

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2019 AND 2018

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, 2019, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the entities that are required to be included in the consolidated financial statements of affiliates, are the same as those required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard 10. In addition, 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 25, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR19003511

To the Board of Directors and Stockholders of CyberLink Corp.

Opinion

We have audited the accompanying consolidated balance sheets of CyberLink Corp. and subsidiaries (the “Group”) as at December 31, 2019 and 2018, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

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 the hardware products

Description

Please refer to Note 4(30) for description of accounting policy on operating revenue, and Note 6(22) for details of operating revenue.

The Group has two main sales types, namely sale of software products bundled with the 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 by judgement 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 reports, examining sales contracts, and confirming that bundled revenue are recorded in the proper period.

Impairment valuation of investments accounted for using the equity method

Description

Please refer to Note 4(11) – Impairment of financial assets for the accounting policy on impairment assessment of investments accounted for using the equity method, Note 5(2) for accounting estimates and assumption uncertainty in relation to impairment assessment and Note 6(6) for details of investments

accounted for using the equity method.

The Group invested in Perfect Corp. since April 2015. Though Perfect Corp. already starts to generate revenue from its operation; however, the company remains engaged heavy in mobile APP research and development, it continued to incur considering operating losses which resulted in an impairment concern. Therefore, the Group used an external expert's appraisal report to evaluate investment impairment of Perfect Corp.

An external expert used market method to assess the fair value of the abovementioned investments accounted for using the equity method. As the estimate of the fair value is subject to management's judgement and involves multiple assumptions as well as a high degree of uncertainty, we consider that the impairment valuation of investments accounted for using the 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. 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.

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, 2019 and 2018.

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

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

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

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

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

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

As part of an audit in accordance with ROC GAAS, we exercise professional 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 25, 2020

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, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2019		December 31, 2018			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	1,299,322	24	\$	797,699	16
1136	Current financial assets at amortized cost	6(1)(2) and 8		1,549,724	28		1,987,042	38
1170	Accounts receivable, net	6(5)		107,358	2		122,148	3
1200	Other receivables			3,205	-		4,428	-
1210	Other receivables - related parties	7		5,849	-		4,409	-
1220	Current income tax assets			34,257	1		8,938	-
130X	Inventories			7,418	-		7,280	-
1470	Other current assets			11,837	-		18,513	-
11XX	Total current assets			3,018,970	55		2,950,457	57
Non-current assets								
1510	Non-current financial assets at fair value through profit or loss	6(3)		233,172	4		184,143	4
1517	Non-current financial assets at fair value through other comprehensive income	6(4)		507	-		1,032	-
1550	Investments accounted for using the equity method	6(6)		442,522	8		129,566	2
1600	Property, plant and equipment, net	6(7)		483,900	9		502,781	10
1755	Right-of-use assets	6(8)		10,536	-		-	-
1760	Investment property, net	6(10)(11)		1,251,034	23		1,361,834	26
1840	Deferred income tax assets	6(28)		46,193	1		46,722	1
1900	Other non-current assets			7,877	-		9,196	-
15XX	Total non-current assets			2,475,741	45		2,235,274	43
1XXX	Total assets		\$	5,494,711	100	\$	5,185,731	100

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity			December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2130	Current contract liabilities	6(22)	\$ 61,708	1	\$ 19,847	-
2170	Accounts payable	6(12)	107,519	2	150,034	3
2200	Other payables	6(13)	459,181	9	488,921	9
2220	Other payables - related parties	7	3,436	-	1,045	-
2230	Income tax payable		18,617	-	27,076	1
2280	Current lease liabilities	6(8)	5,267	-	-	-
2300	Other current liabilities	6(14)	61,121	1	83,661	2
21XX	Total current liabilities		716,849	13	770,584	15
Non-current liabilities						
2550	Non-current provisions	6(15)	508,218	9	498,131	10
2570	Deferred income tax liabilities	6(28)	747	-	1,011	-
2580	Non-current lease liabilities	6(8)	5,295	-	-	-
2600	Other non-current liabilities	6(16)	83,015	2	75,485	1
25XX	Total non-current liabilities		597,275	11	574,627	11
2XXX	Total liabilities		1,314,124	24	1,345,211	26
Equity						
Equity attributable to shareholders of the parent						
Capital Stock		6(18)				
3110	Common stock		845,992	15	849,321	16
Capital surplus		6(19)				
3200	Capital surplus		1,130,694	21	940,029	18
Retained earnings		6(20)				
3310	Legal reserve		1,154,554	21	1,121,671	22
3320	Special reserve		88,831	1	72,904	1
3350	Unappropriated earnings		1,089,756	20	1,016,150	20
Other equity interest		6(21)				
3400	Other equity interest		(129,240)	(2)	(88,831)	(2)
3500	Treasury shares	6(18)	-	-	(70,724)	(1)
31XX	Equity attributable to shareholders of the parent		4,180,587	76	3,840,520	74
3XXX	Total equity		4,180,587	76	3,840,520	74
Significant contingent liabilities and unrecognized contract commitments		6(8)(9), 7 and 9				
3X2X	Total liabilities and equity		\$ 5,494,711	100	\$ 5,185,731	100

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31			
		2019		2018	
		AMOUNT	%	AMOUNT	%
4000 Net revenue	6(22)	\$ 1,454,646	100	\$ 1,589,532	100
5000 Operating costs	6(26)	(187,971)	(13)	(188,570)	(12)
5900 Gross profit		1,266,675	87	1,400,962	88
5920 Realized profit from sales	6(6)	-	-	3,583	1
5950 Gross profit from operations		1,266,675	87	1,404,545	89
Operating expenses	6(16)(26)(27) and 7				
6100 Sales and marketing expenses		(521,810)	(36)	(511,721)	(32)
6200 General and administrative expenses		(116,404)	(8)	(124,179)	(8)
6300 Research and development expenses		(369,884)	(25)	(345,218)	(22)
6000 Total operating expenses		(1,008,098)	(69)	(981,118)	(62)
6900 Operating income		258,577	18	423,427	27
Non-operating income and expenses					
7010 Other income	6(2)(9)(10)(23) and 7	181,394	13	141,585	9
7020 Other gains and losses	6(3)(24)	45,314	3	5,952	-
7050 Finance costs	6(8)(25)	(122)	-	-	-
7060 Share of loss of associates and joint ventures accounted for using the equity method	6(6)	(9,572)	(1)	(127,198)	(8)
7000 Total non-operating income and expenses		217,014	15	20,339	1
7900 Income before income tax		475,591	33	443,766	28
7950 Income tax expense	6(28)	(95,646)	(7)	(114,937)	(7)
8200 Net income		\$ 379,945	26	\$ 328,829	21

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except earnings per share)

