

**SOFTSTAR ENTERTAINMENT INC.
PARENT COMPANY ONLY
FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

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The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

SOFTSTAR ENTERTAINMENT INC.

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English Translation of a Report Originally Issued in Chinese

Independent Auditor's Report

To SOFTSTAR ENTERTAINMENT INC.

Opinion

We have audited the accompanying parent company only balance sheets of SOFTSTAR ENTERTAINMENT INC. (the "Company") as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the parent company only financial statements, including the summary of significant accounting policies (together "the parent company only financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company and in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. 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 judgment, were of most significance in our audit of 2018 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon we do not provide a separate opinion on these matters.

Revenue Recognition – Royalties

The Company's royalties are revenue from licensing its solely developed intellectual property (IP) to others that grant use in game development, game operations and film content. As the circumstances and developed products of each license agreement vary, it is necessary to identify performance obligations and determine whether the licensing nature provides a customer with a right to access the Company's IP over time or with a right to use the Company's IP at a point in time. Also, it is important to consider the expected development period of the games, game operation cycles, industry practices and historical experiences to estimate the duration of revenue allocation and variable consideration estimation, and to regularly review the reasonableness of estimation assumptions. As the Company's revenue recognition of royalties is significant and requires management judgement, we therefore consider this as a key audit matter.

In response to the risk of material misstatement regarding recognition of royalties, our audit procedures included, but were not limited to:

1. Understanding the approach in which royalty revenue is recognized, evaluating and testing the internal controls regarding the recognition of royalties;
2. Obtaining the license agreements, identifying performance obligations, defining the transaction prices, and determining whether revenues are recognized over time or at a point in time;
3. Obtaining the details of recognition of royalties and confirming whether the performance obligations of the license agreement have been fulfilled; obtaining the details of royalty revenue allocation of games development and confirming the correctness of the development period and revenue allocation stated in the license agreements;
4. Review the reasonableness of the estimated allocation periods and the correctness of the calculation of royalty revenues allocation provided by the Company.

We also considered the appropriateness of the parent company only financial statements disclosure regarding royalty revenue and contract liabilities in Note 5 and 6.

Investments accounted for using the equity method - Loftstar Interactive Entertainment Inc.

The Company recognized NT\$32,909 thousand, which represents (37)% of the Company's total profit for the year ended December 31, 2018 in share of loss of associates and joint ventures accounted for using equity method from subsidiary LOFTSTAR INTERACTIVE ENTERTAINMENT INC.. The amount of the aforementioned is considered to be material to the Company's financial statements, therefore we consider LOFTSTAR INTERACTIVE ENTERTAINMENT INC.'s virtual items revenue as a key audit matter.

LOFTSTAR INTERACTIVE ENTERTAINMENT INC. has revenue, received from online gamers who purchase game points to recharge game credits and subsequently use the credits to buy virtual items. The purchase of game points and recharge of game credits are recorded in a computer server platform. The proceeds received by the LOFTSTAR INTERACTIVE ENTERTAINMENT INC. from the sales of game points are initially deferred and revenue is recognized in accordance with the estimated lifetimes of the virtual items after players recharge their game credits. Management states that the expected lifetimes of the virtual items are the life cycles of the gamers and estimates and calculates the amount of advance proceeds that should be deferred accordingly. Management periodically reviews the reasonableness of the estimate. As the revenue from virtual items of LOFTSTAR INTERACTIVE ENTERTAINMENT INC. is significant and the life cycles of the gamers requires management judgement, it is necessary to judge and determine the performance obligations and the estimation of the timing of satisfaction. Therefore, we consider this as a key audit matter.

In response to the risk of material misstatement regarding virtual items revenue recognition, our audit procedures included, but were not limited to:

1. Understanding the process of allocation and recognition of revenue regarding recharging game credits, and using credits to purchase virtual items;
2. Obtaining the game credit consumption data and revenue calculation sheets for each game, confirming the correctness of the calculations, obtaining the recharge records, the game credit consumption records, and the downloaded revenue reports for each platform, and vouching to the calculation sheets of LOFTSTAR INTERACTIVE ENTERTAINMENT INC.'s accounts.
3. Obtaining the estimation tables for the life cycles of the gamers to confirm the rationality of the allocation and recognition of revenue of virtual items.

We also considered the appropriateness of the parent company only financial statements disclosure regarding virtual items revenue and contract liabilities in Note 5 and 6.

