u>
	<u>\$ 2,969</u>	<u>\$ 1,037</u>

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2018	Year ended December 31, 2017
Tax calculated based on profit before tax and statutory tax rate	\$ 94,026	\$ 73,552
Effects from items disallowed by tax regulation	40,376	46,223
Tax exempt income by tax regulation	(3)	-
Tax on undistributed surplus earnings	-	12,999
Effect from investment tax credits	(27,026)	(26,826)
Prior year income tax underestimation	9,755	8,742
Effect from changes in tax regulation	(2,191)	10,248
Income tax expense	<u>\$ 114,937</u>	<u>\$ 124,938</u>

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

	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
— Deferred tax assets:				
Unrealized profit on intercompany sales	\$ 8,419	(\$ 2,780)	\$ -	\$ 5,639
Unrealized profit on allowance for sales	27,444	(2,768)	-	24,676
Unrealized exchange losses	-	1,712	-	1,712
Unrealized loss on decline in market value	226	264	-	490
Unused compensated absences	2,556	670	-	3,226
Cost of software bug-fixing	1,014	88	-	1,102
Actuarial gains and losses on pensions	<u>6,908</u>	<u>-</u>	<u>2,969</u>	<u>9,877</u>
Subtotal	<u>46,567</u>	<u>(2,814)</u>	<u>2,969</u>	<u>46,722</u>
— Deferred tax liabilities:				
Differences of depreciation	(1,256)	245	-	(1,011)
Unrealized exchange gains	<u>(483)</u>	<u>483</u>	<u>-</u>	<u>-</u>
Subtotal	<u>(1,739)</u>	<u>728</u>	<u>-</u>	<u>(1,011)</u>
Total	<u>\$ 44,828</u>	<u>(\$ 2,086)</u>	<u>\$ 2,969</u>	<u>\$ 45,711</u>

Year ended December 31, 2017				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
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	5,871	-	1,037	6,908
Subtotal	62,239	(16,709)	1,037	46,567
— Deferred tax liabilities:				
Differences of depreciation	(2,936)	1,680	-	(1,256)
Unrealized exchange gains	-	(483)	-	(483)
Subtotal	(2,936)	1,197	-	(1,739)
Total	\$ 59,303	(\$ 15,512)	\$ 1,037	\$ 44,828

- D. As of December 31, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.
- F. The U.S. government enacted the "Tax Cuts and Job Act" which lowered the corporate tax rate from 35% to 21% on December 22, 2017. The subsidiary has assessed the impact of the change in income tax rate.

(24) Earnings per share

Year ended December 31, 2018			
	<u>Amount after tax</u>	<u>Weighted average outstanding shares (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 328,829	84,687	\$ 3.88
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 328,829	84,687	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	1,339	
Employees' compensation	-	412	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 328,829	86,438	\$ 3.80
Year ended December 31, 2017			
	<u>Amount after tax</u>	<u>Weighted average outstanding shares (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to the parent	\$ 241,557	88,930	\$ 2.72
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 241,557	88,930	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	743	
Employees' compensation	-	649	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 241,557	90,322	\$ 2.67

(25) Operating leases

A. Lessor

The Group's investment assets of two short sections numbered 229 in Xihu Section in Nei-Hu District of Taipei City, from 1F to 9F, Building-B of "Sun-Tech Plaza" located in Nei-Hu District of Taipei City, from 5F to 6F, Building of "Jiang-Ling Information" located in Xindian District of New Taipei City as well as offices located in San Jose in California State and Shibadaimon in Tokyo 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 \$61,216 and \$61,350 were for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 68,700	\$ 49,254
Later than one year but not later than five years	95,509	69,877
Later than five years	3,404	8,509
	<u>\$ 167,613</u>	<u>\$ 127,640</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 renew the lease terms to the second quarter of 2020, all these lease agreements are renewable at the end of the lease period. Subsidiaries recognized rental expenses of \$6,368 and \$5,957 for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 5,774	\$ 2,400
Later than one year but not later than five years	2,406	-
	<u>\$ 8,180</u>	<u>\$ 2,400</u>

(26) Supplemental cash flow information

A. Financing activities with no cash flow effects:

	Year ended December 31, 2018	Year ended December 31, 2017
Retirement of treasury shares	<u>\$ 197,742</u>	<u>\$ 693,380</u>