	Items	Notes	Year ended December 31			
			2019		2018	
			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(16)	(\$ 8,466)	-	(\$ 8,753)	(1)
8316	Unrealised losses on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(4)(21)	(519)	-	(71)	-
8320	Share of other comprehensive income of associates and joint ventures accounted for using the equity method, components of other comprehensive income that will not be reclassified to profit or loss		-	-	(75)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(28)	1,693	-	2,969	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss		(7,292)	-	(5,930)	(1)
	Components of other comprehensive income that will be reclassified to profit or loss subsequently					
8361	Exchange differences arising on translation of foreign operations	6(21)	(28,812)	(2)	25,659	2
8370	Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6(6)(21)	(11,078)	(1)	4,190	-
8360	Components of other comprehensive income that will be reclassified to profit or loss subsequently		(39,890)	(3)	29,849	2
8500	Total comprehensive income		<u>\$ 332,763</u>	<u>23</u>	<u>\$ 352,748</u>	<u>22</u>
	Net income, attributable to:					
8610	Shareholders of the parent		<u>\$ 379,945</u>	<u>26</u>	<u>\$ 328,829</u>	<u>21</u>
	Total comprehensive income attributable to:					
8710	Shareholders of the parent		<u>\$ 332,763</u>	<u>23</u>	<u>\$ 352,748</u>	<u>22</u>
	Earnings per share	6(29)				
9750	Basic earnings per share		<u>\$</u>	<u>4.53</u>	<u>\$</u>	<u>3.88</u>
9850	Diluted earnings per share		<u>\$</u>	<u>4.42</u>	<u>\$</u>	<u>3.80</u>

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent											

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

CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	Year ended December 31,	
		2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 475,591	\$ 443,766
Adjustments			
Adjustments to reconcile profit (loss)			
Realized gain	6(6)	-	(3,583)
Gain from reversal of bad debts	6(23)	-	(548)
Loss on financial assets at fair value through profit or loss	6(3)(24)	3,436	14,782
Depreciation expense	6(7)(8)(10)	30,470	23,879
Interest income	6(23)	(57,094)	(45,606)
Dividend income	6(23)	(12,935)	(2,514)
Interest expense	6(8)(25)	122	-
Employees' stock option cost	6(17)	2,399	6,904
Loss on scrapping of property, plant, and equipment	6(24)	29	32
Share of loss of associates accounted for using the equity method	6(6)	9,572	127,198
Gain on disposal of non-current assets classified as held for sale	6(11)(24)	(95,502)	-
Overdue accounts payable transferred to revenue	6(23)	(22)	(8,335)
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets mandatorily measured at fair value through profit or loss		(53,893)	91,564
Accounts receivable		13,313	(2,916)
Other receivables		1,660	2,630
Other receivables-related parties		(1,446)	7,239
Inventories		(138)	(260)
Other current assets		6,584	(3,654)
Other non-current assets		2,815	(2,815)
Changes in operating liabilities			
Current contract liabilities		41,861	(24,719)
Accounts payable		(41,483)	10,782
Other payables		(25,195)	(77,059)
Other payables-related parties		2,401	(1,094)
Other current liabilities		(21,914)	13,991
Provisions		10,087	51,285
Other non-current liabilities		(398)	(441)
Cash inflow generated from operations		290,320	620,508
Interest received		57,613	43,690
Dividends received		11,973	442
Interest paid		(122)	-
Dividends paid		(250,756)	(143,370)
Income tax paid		(127,951)	(112,610)
Net cash flows (used in) from operating activities		(18,923)	408,660

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CYBERLINK CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	Year ended December 31,	
		2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at amortized cost		\$ -	(\$ 597,433)
Proceeds from disposal of financial assets at amortized cost		423,979	-
Acquisition of investments accounted for using the equity method	6(6)	(103,163)	(67,838)
Acquisition of property, plant, and equipment	6(7)	(9,804)	(170,254)
Proceeds from disposal of non-current assets classified as held for sale	6(11)	210,188	-
Increase in refundable deposits		(1,549)	(226)
Net cash flows from (used in) investing activities		<u>519,651</u>	<u>(835,751)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
(Decrease) increase in deposits received	6(32)	(459)	8,489
Payments of lease liabilities	6(32)	(6,266)	-
Exercise of employee stock options		50,025	37,733
Acquisition of treasury shares		(24,807)	(254,110)
Net cash flows from (used in) financing activities		<u>18,493</u>	<u>(207,888)</u>
Effects of changes in exchange rates of foreign currency holdings		(17,598)	23,053
Net increase (decrease) in cash and cash equivalents		501,623	(611,926)
Cash and cash equivalents at beginning of year		<u>797,699</u>	<u>1,409,625</u>
Cash and cash equivalents at end of year		<u>\$ 1,299,322</u>	<u>\$ 797,699</u>

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, 2019 AND 2018
(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 25, 2020.

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 2019 are as follows:

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

- A. 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 standard remains no change for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently; however, IFRS 16 requires enhanced disclosures to be provided by lessors.

- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use asset’ by \$8,071 and increased ‘lease liability’ by \$8,071 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.
 - (d) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.79%.
- E. The Group recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. The amount of aforementioned present values is the same as the amount of lease liabilities recognised on January 1, 2019.
- (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 2020 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 9, IAS 39 and IFRS7, ‘Interest rate benchmark reform’	January 1, 2020

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

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2022

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.
- (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.

(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, 2019	December 31, 2018	
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 Inc. (CyberLink-Japan)	Sales of computer software	100%	-	Note 2
CyberLink International Technology Corp.	CyberLink Inc. (CyberLink-Japan)	Sales of computer software	-	100%	Note 2

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: In order to simplify holding structure, the Company acquired 100% shares of indirect subsidiary, CyberLink-Japan from subsidiary, CyberLink-B.V.I, as resolved by the Board of Directors in July 2019.

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) Financial assets at amortized cost

- A. Financial assets at amortized cost are those that meet all of the following criteria:
- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortized cost are recognized and derecognized using trade date accounting.
- C. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts receivable

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

(11) 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.

(12) 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.

(13) Leasing arrangements (lessor) - operating lease

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.

(14) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The item by item approach is used in applying the lower of cost and net

realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(15) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(16) Investments accounted for using the 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.

(17) 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

(18) Leasing arrangements (lessee) — right-of-use assets/ lease liabilities

Effective 2019

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.
- C. At the commencement date, the right-of-use asset is stated at cost comprising the amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(19) Operating leases (lessee)

Prior to 2019

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(20) 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.

(21) 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.

(22) 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.

(23) Derecognition of financial liabilities

A financial liability is derecognized when the obligation specified in the contract is either discharged or cancelled or expires.

(24) 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.

(25) 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.

(26) 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.

(27) 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.

(28) 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.

(29) 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.

(30) 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. The 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. The Group entered into a contract with a customer to grant a licence of computer software to the customer. The Group recognises the revenue from licencing either at a point in time or over time based on the nature of the licence granted. The nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if the Group undertakes activities that significantly affect the computer software to the customer, the customer is affected by the Group's activities and those activities do not result in the transfer of a good or a service to the customer as they occur. The licences are recognised as revenue on a straight-line basis throughout the contract period. In case the abovementioned conditions are

not met, the nature of the Group's promise in granting a licence is a promise to provide a right to use the Group's intellectual property and therefore the revenue is recognised when transferring the licence to a customer at a point in time.

- C. 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 other current 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.
- D. The Group occasionally provides debug program to customers, which can be downloaded through the internet for free. This service is not an obligation of the sale nor does it increase the main functions of the product. Therefore, service costs and liabilities relating to this service are accrued upon the sale of the product; this service would not affect the amount of revenue of the product.
- E. Cost of goods sold comprises packaging cost, production cost, royalty paid to third party, provision for royalty liability, inventory valuation and obsolescence loss, etc.

(31) 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, 2019, the carrying amounts of unlisted stocks and bonds without active market were \$56,627 and \$177,052, respectively.

B. Impairment assessment of investments accounted for using the equity method

The Group assesses the impairment of an investment accounted for using the 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 market approach, and analyses the reasonableness of related assumptions.