Emphasis of Matter – Applying for New Accounting Standards

We draw attention to Note 3 of the financial statements, which describes the Company applied for the International Financial Reporting Standard 9, “Financial Instruments” and 15, “Revenue from Contracts with Customers” starting from January 1, 2018, and elected not to restate the financial statements for prior periods. Our conclusion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 auditing standards generally accepted in the Republic of China 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 parent company only financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only 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 internal control of the Company.
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 ability to continue as a going concern of the Company. 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 parent company only 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only 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 Company to express an opinion on the parent company only 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 2018 parent company only financial statements 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.

Yu, Chien-Ju
Yang, Chih-Huei

Ernst & Young, Taiwan
March 19, 2019

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

SOFTSTAR ENTERTAINMENT INC.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Item	Notes	For the Years Ended December 31,	
		2018	2017
Net sales	4, 5, 6 and 7	\$547,106	\$353,406
Cost of goods sold	7	(39,467)	(95,711)
Gross profit	4, 6 and 7	507,639	257,695
Operating expenses			
Sales and marketing expenses		(41,128)	(21,213)
General and administrative expenses		(56,852)	(60,181)
Research and development expenses		(201,128)	(108,376)
Expected credit losses		(9,881)	-
Subtotal		(308,989)	(189,770)
Operating income	6	198,650	67,925
Non-operating income and expenses			
Other income		3,644	1,639
Other gains and losses		(2,254)	(6,523)
Finance costs		(1,383)	(1,590)
Share of profit or loss of associates and joint ventures accounted for using equity method		(74,842)	(28,483)
Subtotal		(74,835)	(34,957)
Profit before income tax		123,815	32,968
Income tax expense	4	(35,992)	(14,724)
Net income		87,823	18,244
Other comprehensive loss	4 and 6		
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans		(2,585)	(772)
Unrealized gains or losses from financial assets at fair value through other comprehensive loss		(30,073)	-
Financial assets at fair value through other comprehensive income of associates and joint ventures accounted for using equity method		(58,016)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences resulting from translating the financial statements of foreign operations		(433)	(803)
Unrealized gains or losses from available-for-sale financial assets		-	(19,779)
Unrealized gains or losses from available-for-sale financial assets of associates and joint ventures accounted for using equity method		-	(3,698)
Total other comprehensive loss, net of tax		(91,107)	(25,052)
Total comprehensive loss		\$ (3,284)	\$ (6,808)
Earnings per share (NTD)	4 and 6		
Earnings per share-basic		\$1.84	\$0.38
Earnings per share-diluted		\$1.84	\$0.38

The accompanying notes are an integral part of the parent company only financial statements.

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese
SOFTSTAR ENTERTAINMENT INC.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

Description	Retained Earnings				Others Components of Equity						Total
	Common Stock	Additional Paid-in Capital	Legal Reserve	Special reserve	Unappropriated Earnings	Exchange Differences Resulting from Translating the Financial Statements of Foreign Operations	Unrealized Gains or Losses from Financial Assets at Fair Value Through Other Comprehensive Loss	Unrealized Gains or Losses from Available-for-Sale Financial Assets	Unearned stock-based Employee Compensation	Treasury Stock	
Balance as of January 1, 2017	\$481,936	\$186,125	\$101	\$-	\$(136,074)	\$(6,638)	\$-	\$1,251	\$(10,339)	\$-	\$516,362
Additional paid-in capital used to cover accumulated deficits	-	(136,074)	-	-	136,074	-	-	-	-	-	-
Net income in 2017	-	-	-	-	18,244	-	-	-	-	-	18,244
Other comprehensive loss in 2017	-	-	-	-	(772)	(803)	-	(23,477)	-	-	(25,052)
Total comprehensive income (loss)	-	-	-	-	17,472	(803)	-	(23,477)	-	-	(6,808)
Treasury stock acquired	-	-	-	-	-	-	-	-	-	(25,736)	(25,736)
Treasury stock retired	(3,220)	(22,516)	-	-	-	-	-	-	-	25,736	-
Share-based payment transactions	(403)	(2,361)	-	-	-	-	-	-	10,450	-	7,686
Balance as of December 31, 2017	\$478,313	\$25,174	\$101	\$-	\$17,472	\$(7,441)	\$-	\$(22,226)	\$111	\$-	\$491,504
Balance as of January 1, 2018	\$478,313	\$25,174	\$101	\$-	\$17,472	\$(7,441)	\$-	\$(22,226)	\$111	\$-	\$491,504
Effect of retrospective application and retrospective restatement	-	-	-	-	41,328	-	(61,448)	22,226	-	-	2,106
Balance as of January 1, 2018 after adjustments	478,313	25,174	101	-	58,800	(7,441)	(61,448)	-	111	-	493,610
Appropriation and distribution of 2017 retained earnings	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	1,824	-	(1,824)	-	-	-	-	-	-
Special reserve	-	-	-	15,648	(15,648)	-	-	-	-	-	-
Net income in 2018	-	-	-	-	87,823	-	-	-	-	-	87,823
Other comprehensive loss in 2018	-	-	-	-	(2,585)	(433)	(88,089)	-	-	-	(91,107)
Total comprehensive income (loss)	-	-	-	-	85,238	(433)	(88,089)	-	-	-	(3,284)
Changes in ownership interests in subsidiaries	-	(1,327)	-	-	-	-	-	-	-	-	(1,327)
Share-based payment transactions	(368)	155,350	-	-	-	-	-	-	(157,611)	-	(2,629)
Balance as of December 31, 2018	\$477,945	\$179,197	\$1,925	\$15,648	\$126,566	\$(7,874)	\$(149,537)	\$-	\$(157,500)	\$-	\$486,370