B. Investing activities with no cash flow effects:

	Year ended December 31, 2018	Year ended December 31, 2017
Property, plant and equipment transferred to investment properties	\$ 114,972	\$ -
Non-hedging derivatives – stock options being transferred to investments account for using equity method	\$ 1,876	\$ -
Convertible bonds being converted to investments accounted for using equity method	\$ -	\$ 136,935

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

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

(2) Significant related party transactions and balances

A. Other receivables

	December 31, 2018	December 31, 2017
Rent income:		
Associates	\$ 539	\$ 539
Payment on behalf of others		
Perfect Mobile Corp. (Taiwan)	3,155	9,529
Associates	715	1,560
	<u>\$ 4,409</u>	<u>\$ 11,628</u>

B. Other payables

	December 31, 2018	December 31, 2017
Payment on behalf of others		
Associates	\$ 1,045	\$ 2,122

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

C. Other income

	Year ended December 31, 2018	Year ended December 31, 2017
Associates	\$ 6,169	\$ 6,169

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, 2018	December 31, 2017
Not later than one year	\$ 2,566	\$ 6,158
Later than one year but not later than five years	-	2,566
	<u>\$ 2,566</u>	<u>\$ 8,724</u>

D. Other—Stock Warrant

Please refer to Note 6(6).

(3) Key management compensation

	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefits	\$ 46,346	\$ 54,393
Post-employment benefits	490	502
Other long-term benefits	41	61
	<u>\$ 46,877</u>	<u>\$ 54,956</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2018	December 31, 2017	
Time deposits (recognized as other current financial assets)	<u>\$ 35,032</u>	<u>\$ -</u>	Guarantee in the form of bank guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Except for Notes 6(25) and 7, the other significant commitments are detailed.

The Company applied for a subsidy program provided by Industrial Development Bureau, Ministry of Economic Affairs in September 2018. The Company provided a letter of performance guarantee issued by the domestic bank registered in the Ministry of Finance, R.O.C. to Industrial Development Bureau Ministry of Economic Affairs for performance guarantee amounting to \$35,032.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6(14).

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. Financial instruments by category

	December 31, 2018	December 31, 2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Financial assets held for trading	\$ -	\$ 128,174
Financial assets mandatorily measured at fair value through profit or loss - non-current	184,143	-
	<u>\$ 184,143</u>	<u>\$ 128,174</u>
Financial assets at fair value through other comprehensive income - non-current		
Designation of equity instrument	\$ 1,032	\$ -
Available-for-sale financial assets	<u>\$ -</u>	<u>\$ 50,299</u>
Financial assets measured at cost	<u>\$ -</u>	<u>\$ 123,606</u>
Financial assets at amortised cost		
/Loans and receivables		
Cash and cash equivalents	\$ 797,699	\$ 1,409,625
Notes receivable	7,414	6,075
Accounts receivable	122,148	51,234
Other receivables (including related parties)	8,837	14,693
Other current financial assets	1,987,042	1,384,810
Guarantee deposits paid	6,381	5,871
	<u>\$ 2,929,521</u>	<u>\$ 2,872,308</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Accounts payable	\$ 150,034	\$ 136,854
Other payables (including related parties)	489,966	568,617
Guarantee deposits received	<u>18,841</u>	<u>10,328</u>
	<u>\$ 658,841</u>	<u>\$ 715,799</u>

B. 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.
- (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 Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD, JPY and EUR. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.
- ii. The Group's business involves some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD, JPY, and EUR). Significant financial assets and liabilities denominated in foreign currencies are as follows:

December 31, 2018					Year ended December 31, 2018		
					Sensitivity analysis		
	Foreign currency amount	Exchange	Book value	Degree	Effect on	Effect on	
Currency	(in thousands)	rate	(NTD)	of variation	profit or loss	other comprehensive income	
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	\$ 55,819	\$ 30.72	\$1,714,760	1%	\$17,148	\$ -	
EUR:NTD	1,852	35.20	65,190	1%	652	-	
GBP:NTD	811	38.88	31,532	1%	315	-	
USD:JPY	5,559	110.42	170,772	1%	1,708	-	
USD:EUR	570	0.87	17,510	1%	175	-	
<u>Non – monetary items</u>							
USD:NTD	6,114	30.72	187,829	1%	583	1,296	
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	3,296	30.72	101,253	1%	1,013	-	
USD:JPY	5,089	110.42	156,334	1%	1,563	-	
USD:EUR	109	0.87	3,348	1%	33	-	
December 31, 2017					December 31, 2017		
					Sensitivity analysis		
	Foreign currency amount	Exchange	Book value	Degree	Effect on	Effect on	
Currency	(in thousands)	rate	(NTD)	of variation	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	7,369	29.76	219,316	1%	485	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	-	