As of December 31, 2019, the Group's investments accounted for using the equity method amounted to \$442,522.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and revolving funds	\$ 64	\$ 64
Checking accounts	287,937	113,173
Demand deposits	1,011,321	530,862
Time deposits	-	153,600
	<u>\$ 1,299,322</u>	<u>\$ 797,699</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, 2019 and 2018, cash and cash equivalents amounting to \$34,874 and \$35,032, respectively, were pledged to others as collateral, and were classified as current financial assets at amortized cost.

(2) Financial assets at amortized cost - current

	December 31, 2019	December 31, 2018
Time deposits with original maturity of more than three months	\$ 1,514,850	\$ 1,952,010
Time deposits pledged to others as collateral	34,874	35,032
	<u>\$ 1,549,724</u>	<u>\$ 1,987,042</u>

A. Amounts recognized in profit or loss in relation to financial assets at amortized cost are listed below:

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income	<u>\$ 48,170</u>	<u>\$ 42,885</u>

B. As at December 31, 2019 and 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 amortised cost held by the Group was \$1,549,724 and \$1,987,042, respectively.

C. Details of the Group's financial assets at amortised cost pledged to others as collateral are provided in Note 8.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(3) Financial assets at fair value through profit or loss - non-current

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Private fund	\$ 193,015	\$ 119,540
Unlisted stocks	<u>48,535</u>	<u>48,535</u>
Subtotal	241,550	168,075
Valuation adjustment	(8,378)	16,068
Total	<u>\$ 233,172</u>	<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, 2019</u>	<u>Year ended December 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss		
Private fund	(\$ 1,293)	(\$ 23,019)
Money market funds	-	451
Unlisted stocks	(2,143)	7,786
	<u>(\$ 3,436)</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).

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

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unlisted stocks	\$ 12,495	\$ 12,680
Valuation adjustment	(11,988)	(11,648)
	<u>\$ 507</u>	<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 \$507 and \$1,032 as at December 31, 2019 and 2018, respectively.

B. Amount recognized in other comprehensive loss in relation to the financial assets at fair value through other comprehensive loss is listed below:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
<u>Equity instruments at fair value through other comprehensive loss</u>		
Fair value change recognized in other comprehensive loss	<u>(\$ 519)</u>	<u>(\$ 71)</u>

- C. As at December 31, 2019 and 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 \$507 and \$1,032, respectively.
- 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).

(5) Accounts receivable

	December 31, 2019	December 31, 2018
Accounts receivable	\$ 107,358	\$ 122,148

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

	December 31, 2019	December 31, 2018
Not past due	\$ 91,726	\$ 117,949
Up to 30 days	14,784	3,095
31 to 90 days	614	824
Over 91 days	234	280
	\$ 107,358	\$ 122,148

The above ageing analysis was based on past due date.

- B. As of December 31, 2019 and 2018, accounts receivable were all both from contracts with customers. And as of January 1, 2018, the balance of accounts receivable from contracts with customers amounted to \$115,568.
- C. As at December 31, 2019 and 2018, without taking into consideration other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$107,358 and \$122,148, respectively.
- D. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(6) Investments accounted for using the equity method

	2019
At January 1	\$ 129,566
Transfer from non-hedging derivatives - stock warrants	-
Addition of investments	103,163
Share of loss of investments accounted for using the equity method	(9,572)
Realized gains	-
Changes in capital surplus (Note 6(19))	230,443
Actuarial gains and losses	-
Changes in other equity items (Note 6(21))	(11,078)
At December 31	\$ 442,522

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 stock warrants 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 into 14,142 thousand preferred shares of Perfect Corp. 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 49.00% to 48.62% and obtained the stock warrants.

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 warrants with the same conditions to replace the initial stock warrants, 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 warrants 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 and the shareholding ratio declined from 48.67% to 48.52%.

The Group acquired 9,773 thousand preferred shares issued by the associate, Perfect Corp., amounting to USD 3,338 thousand (approximately NTD 103,163 thousand) on July 18, 2019 and the shareholding ratio declined from 48.52% to 43.01% as the Group did not acquire shares proportionally to its shareholding ratio.

The Group's shareholding ratio in Perfect Corp. declined from 43.01% to 41.80% as the employees of Perfect Corp. exercised their employee stock options on November 20, 2019.

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, 2019	December 31, 2018		
Perfect Corp.	Cayman	41.80%	48.52%	Investments accounted for using the equity method	Equity method

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

Balance sheet

	Perfect Corp.	
	December 31, 2019	December 31, 2018
Current assets	\$ 1,295,860	\$ 437,126
Non-current assets	37,172	12,487
Total assets	1,333,032	449,613
Current liabilities	(266,972)	(181,307)
Non-current liabilities	(7,394)	(1,270)
Total liabilities	(274,366)	(182,577)
Total net assets	\$ 1,058,666	\$ 267,036
Share in associate's net assets	\$ 442,522	\$ 129,566

Statement of comprehensive income

	Perfect Corp.	
	Year ended December 31, 2019	Year ended December 31, 2018
Revenue	\$ 737,355	\$ 333,062
Loss for the period from continuing operations	(8,157)	(269,789)
Other comprehensive income (loss), net of tax	5,139	(1,058)
Total comprehensive loss	(\$ 3,018)	(\$ 270,847)

(7) Property, plant, and equipment

	2019					
	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Total
<u>At January 1</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>\$ 502,781</u>
Opening net book amount	\$ 352,275	\$ 134,997	\$ 12,496	\$ 1,028	\$ 1,985	\$ 502,781
Additions	-	3,821	5,983	-	-	9,804
Costs of disposal	-	(172)	(4,326)	-	-	(4,498)
Accumulated depreciation on disposal	-	143	4,326	-	-	4,469
Reclassifications (Note)	-	(15,542)	-	-	-	(15,542)
Depreciation expense	-	(5,201)	(5,290)	(328)	(992)	(11,811)
Net exchange differences	(1,045)	(242)	(2)	(14)	-	(1,303)
Closing net book amount	<u>\$ 351,230</u>	<u>\$ 117,804</u>	<u>\$ 13,187</u>	<u>\$ 686</u>	<u>\$ 993</u>	<u>\$ 483,900</u>
<u>At December 31</u>						
Cost	\$ 351,230	\$ 157,085	\$ 28,683	\$ 4,410	\$ 5,955	\$ 547,363
Accumulated depreciation	-	(39,281)	(15,496)	(3,724)	(4,962)	(63,463)
	<u>\$ 351,230</u>	<u>\$ 117,804</u>	<u>\$ 13,187</u>	<u>\$ 686</u>	<u>\$ 993</u>	<u>\$ 483,900</u>

Note : The Company leased certain property to others in January 2019. Consequently, buildings and structures (including accumulated depreciation) were transferred to ‘investment property’.

	2018						
	Land	Buildings	Machinery and equipment	Office equipment	Transportation equipment	Others	Total
<u>At January 1</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>
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
Reclassification (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</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 subsidiary, CyberLink-Japan (formerly indirect subsidiary) purchased 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 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.