The accompanying notes are an integral part of the parent company only financial statements.

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese

SOFTSTAR ENTERTAINMENT INC.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

Description	For the Years Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income before tax	\$123,815	\$32,968
Adjustments for:		
Depreciation	4,732	4,401
Amortization	9,976	4,586
Bad debts expenses	-	172
Expected credit losses	9,881	-
Interest expense	1,383	1,590
Interest income	(407)	(220)
Dividend income	(1,131)	-
Share-based payments expense	(2,629)	7,686
Share of net loss of associates and joint ventures accounted for using equity method	74,842	28,483
Gain disposal of property, plant and equipment	(41)	(15)
Gain on disposal of investment	-	(11,199)
Impairment loss from financial assets	-	15,085
Changes in operating assets and liabilities:		
Contract assets	(91,143)	-
Notes receivable, net	-	31
Accounts receivable, net	(16,008)	(16,819)
Accounts receivable-related parties, net	8,669	5,674
Other receivables	(126)	31,957
Other receivables-related parties	(1,958)	(3,340)
Prepayment	(9,757)	(27,315)
Other financial assets	-	7,737
Contract liabilities	(70,323)	-
Notes payable	-	(1,000)
Accounts payable	12,581	4,417
Accounts payable-related parties	(160)	(1,108)
Other payables	8,824	(14,612)
Other payables-related parties	2,849	-
Other current liabilities	(619)	27,914
Net defined benefit liabilities	57	382
Cash provided by operations	<u>63,307</u>	<u>97,455</u>
Interest received	349	162
Dividend received	1,131	-
Interest paid	(1,369)	(1,549)
Income tax paid	(27,913)	(71)
Net cash provided by operating activities	<u>35,505</u>	<u>95,997</u>
Cash flows from investing activities:		
Financial assets at fair value through other comprehensive income financial assets capital reduction and return of stock	14,380	-
Acquisition of financial assets measured at cost	-	(23,699)
Acquisition of investments accounted for using equity method	(60,766)	(180,773)
Proceeds from disposal of investments accounted for using equity method	-	10,302
Equity method capital reduction and return of stock	-	60,251
Acquisition of property, plant and equipment	(2,537)	(1,827)
Proceeds from disposal of property, plant and equipment	246	34
Acquisition of intangible assets	(2,307)	(10,935)
Other financial assets	(43,869)	(16,750)
Net cash used in investing activities	<u>(94,853)</u>	<u>(163,397)</u>
Cash flows from financing activities:		
Increase in short-term borrowings	30,000	-
Acquisition of long-term borrowings	50,000	80,000
Repayment of long-term borrowings	(28,086)	(29,811)
Treasury stock transactions	-	(25,736)
Net cash provided by financing activities	<u>51,914</u>	<u>24,453</u>
Net decrease in cash and cash equivalents	(7,434)	(42,947)
Cash and cash equivalents at beginning of year	127,394	170,341
Cash and cash equivalents at end of year	<u>\$119,960</u>	<u>\$127,394</u>

The accompanying notes are an integral part of the parent company only financial statements.

English Translation of Parent Company Only Financial Statements Originally Issued in Chinese
SOFTSTAR ENTERTAINMENT INC.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

1. History and organization

Formerly known as Cyber Power Systems, Inc., SOFTSTAR ENTERTAINMENT INC. (“the Company”) was incorporated in August 1998 in the Republic of China and it changed its name to SOFTSTAR ENTERTAINMENT INC. the same year. The Company main lines of business include online games, game software, instructional software, and research, design and sales of computer peripherals. The Company listed its shares of stock on the Taipei Stock Exchange (TPEX) on August 8, 2001. The Company’s registered office and the main business location is at 23F, No. 200, Section 1, Keelung Road, Taipei, Republic of China (R.O.C.).

2. Date and procedures of authorization of financial statements for issue

The parent company only financial statements of the Company for the years ended December 31, 2018 and 2017 were authorized for issue by the Board of Directors on March 19, 2019.