- iii. The total exchange gain (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, 2018 and 2017, amounted to gain of \$35,661 and loss of \$107,125, respectively.

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. 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 shares issued by the domestic companies. 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, 2018 and 2017 would have increased/decreased by \$0 and \$1,263, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$0 and \$503, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income and available-for-sale equity investment.

Cash flow and fair value 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, 2018 and 2017, 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. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortized cost, at fair value through profit or loss and at fair value through other comprehensive income.

- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing 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.
- iii. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 180 days.
- iv. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
 - (i) If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
 - (ii) For investments in bonds that are traded over the counter, if any external credit rating agency rates these bonds as investment grade, the credit risk of these financial assets is low.
- v. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vi. The Group classifies customer's accounts receivable in accordance with geographic area. The Group applies the modified approach using provision matrix to estimate expected credit loss.
- vii. The Group used the forecastability of Taiwan Institute of Economic Research boom observation report to adjust historical and timely information to assess the default possibility of accounts receivable.
- viii. Credit risk information of 2017 is provided in Note 12(4).

(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 short-term marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As at December 31, 2018 and 2017, the Group held money market position of \$2,636,472 and \$2,708,805, 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:

		Between 2	
December 31, 2018	Within 1 year	and 5 years	Over 5 years
Accounts payable	\$ 150,034	\$ -	\$ -
Other payables (including related parties)	489,966	-	-
Other financial liabilities	2,486	15,521	834
Non-derivative financial liabilities:			
		Between 2	
December 31, 2017	Within 1 year	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

(3) Fair value information

- A. 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, as well as in equity instruments and debt instruments without active market are included in Level 3.

- B. Fair value information of investment property at cost is provided in Note 6(8).
- C. 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.
- D. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets is as follows:

(a) The related information of natures of the assets is as follows:

December 31, 2018	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	\$ -	\$ -	\$ 58,263	\$ 58,263
Debt instruments	-	-	125,880	125,880
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	1,032	1,032
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,175</u>	<u>\$ 185,175</u>
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
	<u>\$ 176,621</u>	<u>\$ -</u>	<u>\$ 1,852</u>	<u>\$ 178,473</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. 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

- ii. 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.
- iii. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. The following chart is the movement of Level 3 for the year ended December 31, 2018:

	2018			
	Equity securities	Debt instruments	Non-hedging derivatives	Total
At January 1	\$ 51,572	\$ 112,821	\$ 1,852	\$ 166,245
Acquired in the period	-	35,209	-	35,209
Transferred in the period	-	-	(1,876)	(1,876)
Gains and losses recognized in profit or loss				
Recorded as non-operating income and expenses	7,786	(23,019)	-	(15,233)
Gains and losses recognized in other comprehensive income				
Recorded as unrealized losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	(71)	-	-	(71)
Effect of exchange rate changes	<u>8</u>	<u>869</u>	<u>24</u>	<u>901</u>
At December 31	<u>\$ 59,295</u>	<u>\$ 125,880</u>	<u>\$ -</u>	<u>\$ 185,175</u>

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Non-derivative equity instrument:				
Unlisted stocks	\$ 59,295	Discounted cash flow	Long-term revenue growth rate, weighted average cost of capital, long-term pre-tax operating margin, discount for lack of marketability, discount for lack of control	The higher the discount for lack of marketability, the lower the fair value; the higher the weighted average cost of capital and discount for lack of control, the lower the fair value; the higher the long-term revenue growth rate and long-term pre-tax operating margin, the higher the fair value
Non-derivative debt instrument:				
Private fund investment	\$ 125,880	Net asset value	Not applicable	Not applicable

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets categorised within Level 3 if the inputs used to valuation models have changed:

			Year ended December 31, 2018			
			Recognized in profit or loss		Recognized in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount for lack of marketability, discount for lack of control	±1%	\$ 583	(\$ 583)	\$ 10	(\$ 10)
Debt instrument	"	±1%	1,259	(1,259)	-	-
			<u>\$ 1,842</u>	<u>(\$ 1,842)</u>	<u>\$ 10</u>	<u>(\$ 10)</u>

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

A. Summary of significant accounting policies adopted in 2017:

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

- i. They 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.
- ii. 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.
- iii. 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.