(8) Leasing arrangements – lessee

Effective 2019

- A. The Group leases various assets including offices. Rental contracts are typically made for periods of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leased assets may neither be used as security for borrowing purposes nor be transferred its rights to others in the forms such as business transfer and combination.
- B. Short-term leases with a lease term of 12 months or less comprise leased offices in America and Europe.
- C. The information of right-of-use assets is as follows:

	<u>2019</u>
	<u>Buildings</u>
<u>At January 1</u>	\$ -
Effect of retrospective application and retrospective restatement	8,071
Balance at January 1 after adjustments	\$ 8,071
Additions	8,663
Depreciation charge	(6,291)
Net exchange differences	93
Closing net book amount as at December 31	<u>\$ 10,536</u>
<u>At December 31</u>	
Cost	\$ 16,670
Accumulated depreciation	(6,134)
	<u>\$ 10,536</u>

- D. Lease liabilities relating to lease contracts:

	<u>December 31, 2019</u>
Total lease liabilities	\$ 10,562
Less: Current portion (shown as ‘current lease liabilities’)	(5,267)
	<u>\$ 5,295</u>

E. The information on profit and loss accounts relating to lease contracts is as follows:

	Year ended December 31, 2019
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 122
Expense on short-term lease contracts	2,024
	<u>\$ 2,146</u>

F. For the year ended December 31, 2019, the Group's total cash outflow for leases was \$8,412.

(9) Leasing arrangements – lessor

Effective 2019

- A. The Group leases various assets including two short sections numbered 229 in Xihu Section in Neihu District of Taipei City, from 1F to 9F, Building-B of “Sun-Tech Plaza” located in Nei-Hu District of Taipei City, from 5F to 6F, Building of “Jiang-Ling Information” located in Xindian District of New Taipei City as well as offices located in San Jose in California State and Shibadaimon in Tokyo. Rental contracts are typically made for periods of 1 and 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may neither be used as security for borrowing purposes nor, in all or in part, be lent to others or corporates through sublease, sharing, transfer or any other forms.
- B. For the year ended December 31, 2019, the Group recognised rent income in the amount of \$72,599 based on the operating lease agreement, which does not include variable lease payments.
- C. The maturity analysis of the lease payments receivable under the operating leases is as follows:

	December 31, 2019
2020	\$ 68,169
2021	41,443
2022	20,761
2023	14,477
2024	7,535
	<u>\$ 152,385</u>

(10) Investment property

	2019		
	Land	Buildings	Total
<u>At January 1</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>
Opening net book amount as at January 1	\$ 844,393	\$ 517,441	\$ 1,361,834
Reclassifications-non-current assets classified as held for sale	(45,650)	(69,036)	(114,686)
Reclassifications-property, plant and equipment	-	15,542	15,542
Depreciation expense	-	(12,368)	(12,368)
Net exchange differences	281	431	712
Closing net book amount as at December 31	<u>\$ 799,024</u>	<u>\$ 452,010</u>	<u>\$ 1,251,034</u>
<u>At December 31</u>			
Cost	\$ 799,024	\$ 579,913	\$ 1,378,937
Accumulated depreciation	-	(127,903)	(127,903)
	<u>\$ 799,024</u>	<u>\$ 452,010</u>	<u>\$ 1,251,034</u>
	2018		
	Land	Buildings	Total
<u>At January 1</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>
Opening net book amount as at January 1	\$ 799,024	\$ 458,739	\$ 1,257,763
Reclassifications-property, plant and equipment	45,369	69,603	114,972
Depreciation expense	-	(10,901)	(10,901)
Closing net book amount as at December 31	<u>\$ 844,393</u>	<u>\$ 517,441</u>	<u>\$ 1,361,834</u>
<u>At December 31</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>

- A. Please refer to Note 6(7) for the details of the transfer from ‘property, plant and equipment’ to ‘investment property’.
- B. Please refer to Note 6(11) for the details of the transfer from ‘investment property’ to ‘non-current assets held for sale’.
- C. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Year ended December 31, 2019	Year ended December 31, 2018
Rental income from investment property	\$ 67,600	\$ 52,979
Direct operating expenses arising from the investment property that generated rental income during the year	\$ 15,589	\$ 12,714
Direct operating expenses arising from the investment property that did not generate rental income during the year	\$ 626	\$ 1,752

- D. The fair value of the investment property held by the Group as of December 31, 2019 and 2018 was \$1,971,770 and \$2,124,000, respectively, which was estimated based on market trading prices of similar property in the areas nearby.

(11) Non-current assets held for sale

The Group sold land and buildings of investment property located in Silicon Valley, United States of America and reclassified the related assets as non-current assets held for sale as resolved by the Board of Directors on June 17, 2019. The sale agreement for the transaction was signed on June 19, 2019 and the transaction was completed in September 2019. The total transaction amount was \$210,188 and the gain on disposal was \$95,502. The aforementioned transaction amount has been fully collected.

(12) Accounts payable

	December 31, 2019	December 31, 2018
Royalty expense	\$ 104,805	\$ 144,216
Others	2,714	5,818
	\$ 107,519	\$ 150,034

(13) Other payables

	December 31, 2019	December 31, 2018
Royalty collection	\$ 211,520	\$ 237,542
Payroll	71,140	67,564
Employees' compensation and directors' and supervisors' remuneration	53,188	65,685
Promotional fees	43,848	32,610
Employees' rewards	32,505	53,945
Business tax payable	11,965	26
Professional service fees	11,093	10,076
Commission expense	2,900	1,990
Other accrued expenses	18,177	19,347
Other payables	2,845	136
	<u>\$ 459,181</u>	<u>\$ 488,921</u>

(14) Other current liabilities

	December 31, 2019	December 31, 2018
Refund liabilities	\$ 56,268	\$ 65,138
Advance government grants receipts	-	13,551
Others	4,853	4,972
	<u>\$ 61,121</u>	<u>\$ 83,661</u>

(15) Provisions

	2019		
	Royalty	Cost of software bug-fixing	Total
At January 1	\$ 492,623	\$ 5,508	\$ 498,131
Additional provisions	23,348	-	23,348
Unused amounts reversed	- (415) (415)
Exchange differences	(12,846)	- (12,846)
At December 31	<u>\$ 503,125</u>	<u>\$ 5,093</u>	<u>\$ 508,218</u>

	2018		
	Royalty	Cost of software bug-fixing	Total
At January 1	\$ 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	<u>\$ 492,623</u>	<u>\$ 5,508</u>	<u>\$ 498,131</u>

Analysis of total provisions:

	December 31, 2019	December 31, 2018
Non-current	\$ 508,218	\$ 498,131

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.

(16) 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:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	(\$ 95,623)	(\$ 85,312)
Fair value of plan assets	30,911	28,668
Net defined benefit liability	(\$ 64,712)	(\$ 56,644)

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

	2019		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	(\$ 85,312)	\$ 28,668	(\$ 56,644)
Interest (expense) income	(850)	288	(562)
	(86,162)	28,956	(57,206)
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	995	995
Change in demographic assumptions	(1,156)	-	(1,156)
Change in financial assumptions	(2,893)	-	(2,893)
Experience adjustments	(5,412)	-	(5,412)
	(9,461)	995	(8,466)
Pension fund contribution	-	960	960
Balance at December 31	(\$ 95,623)	\$ 30,911	(\$ 64,712)

	2018		
	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at January 1	(\$ 74,897)	\$ 26,564	(\$ 48,333)
Interest (expense) income	(934)	336	(598)
	(75,831)	26,900	(48,931)
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)
	(9,481)	728	(8,753)
Pension fund contribution	-	1,040	1,040
Balance at December 31	(\$ 85,312)	\$ 28,668	(\$ 56,644)

(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, 2019 and 2018 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, 2019	Year ended December 31, 2018
Discount rate	0.75%	1.00%
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	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%
December 31, 2019				
Effect on present value of defined benefit obligation	(\$ 2,939)	\$ 3,067	\$ 2,991	(\$ 2,883)
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 2,751)	\$ 2,877	\$ 2,820	(\$ 2,712)

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, 2020 amounts to \$960.