(b) Available-for-sale financial assets

- i. They are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

- iii. They 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'.

(c) 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. They 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 the effect of discounting is immaterial.

(d) Impairment of financial assets

- i. 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.
- ii. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) 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;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) 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;

- (vii) 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;
 - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. 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:
- (i) 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.
 - (ii) 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.
 - (iii) 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.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

		Available-for -sale - equity			Effects	
	Measured at fair value through profit or loss- non-current	Measured at fair value through other comprehensive income – equity	Measured at cost	Total	Retained earnings	Others equity
IAS 39	\$ -	\$ 50,299	\$123,606	\$173,905	\$ -	\$ -
Transferred into and measured at fair value through profit or loss	165,929	(50,299)	(115,630)	-	-	-
Impairment loss adjustment	-	-	-	-	4,565	(4,565)
Transferred into and measured at fair value through other comprehensive income-equity	-	7,976	(7,976)	-	-	-
Fair value adjustment	(2,631)	(6,881)	-	(9,512)	31,628	(41,140)
IFRS 9	<u>\$ 163,298</u>	<u>\$ 1,095</u>	<u>\$ -</u>	<u>\$164,393</u>	<u>\$ 36,193</u>	<u>(\$ 45,705)</u>

- (a) Under IAS 39, because the equity instruments, which were classified as financial assets measured at cost, amounting to \$7,976, were not held for the purpose of trading, they were reclassified as “financial assets at fair value through other comprehensive income (equity instruments)” amounting to \$1,095, decreased other equity interest in the amounts of \$6,881 on initial application of IFRS 9.
- (b) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets, financial assets measured at cost, amounting to \$50,299 and \$115,630, respectively, were reclassified as “financial assets at fair value through profit or loss” amounting to \$163,298, increased retained earnings and decreased other equity interest in the amounts of \$31,628 and \$34,259 under IFRS 9.
- (c) In line with the regulations under IFRS 9 on provision for impairment, the Group decreased other equity interest and increased retained earnings both by \$4,565.
- C. The significant accounts as of December 31, 2017 are as follows:
- (a) Financial assets at fair value through profit or loss

Items	December 31, 2017
Current items:	
Financial assets held for trading	
Money market funds	\$ 123,437
Non-hedging derivatives – stock options	1,852
	125,289
Valuation adjustment	2,885
Total	<u>\$ 128,174</u>

i. The Group recognized net profit amounting to \$412 on financial assets held for trading for the year ended December 31, 2017.

ii. Please refer to Note 6(6) for information on derivatives – stock warrant.

(b) Available-for-sale financial assets

Items	December 31, 2017
Non-current items:	
Private fund	\$ 16,040
Valuation adjustment	<u>34,259</u>
Total	<u>\$ 50,299</u>

The Group recognized \$4,013 in debit balance in other comprehensive income for fair value change for the year ended December 31, 2017.

(c) Financial assets measured at cost

Items	December 31, 2017
Non-current items:	
Unlisted stocks	\$ 61,076
Private fund	<u>67,095</u>
	128,171
Less : Accumulated impairment	(4,565)
Total	<u>\$ 123,606</u>

i. According to 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'.

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

iii. 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.

(d) Notes and accounts receivable

	December 31, 2017
Notes receivable	\$ 6,105
Less: Allowance for bad debts	(30)
	<u>\$ 6,075</u>
	December 31, 2017
Accounts receivable	\$ 116,086
Less: Allowance for sales return and discounts	(64,334)
Less: Allowance for bad debts	(518)
	<u>\$ 51,234</u>

- i. 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
Group 1	\$ 23
Group 2	49,613
Group 3	48,472
Group 4	6,414
Group 5	8,029
	<u>\$ 112,551</u>

Group 1: Accounts receivable from customers in Mainland China.