(g) As of December 31, 2019, the weighted average duration of the retirement plan is 12 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	738
1-2 year(s)		2,196
3-5 years		22,439
Over 5 years		79,854
	\$	<u>105,227</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, 2019 and 2018 were \$18,843 and \$17,679, respectively.

(c) The pension costs under local pension regulations of the foreign subsidiaries for the years ended December 31, 2019 and 2018 were \$3,489 and \$4,789, respectively.

(17) Share-based payment

A. As of December 31, 2019 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:

	2019		2018	
	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	4,228	\$ 48.40	5,152	\$ 49.21
Options exercised	(1,061)	47.14	(800)	47.14
Options forfeited	(9)	48.40	(68)	49.60
Options expired	-	-	(56)	45.70
Options outstanding at December 31	<u>3,158</u>	46.60	<u>4,228</u>	48.40
Options exercisable at December 31	<u>3,158</u>		<u>3,085</u>	

- C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2019 and 2018 was \$46.6 and \$48.40(in dollars), respectively.
- D. As of December 31, 2019 and 2018, the range of exercise prices of stock options outstanding was \$46.60 and \$48.40 (in dollars), respectively; the weighted-average remaining contractual period was 2.65 years and 3.65 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, 2019	Year ended December 31, 2018
Equity settled	\$ 2,399	\$ 6,904

(18) Share capital

- A. As of December 31, 2019, 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 \$845,992 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:

	2019	2018
At January 1	84,932	87,131
Employee stock options exercised	1,061	800
Shares retired	(1,394)	(2,999)
At December 31	84,599	84,932

B. Treasury shares

- (a) Reason for share buy-back 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

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.
- (e) For the period from November 7, 2018 to January 6, 2019, the Company completed the purchase of treasury shares as of January 6, 2019. The purchased treasury shares amounted to 1,394 thousand with a consideration totaling \$95,531. The capital reduction is effective on March 5, 2019 and the registration of retirement of shares has been completed on March 25, 2019.
- (f) For the year ended December 31, 2018, the purchased shares totaled 2,999 thousand and the registration of retirement of shares has been completed on April 12, 2018.

(19) 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.

2019					
	Expired employee stock				
	Share premium	Employee stock options	options in proportion to the Group's ownership	Net change in equity of associates	Total
At January 1	\$ 805,721	\$ 47,916	\$ 59,645	\$ 26,747	\$ 940,029
Employee stock options exercised	51,672	(12,258)	-	-	39,414
Share-based payment transactions	-	2,399	-	-	2,399
Recognition of change in equity of associates in proportion to the Group's ownership	-	-	-	3,938	3,938
Retirement of treasury shares	(81,591)	-	-	-	(81,591)
Recognition not in proportion to the Group's ownership	-	-	-	226,505	226,505
At December 31	<u>\$ 775,802</u>	<u>\$ 38,057</u>	<u>\$ 59,645</u>	<u>\$ 257,190</u>	<u>\$ 1,130,694</u>
2018					
	Expired employee stock				
	Share premium	Employee stock options	options in proportion to the Group's ownership	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 stock options in proportion to the Group's ownership	-	(3,079)	3,079	-	-
Recognition of change in equity of associates in proportion to the Group's ownership	-	-	-	4,080	4,080
Retirement of treasury shares	(167,752)	-	-	-	(167,752)
Recognition not in proportion to the Group's ownership	-	-	-	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>

(20) 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 25, 2019 and June 19, 2018, the appropriation of 2018 and 2017 earnings had been resolved at the stockholders' meeting as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 32,883		\$ 24,156	
Special reserve	15,927		72,904	
Cash dividends	250,756	\$3.00	143,370	\$1.70
	<u>\$ 299,566</u>		<u>\$ 240,430</u>	

(21) Other equity items

	2019		
	Unrealized gains (losses) on valuation	Currency translation	Total
At January 1	(\$ 11,517)	(\$ 77,314)	(\$ 88,831)
Revaluation			
–Group	(519)	-	(519)
Currency translation			
–Group	-	(28,812)	(28,812)
–Associates	-	(11,078)	(11,078)
At December 31	<u>(\$ 12,036)</u>	<u>(\$ 117,204)</u>	<u>(\$ 129,240)</u>

	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>

(22) Operating revenue

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue from contracts with customers	<u>\$ 1,454,646</u>	<u>\$ 1,589,532</u>

A. Disaggregation of revenue from contracts with customers

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

	Taiwan		America		Japan		Other region		
	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	
Year ended	Entertainment		Entertainment		Entertainment		Entertainment		Total
December 31, 2019									
Revenue from external customer contracts	\$ 8,029	\$ 49,454	\$ 257,902	\$ 407,096	\$ 251,513	\$ 287,385	\$ 70,584	\$ 122,683	\$ 1,454,646
Timing of revenue recognition									
At a point in time	\$ 7,889	\$ 37,373	\$ 256,885	\$ 370,800	\$ 250,118	\$ 274,289	\$ 70,053	\$ 111,435	\$ 1,378,842
Over time	140	12,081	1,017	36,296	1,395	13,096	531	11,248	75,804
	\$ 8,029	\$ 49,454	\$ 257,902	\$ 407,096	\$ 251,513	\$ 287,385	\$ 70,584	\$ 122,683	\$ 1,454,646
	Taiwan		America		Japan		Other region		
	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	Media Experience and	Media Creation and Others	
Year ended	Entertainment		Entertainment		Entertainment		Entertainment		Total
December 31, 2018									
Revenue from external customer contracts	\$ 10,670	\$ 50,921	\$ 263,958	\$ 471,618	\$ 225,837	\$ 276,421	\$ 89,094	\$ 201,013	\$ 1,589,532
Timing of revenue recognition									
At a point in time	\$ 10,670	\$ 50,921	\$ 263,958	\$ 471,618	\$ 225,837	\$ 276,421	\$ 89,095	\$ 201,012	\$ 1,589,532

B. Contract liabilities

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

	December 31, 2019	December 31, 2018	January 1, 2018
Contract liabilities:			
Advance sales receipts	\$ 61,708	\$ 19,847	\$ 44,566

(b) Revenue recognised that was included in the contract liability balance at the beginning of the year

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Advance sales receipts	\$ 19,841	\$ 43,134

(23) Other income

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income:		
Interest income from financial assets measured at amortised cost	\$ 48,170	\$ 42,885
Bank deposits	8,924	2,721
	57,094	45,606
Rental income	78,768	67,385
Grant income	21,269	12,119
Dividend income	12,935	2,514
Service revenue (Note)	11,206	-
Overdue accounts payable transferred to revenue	22	8,335
Litigation settlement income	-	4,690
Income from reversal of bad debts	-	548
Others	100	388
	<u>\$ 181,394</u>	<u>\$ 141,585</u>

Note : Please refer to Note 7(2)A.

(24) Other gains and losses

	Year ended December 31, 2019	Year ended December 31, 2018
Gain on disposal of non-current assets classified as held for sale	\$ 95,502	\$ -
Currency exchange (losses) gains	(17,537)	35,661
Net losses on financial assets at fair value through profit or loss	(3,436)	(14,782)
Loss on scrapping of property, plant and equipment	(29)	(32)
Others	(29,186)	(14,895)
	<u>\$ 45,314</u>	<u>\$ 5,952</u>

(25) Finance costs

	Year ended December 31, 2019	Year ended December 31, 2018
Interest expense - lease liabilities	<u>\$ 122</u>	<u>\$ -</u>

(26) Costs and expenses by nature

	Year ended December 31, 2019	Year ended December 31, 2018
Cost of goods sold	\$ 10,860	\$ 13,401
Employee benefit expenses	635,143	609,945
Royalty cost	167,395	160,255
Promotional fees	135,759	133,218
Product selling fees	82,727	81,722
Professional service fees	59,842	62,398
Depreciation of property, plant and equipment	11,811	12,978
Depreciation of right-of-use assets	6,291	-
Others	86,241	95,771
Total cost of sales and operating expenses	<u>\$ 1,196,069</u>	<u>\$ 1,169,688</u>

(27) Employee benefit expenses

	Year ended December 31, 2019	Year ended December 31, 2018
Wages and salaries	\$ 543,442	\$ 519,080
Labor and health insurance fees	50,308	44,770
Pension costs	22,894	23,066
Employee stock options	2,399	6,904
Directors' remuneration	3,575	3,729
Other personnel expenses	12,525	12,396
	<u>\$ 635,143</u>	<u>\$ 609,945</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, 2019 and 2018, employees' compensation and directors' and supervisors' remuneration were accrued as follows. The aforementioned amounts were recognized in salary expenses:

	Year ended December 31, 2019	Year ended December 31, 2018
Employees' compensation	\$ 20,690	\$ 23,752
Directors' and supervisors' remuneration	5,129	4,439
	<u>\$ 25,819</u>	<u>\$ 28,191</u>

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 4.58% and 1.13% of distributable profit of current year as of the end of reporting period.

For 2018, the employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors amounted to \$23,752 and \$4,439, respectively. The difference of \$0 and \$534 between the amounts resolved by the Board of Directors and the amounts recognized in the 2018 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 2019. 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.

(28) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax:		
Current tax expense recognized for the current period	\$ 96,647	\$ 103,096
Prior year income tax (over) underestimation	(5,939)	9,755
Tax on undistributed surplus earnings	2,980	-
Total current tax	<u>93,688</u>	<u>112,851</u>
Deferred tax:		
Origination and reversal of temporary differences	1,958	4,277
Impact of change in tax rate	-	(2,191)
Total deferred tax	<u>1,958</u>	<u>2,086</u>
Income tax expense recognized in profit or loss	<u>\$ 95,646</u>	<u>\$ 114,937</u>

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

	Year ended December 31, 2019	Year ended December 31, 2018
Remeasurement of defined benefit obligations	\$ 1,693	\$ 1,751
Impact of change in tax rate	-	1,218
	<u>\$ 1,693</u>	<u>\$ 2,969</u>

B. Reconciliation between income tax expense and accounting profit:

	Year ended December 31, 2019	Year ended December 31, 2018
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 130,309	\$ 94,026
Effects from items disallowed by tax regulation	(20,595)	40,376
Effects from non-deductible offshore income tax	5,148	-
Tax exempt income by tax regulation	689	(3)
Tax on undistributed surplus earnings	2,980	-
Effect from investment tax credits	(16,946)	(27,026)
Prior year income tax (over) underestimation	(5,939)	9,755
Effect from changes in tax regulation	-	(2,191)
Income tax expense	<u>\$ 95,646</u>	<u>\$ 114,937</u>

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

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

	Year ended December 31, 2019			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
— Deferred tax assets:				
Unrealized profit on intercompany sales	\$ 5,639	\$ 220	\$ -	\$ 5,859
Unrealized profit on allowance for sales	24,676	(3,681)	-	20,995
Unrealized exchange losses	1,712	1,002	-	2,714
Unrealized loss on decline in market value	490	29	-	519
Unused compensated absences	3,226	290	-	3,516
Cost of software bug-fixing	1,102	(83)	-	1,019
Actuarial gains and losses on pensions	9,877	-	1,693	11,570
Book-tax difference on IFRS 16	-	1	-	1
Subtotal	<u>46,722</u>	<u>(2,222)</u>	<u>1,693</u>	<u>46,193</u>
— Deferred tax liabilities:				
Differences of depreciation	(1,011)	264	-	(747)
Total	<u>\$ 45,711</u>	<u>(\$ 1,958)</u>	<u>\$ 1,693</u>	<u>\$ 45,446</u>

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	6,908	-	2,969	9,877
Subtotal	46,567	(2,814)	2,969	46,722
— Deferred tax liabilities:				
Differences of depreciation	(1,256)	245	-	(1,011)
Unrealized exchange gains	(483)	483	-	-
Subtotal	(1,739)	728	-	(1,011)
Total	\$ 44,828	(\$ 2,086)	\$ 2,969	\$ 45,711

- D. The Company's income tax returns through 2017 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.

(29) Earnings per share

Year ended December 31, 2019			
	<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	\$ 379,945	83,916	\$ 4.53
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 379,945	83,916	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	1,722	
Employees' compensation	-	230	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 379,945	85,868	\$ 4.42
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

(30) Operating leases

Prior to 2019

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 was for the year ended December 31, 2018. The future aggregate minimum lease payments receivable under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>
Not later than one year	\$ 68,700
Later than one year but not later than five years	95,509
Later than five years	3,404
	<u>\$ 167,613</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 for the year ended December 31, 2018. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

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

(31) Supplemental cash flow information

A. Investing activities with no cash flow effects:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Property, plant and equipment transferred to investment properties	<u>\$ 15,542</u>	<u>\$ 114,972</u>
Non-hedging derivatives - stock options being transferred to investments account for using the equity method	<u>\$ -</u>	<u>\$ 1,876</u>

B. Financing activities with no cash flow effects:

	Year ended December 31, 2019	Year ended December 31, 2018
Retirement of treasury shares	\$ 95,531	\$ 197,742

(32) Changes in liabilities from financing activities

	2019		
	Guarantee deposits received	Lease liabilities (including current portion)	Liabilities from financing activities-gross
At January 1	\$ 18,841	\$ 8,071	\$ 26,912
Changes in cash flow from financing activities	(459)	(6,266)	(6,725)
Impact of changes in foreign exchange rate	(79)	94	15
Changes in other non-cash items	-	8,663	8,663
At December 31	\$ 18,303	\$ 10,562	\$ 28,865
	2018		
	Guarantee deposits received	Liabilities from financing activities-gross	
At January 1	\$ 10,328	\$ 10,328	
Changes in cash flow from financing activities	8,489	8,489	
Impact of changes in foreign exchange rate	24	24	
At December 31	\$ 18,841	\$ 18,841	

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 Corp.(USA)	"

(2) Significant related party transactions and balances

A. Other receivables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Service revenue:		
Perfect Mobile Corp. (Taiwan)	\$ 1,980	\$ -
Associates	806	-
	<u>2,786</u>	<u>-</u>
Rent income:		
Associates	539	539
Payment on behalf of others		
Perfect Mobile Corp. (Taiwan)	2,495	3,155
Associates	29	715
	<u>2,524</u>	<u>3,870</u>
	<u>\$ 5,849</u>	<u>\$ 4,409</u>

The Group provided legal, management and technical related services to associates for the year ended December 31, 2019. Expenses were charged in accordance with the personnel costs related to the services that the Group provided. Service revenue for the year ended December 31, 2019 is as follows:

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Service revenue:		
Perfect Mobile Corp. (Taiwan)	\$ 8,280	\$ -
Perfect Corp. (Japan)	2,563	-
Associates	363	-
	<u>\$ 11,206</u>	<u>\$ -</u>

B. Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Payment on behalf of others		
Associates	\$ 3,436	\$ 1,045

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

C. Other income (rental income)

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
Associates	\$ 6,169	\$ 6,169

The Company leases various assets including offices in 14F of the corporate office building in Xindian District, New Taipei City. Rental contracts are typically made for periods of 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and

conditions. To protect the lessor's ownership rights on the leased assets, leased assets may neither be used as security for borrowing purposes nor, in all or in part, be lent to others or corporates through sublease, sharing, transfer or any other forms.