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

Group 3: Accounts receivable from customers in Japan.

Group 4: Accounts receivable from customers in Taiwan.

Group 5: Accounts receivable from customers in other areas.

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

	December 31, 2017
Up to 30 days	\$ 625
31 to 90 days	2,573
Over 90 days	337
	<u>\$ 3,535</u>

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

D. Credit risk information on December 31, 2017 is as follows:

- (a) 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 analysing 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 cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

- (b) For the year ended December 31, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
 - (c) The credit quality information of financial assets that are neither past due nor impaired is provided in Note 12(4).
 - (d) The ageing analysis of financial assets that were past due but not impaired is provided in Note 12(4). 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.
 - (e) The individual analysis of financial assets that have been impaired is provided in the statement for each type of financial assets in Note 12(4).
- (5) Effects on initial application of IFRS 15 and information on application of IAS 18 in 2017
- A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 are set out below:
- Sales of goods
- (a) The Group manufactures and sells computer software products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. 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.
 - (b) 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.

- (c) 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.
- (d) 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.
- (e) Cost of goods sold comprises packaging cost, production cost, royalty paid to third party, provision for royalty liability, inventory valuation and obsolescence loss, etc.
- B. The effects and description of current balance sheets if the Group continues adopting above accounting policies are as follows:

		December 31, 2018		
Consolidated balance sheet items	Description	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Accounts receivable	(a)	\$ 122,148	\$ 57,010	\$ 65,138
Current contract liabilities	(a)(b)	(84,985)	-	(84,985)
Other current liabilities	(b)	(25,937)	(45,784)	19,847
Total		<u>\$ 11,226</u>	<u>\$ 11,226</u>	<u>\$ -</u>

Description:

- (a) 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.
- (b) Under IFRS 15, the contract liabilities were previously presented as current liabilities (advance sales receipts) in the balance sheet.

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, associates and joint ventures): 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 \$300 million or 20% of paid-in capital or more: None.

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

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

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

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

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

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

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

14. SEGMENT REPORTING

(1) General information

The Group 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, 2018		
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 589,559	\$ 984,258	\$ 1,573,817
Segment Operating Income	\$ 143,979	\$ 279,448	\$ 423,427
Depreciation expense	\$ 4,413	\$ 8,565	\$ 12,978

	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
Depreciation expense	\$ 4,133	\$ 7,843	\$ 11,976

(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, 2018 and 2017 is as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Revenue	Non-current assets	Revenue	Non-current assets
America	\$ 719,861	\$ 115,638	\$ 773,927	\$ 113,889
Japan	502,258	166,643	474,173	2,327
Taiwan	61,591	1,584,998	60,500	1,595,025
Others	290,107	151	395,578	195
	<u>\$ 1,573,817</u>	<u>\$ 1,867,430</u>	<u>\$ 1,704,178</u>	<u>\$ 1,711,436</u>

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

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31, 2018	
	Revenue	Operating segment
Customer A	\$ 574,758	Media Experience and Entertainment, Media Creation and Others
	Year ended December 31, 2017	
	Revenue	Operating segment
Customer A	\$ 609,628	Media Experience and Entertainment, Media Creation and Others

CyberLink Corp. and Subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
December 31, 2018

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, 2018				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 at fair value through profit or loss - non-current	-	\$ 58,263	16.67%	\$ 58,263	
CyberLink Corp.	Fuh Hwa New Intelligence Fund	None	Financial assets at fair value through profit or loss - non-current	3,000,000	29,250	1.90%	29,250	
CyberLink Corp.	Fuh Hwa Tung-ta Fund	None	Financial assets at fair value through profit or loss - non-current	1,603,910	38,157	1.56%	38,157	
CyberLink Corp.	Geothings Technology Co.,Ltd	None	Financial assets at fair value through other comprehensive income - non-current	100,000	287	4.47%	287	
CyberLink Corp.	SKYMIZER TAIWAN INC.	None	Financial assets at fair value through other comprehensive income - non-current	40,000	488	2.26%	488	
CyberLink International Technology Corp.	Preferred stock of Cidana Inc.	None	Financial assets at fair value through other comprehensive income - non-current	500,000	-	3.56%	-	
CyberLink International Technology Corp.	Preferred stock of LOFTechnology, Inc.	None	Financial assets at fair value through other comprehensive income - non-current	100,000	US 8 (in thousands of dollars)	0.57%	US 8 (in thousands of dollars)	
CyberLink International Technology Corp.	CCV Fund I LP	None	Financial assets at fair value through profit or loss - non-current	-	US 1,903 (in thousands of dollars)	5.37%	US 1,903 (in thousands of dollars)	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instruments'.