The maturity analysis of the lease payments receivable under the operating leases is as follows:

	December 31, 2019	December 31, 2018
2019	\$ -	\$ 2,566
2020	6,158	-
2021	2,566	-
	<u>\$ 8,724</u>	<u>\$ 2,566</u>

D. Acquisition of financial assets

Please refer to Note 6(6).

(3) Key management compensation

	Year ended December 31, 2019	Year ended December 31, 2018
Short-term employee benefits	\$ 60,034	\$ 46,346
Post-employment benefits	740	490
Other long-term benefits	33	41
	<u>\$ 60,807</u>	<u>\$ 46,877</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2019	December 31, 2018	
Time deposits (recognized as current financial assets at amortized cost)	<u>\$ 34,874</u>	<u>\$ 35,032</u>	Guarantee in the form of bank guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Except for those mentioned in Notes 6(8), 6(9) and 7, the other significant commitments are detailed below.

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 \$34,874.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

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

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets at fair value through profit or loss		
Non-current financial assets mandatorily measured at fair value through profit or loss	<u>\$ 233,172</u>	<u>\$ 184,143</u>
Financial assets at fair value through other comprehensive income		
Designation of equity instrument	<u>\$ 507</u>	<u>\$ 1,032</u>
Financial assets at amortized cost		
Cash and cash equivalents	\$ 1,299,322	\$ 797,699
Current financial assets at amortized cost	1,549,724	1,987,042
Accounts receivable	107,358	122,148
Other receivables (including related parties)	9,054	8,837
Guarantee deposits paid	7,877	6,381
	<u>\$ 2,973,335</u>	<u>\$ 2,922,107</u>

	December 31, 2019	December 31, 2018
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Accounts payable	\$ 107,519	\$ 150,034
Other payables (including related parties)	462,617	489,966
Guarantee deposits received	18,303	18,841
Lease liabilities	\$ 588,439	\$ 658,841
	<u>\$ 10,562</u>	<u>\$ -</u>

B. Risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate 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, 2019					Year ended December 31, 2019		
					Sensitivity analysis		
	Foreign currency amount	Exchang rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
Currency	(in thousands)						
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	\$ 51,679	\$29.98	\$1,549,336	1%	\$ 15,493	\$ -	
EUR:NTD	2,069	33.59	69,498	1%	695	-	
GBP:NTD	855	39.36	33,653	1%	337	-	
USD:JPY	5,152	108.62	154,457	1%	1,545	-	
USD:EUR	609	0.89	18,258	1%	183	-	
<u>Non-monetary items</u>							
USD:NTD	16,633	29.98	498,642	1%	561	4,425	
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	1,817	29.98	54,474	1%	545	-	
USD:JPY	4,928	108.62	147,741	1%	1,477	-	
USD:EUR	74	0.89	2,219	1%	22	-	
December 31, 2018					Year ended December 31, 2018		
					Sensitivity analysis		
	Foreign currency amount	Exchang rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
Currency	(in thousands)						
<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	-	

- 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, 2019 and 2018 amounted to loss of \$17,537 and gain of \$35,661, respectively.

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 were no borrowing as of December 31, 2019 and 2018, and thus there was no interest rate risk arising from borrowings.

(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 90 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 customers' 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. The Group has not recognized loss allowance for accounts receivable provided from applying the simplified approach because the amount was both immaterial for the years ended December 31, 2019 and 2018.

(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, 2019 and 2018, the Group held money market position of \$2,526,171 and \$2,636,472, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2019	Within 1 year	Between 2 and 5 years	Over 5 years
Accounts payable	\$ 107,519	\$ -	\$ -
Other payables (including related parties)	462,617	-	-
Lease liabilities (Note)	5,387	5,375	-
Other financial liabilities	1,829	16,474	-

Non-derivative financial liabilities:

December 31, 2018	Within 1 year	Between 2 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

Note: The amount includes interest expected to be paid in the future.

(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 is 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 is included in Level 3.

B. Fair value information of investment property at cost is provided in Note 6(10).

C. The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other receivables (including related parties), financial assets at amortized cost, 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 30, 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ -	\$ -	\$ 56,120	\$ 56,120
Debt instruments	-	-	177,052	177,052
Financial assets at fair value through other comprehensive income				
Equity securities	-	-	507	507
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,679</u>	<u>\$ 233,679</u>
December 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>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>

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

- i. The fair value of 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.
- ii. 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.

- iii. 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, 2019 and 2018, there was no transfer into or out from Level 3.

F. The following chart is the movement of Level 3 for the years ended December 31, 2019 and 2018:

	2019		
	Equity securities	Debt instruments	Total
At January 1	\$ 59,295	\$ 125,880	\$ 185,175
Acquired in the year	-	91,284	91,284
Sold in the year	-	(37,391)	(37,391)
Gains and losses recognized in profit or loss			
Recorded as non-operating income and expenses	(2,143)	(1,293)	(3,436)
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	(519)	-	(519)
Effect of exchange rate changes	(6)	(1,428)	(1,434)
At December 31	<u>\$ 56,627</u>	<u>\$ 177,052</u>	<u>\$ 233,679</u>

	2018			
	Equity securities	Debt instruments	Non-hedging derivatives	Total
At January 1	\$ 51,572	\$ 112,821	\$ 1,852	\$ 166,245
Acquired in the year	-	35,209	-	35,209
Transferred in the year	-	-	(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	8	869	24	901
At December 31	<u>\$ 59,295</u>	<u>\$ 125,880</u>	<u>\$ -</u>	<u>\$ 185,175</u>

G. 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, 2019	Valuation technique	Significant unobservable input	Relationship of inputs to fair value
Non-derivative equity instrument:				
Unlisted stocks	\$ 56,627	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	\$ 177,052	Net asset value	Not applicable	Not applicable

	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

H. 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, 2019				
		Recognized in profit or loss		Recognized in other comprehensive income		
		Favourable change	Unfavourable change	Favourable change	Unfavourable change	
Financial assets	Input	Change				
Equity instrument	Discount for lack of marketability, discount for lack of control	±1%	\$ 561	(\$ 561)	\$ 5	(\$ 5)
Debt instrument	"	±1%	1,771	(1,771)	-	-
			<u>\$ 2,332</u>	<u>(\$ 2,332)</u>	<u>\$ 5</u>	<u>(\$ 5)</u>

			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>

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: Please refer to table 3.
- 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 4.
- 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 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 7.

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 4 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, 2019			
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 588,028	\$ 866,618	\$ 1,454,646
Segment Operating Income	\$ 99,422	\$ 159,155	\$ 258,577
Depreciation expense	\$ 6,960	\$ 11,142	\$ 18,102

Year ended December 31, 2018			
	Media Experience and Entertainment	Media Creation and Others	Total
Segment Revenue	\$ 589,559	\$ 999,973	\$ 1,589,532
Segment Operating Income	\$ 142,368	\$ 281,059	\$ 423,427
Depreciation expense	\$ 4,364	\$ 8,614	\$ 12,978

The adoption of IFRS 16, ‘Leases’, had the following impact on the segment information in 2019.

	Year ended December 31, 2019		
	Media Experience and Entertainment	Media Creation and Others	Total
Depreciation expense increased	\$ 2,419	\$ 3,872	\$ 6,291

(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, 2019 and 2018 is as follows:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Revenue	Non-current assets	Revenue	Non-current assets
America	\$ 664,998	\$ 464	\$ 735,576	\$ 115,638
Japan	538,898	166,396	502,258	166,643
Taiwan	57,483	1,578,545	61,591	1,584,998
Others	193,267	65	290,107	151
	<u>\$ 1,454,646</u>	<u>\$ 1,745,470</u>	<u>\$ 1,589,532</u>	<u>\$ 1,867,430</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, right-of-use assets 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, 2019 and 2018 is as follows:

	Year ended December 31, 2019	
	Revenue	Operating segment
Customer A	\$ 375,523	Media Experience and Entertainment, Media Creation and Others
Customer B	166,229	"
	<u>\$ 541,752</u>	
	Year ended December 31, 2018	
	Revenue	Operating segment
Customer A	\$ 574,758	Media Experience and Entertainment, Media Creation and Others
Customer B	148,247	"
	<u>\$ 723,005</u>	

CyberLink Corp. and Subsidiaries

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

December 31, 2019

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, 2019				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	-	\$ 56,120	16.67%	\$ 56,120	
CyberLink Corp.	Fuh Hwa New Intelligence Fund	None	Financial assets at fair value through profit or loss - non-current	3,000,000	28,020	1.90%	28,020	
CyberLink Corp.	Geothings Technology Co.,Ltd	None	Financial assets at fair value through other comprehensive income - non-current	100,000	507	4.47%	507	
CyberLink Corp.	SKYMIZER TAIWAN INC.	None	Financial assets at fair value through other comprehensive income - non-current	40,000	-	2.01%	-	
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	-	0.57%	-	
CyberLink International Technology Corp.	CCV Fund I LP	None	Financial assets at fair value through profit or loss - non-current	-	US 4,971 (in thousands of dollars)	5.37%	US 4,971 (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

Year ended December 31, 2019

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, 2019		Addition (Note 3)		Disposal (Note 3)			Balance as at December 31, 2019		
					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 Inc..	Investments accounted for using equity method	CyberLink International Technology Corp.	Subsidiaries	-	\$ -	1,900	\$ 249,008 (Note 5)	-	\$ -	\$ -	\$ -	1,900	\$ 249,008
CyberLink Corp. International Technology Corp.	Stock of CyberLink Inc..	Investments accounted for using equity method	CyberLink Corp.	The Company	1,900	227,389	-	-	1,900	235,714	260,474	(24,760) (Note 6)	-	-

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: Including gains on investments and adjustments in equity recognized under shareholding ratio of long-term equity investments.

Note 6: Shown as capital surplus.

CyberLink Corp. and Subsidiaries
Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more
Year ended December 31, 2019

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Real estate disposed by	Real estate	Transaction date or date of the event	Date of acquisition	Book value	Disposal amount	Status of collection of proceeds	Gain (loss) on disposal	Counterparty	Relationship with the seller	Reason for disposal	Basis or reference used in setting the price	Other commitments
CyberLink.Com Corp.	Land and buildings in 1073- 1087 S. Winchester Boulevard, San Jose, CA	2019.6.17	2014.11.11	\$ 114,686 (US \$ 3,710 thousand)	\$ 210,188 (US \$ 6,800 thousand)	Fully received	\$ 95,502	Third party - natural person	-	Activate assets	Appraisal report from Phillip Thrappas & Michael J. Webber	-

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate disposed of should be appraised pursuant to the regulations.

Note 2: 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 3: Date of the event referred to herein is the date of contract signing, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

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
Year ended December 31, 2019

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

		Transaction		Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)					
Purchaser/seller	Counterparty	Relationship with the 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	\$ 222,293	21%	Note	Same with third parties	Note	\$ 27,032	24%	-
CyberLink Corp.	CyberLink.Com Corp.	The Company's subsidiary	Sales	180,514	17%	Note	Same with third parties	Note	53,197	48%	-

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
Year ended December 31, 2019

Table 5

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	\$ 222,293	Note 4	15.3%
				Receivables	29,197	Note 4, 5	0.5%
0	CyberLink Corp.	CyberLink.Com Corp.	1	Sales revenue	180,514	Note 4	12.4%
				Receivables	56,028	Note 4, 5	1.0%
0	CyberLink Corp.	CyberLink Europe B.V.	1	Sales revenue	37,394	Note 4	2.6%

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
Year ended December 31, 2019

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

			Initial investment amount		Shares held as at December 31, 2019					Investment income (loss) recognized by the Company for the year ended December 31, 2019		Footnote
Investor	Investee (Notes 1 and 2)	Location	Main business activities	Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2019 (Note 2(2))	Net profit (loss) of the investee for the year ended December 31, 2019 (Note 2(3))		
CyberLink Corp.	CyberLink.Com Corp.	America	Sale of software	\$ 136,327	\$ 136,327	4,000,000	100%	\$ 532,184	\$ 76,316	\$ 76,316	Direct subsidiary	
CyberLink Corp.	CyberLink Europe B.V.	Netherlands	Sale of software	124,710	124,710	3,000,000	100%	19,183	(4,146)	(4,146)	Direct subsidiary	
CyberLink Corp.	CyberLink International Technology Corp.	B.V.I.	Investment activities	1,283,896	1,283,896	41,000,000	100%	805,654	3,358	3,358	Direct subsidiary	
CyberLink Corp.	CyberLink Inc.	Japan	Sale of software	235,714	-	1,900	100%	249,008	23,959	13,676	Direct subsidiary	
CyberLink International Technology Corp.	CyberLink Inc.	Japan	Sale of software	-	26,051 (USD 848 in thousands of dollars)	-	-	-	23,959	10,283	Direct subsidiary	
CyberLink International Technology Corp.	Perfect Corp.	Cayman	Investment activities	963,497 (USD 32,138 in thousands of dollars)	884,736 (USD 28,800 in thousands of dollars)	201,084,906	41.80%	442,522 (USD 14,761 in thousands of dollars)	(8,157) (USD 264 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, 2019' 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, 2019' 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, 2019' 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
Year ended December 31, 2019

Table 7

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, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee as of December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note 2(2)B)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Perfect (Shanghai) Co., Ltd.	Trading of computer peripheral and software	\$ 64,667 (USD 2,157 in thousands of dollars)	(2)	\$ 31,629 (USD 1,055 in thousands of dollars)	\$ -	\$ -	\$ 31,629 (USD 1,055 in thousands of dollars)	\$ 5,343	41.80%	\$ 2,452	\$ 12,627	\$ -	Note 4
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	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.	\$ 31,629 (USD 1,055 in thousands of dollars)	\$ 71,892 (USD 2,398 in thousands of dollars)	\$ 2,508,352										

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, 2019' 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.