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.

CyberLink Corp. and Subsidiaries

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

For the year ended December 31, 2018

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, 2018		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2018		
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
CyberLink Corp.	Stock of CyberLink International Technology Corp.	Investments accounted for using equity method	Capital increase by cash	Subsidiaries	32,000,000	\$ 428,934 (Note 5)	9,000,000	\$ 277,200	-	\$ -	(\$ 109,927) (Note 6)	\$ -	41,000,000	\$ 596,207

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 refers to the balance after restatement in accordance with IFRS 9.

Note 6: It refers to profit (loss) of investment, realized gain and equity adjustments recognized based on long-term equity investments in proportion to shareholding ratio.

CyberLink Corp. and Subsidiaries
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
For the year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

		Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		
Purchaser/seller	Counterparty		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 Inc.	The Company's subsidiary	Sales	\$ 185,143	15%	Note	Same with third parties	Note	\$ 21,694	36%	-
CyberLink Corp.	CyberLink.Com Corp.	The Company's subsidiary	Sales	158,848	13%	Note	Same with third parties	Note	14,596	24%	-

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

CyberLink Corp. and Subsidiaries
Significant inter-company transactions during the reporting periods
For the year ended December 31, 2018

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 Inc.	1	Sales revenue	\$ 185,143	Note 4	11.8%
				Receivables	23,636	Note 4, 5	0.5%
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	158,848	Note 4	10.1%
				Receivables	17,696	Note 4, 5	0.3%
0	CyberLink Corp.	CyberLink Europe B.V.	1	Sales revenue	53,342	Note 4	3.4%

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. and Subsidiaries
Information on investees
For the year ended December 31, 2018

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, 2018					Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2(3))	Footnote
				Balance as at December 31, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value					
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100%	\$ 471,230	\$ 11,402	\$ 11,402			Direct subsidiary
CyberLink Corp.	CyberLink Europe B.V.	Netherlands	Sale of software	124,710	124,710	3,000,000	100%	24,304	(12,713)	(12,713)			Direct subsidiary
CyberLink Corp.	CyberLink International Technology Corp.	B.V.I.	Investment activities	1,283,896	1,006,696	41,000,000	100%	596,207	(141,297)	(136,874)			Direct subsidiary
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	26,051 (USD 848 in thousands of dollars)	25,236 (USD 848 in thousands of dollars)	1,900	100%	227,389 (USD 7,402 in thousands of dollars)	7,294 (USD 242 in thousands of dollars)	-			Indirect subsidiary
CyberLink International Technology Corp.	Perfect Corp.	Cayman	Investment activities	884,736 (USD 28,800 in thousands of dollars)	790,128 (USD 26,550 in thousands of dollars)	191,311,753	48.52%	129,566 (USD 4,218 in thousands of dollars)	(269,789) (USD 8,948 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, 2018’ 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, 2018’ 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, 2018’ 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. and Subsidiaries
Information on investments in Mainland China
For the year ended December 31, 2018

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	Net income of investee as of December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2018 (Note 2(2)B)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Perfect (Shanghai) Co., Ltd.	Trading of computer peripheral and software	\$ 66,263 (USD 2,157 in thousands of dollars)	(2)	\$ 27,494 (USD 895 in thousands of dollars)	\$ 4,916 (USD 160 in thousands of dollars)	\$ -	\$ 32,410 (USD 1,055 in thousands of dollars)	\$ 1,850	48.52%	\$ 900	\$ 7,862	\$ -	Note 4
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2018	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.	\$ 32,410 (USD 1,055 in thousands of dollars)	\$ 73,667 (USD 2,398 in thousands of dollars)	\$ 2,304,312										

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, 2018' 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.