3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

The impact on the Company’s balance sheet on January 1, 2018 from applying for the first time the update of International Financial Reporting Standards from 2017 edition to 2018 edition is summarized as follows:

	Adjustments related to			Note
	2017 edition of IFRS	edition update	2018 edition of IFRS	
Current assets:				
Contract assets	\$-	\$6,737	\$6,737	(1)
Accounts receivable, net	56,535	(568)	55,967	(1)
Prepayment	70,912	1,377	72,289	(1)

English Translation of Consolidated Financial Statements Originally Issued in Chinese
SOFTSTAR ENTERTAINMENT INC.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

	Adjustments related to		2018 edition of IFRS	Note
	2017 edition of IFRS	edition update		
Non-current assets:				
Available-for-sale financial assets	\$10,754	\$(10,754)	\$-	(2)
Financial assets measured at cost	186,703	(186,703)	-	(2)
Financial assets at fair value through other comprehensive income	-	197,457	197,457	(2)
Investments accounts for using the equity method	210,152	(21,073)	189,079	(1)
Contract assets	-	11,964	11,964	(1)
Current liabilities:				
Contract liabilities	-	8,732	8,732	(1)
Other payables	28,325	1,820	30,145	(1)
Other current liabilities	102,905	(25,644)	77,261	(1)
Current income tax liabilities	-	2,739	2,739	(1)
Non-current liabilities:				
Deferred tax liabilities	-	4,466	4,466	(1)
Equity:				
Retained earnings	17,573	45,546	63,119	(1) - (2)
Other components of equity	(29,556)	(39,222)	(68,778)	(2)

Assuming for the year ended December 31, 2018, the Company still adopted the International Financial Reporting Standards relating to the income standards of 2017 edition (including IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations), the impact on each of the Company's financial statements line items is summarized as follows:

	Assuming 2017 edition of IFRS income standards are		Difference	Note
	2018 edition of IFRS	applied		
December 31, 2018				
Balance Sheet:				
Current assets:				
Contract assets, current	\$37,640	\$-	\$(37,640)	(1)
Accounts receivable, net	69,067	51,271	(17,796)	(1)
Current income tax assets	1,313	1,363	50	(1)
Prepayment	73,156	72,963	(193)	(1)
Non-current assets:				
Contract assets, noncurrent	65,231	-	(65,231)	(1)

English Translation of Consolidated Financial Statements Originally Issued in Chinese
SOFTSTAR ENTERTAINMENT INC.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

	2018 edition of IFRS	Assuming 2017 edition of IFRS income standards are applied	Difference	Note
Current liabilities:				
Contract liabilities, current	\$13,975	\$-	\$(13,975)	(1)
Other payables	38,981	31,250	(7,731)	(1)
Other current liabilities	1,075	52,251	51,176	(1)
Current income tax liabilities	11,184	-	(11,184)	(1)
Equity:				
Retained earnings	144,139	5,043	(139,096)	(1)
For the Year Ended December 31, 2018				
Statement of Comprehensive Income:				
Net sales	547,106	407,821	(139,285)	(1)
Cost of goods sold	(39,467)	(39,467)	-	(1)
Gross profit	507,639	368,354	(139,285)	(1)
Operating expenses:				
Sales and marketing expenses	(41,128)	(32,320)	8,808	(1)
General and administrative expenses	(56,852)	(56,852)	-	(1)
Research and development expenses	(201,128)	(201,128)	-	(1)
Expected credit losses	(9,881)	-	9,881	(1)
Total operating expenses	(308,989)	(290,300)	18,689	(1)
Operating income	198,650	78,054	(120,596)	(1)
Non-operating income and expenses	(74,835)	(74,835)	-	(1)
Income tax expense	(35,992)	(26,680)	9,312	(1)
Net income	87,823	(23,461)	(111,284)	(1)
Earnings per share (NTD)				
Earnings per share-basic	\$1.84	\$(0.49)		(1)
Earnings per share-diluted	1.84	(0.49)		(1)
For the Year Ended December 31, 2018				
Statement of Cash Flows				
Cash flows from operating activities				
Contract assets	\$(84,170)	\$-	\$84,170	(1)
Accounts receivable, net	(13,100)	5,266	(8,366)	(1)
Prepayment	(9,757)	(10,941)	(1,184)	(1)
Contract liabilities	(70,323)	-	70,323	(1)
Other payables	8,822	7,778	(1,044)	(1)
Other current liabilities	(619)	(50,654)	(50,035)	(1)

Note:

- (1) The details regarding the application of *IFRS 15* “Revenue from Contracts with Customers” (including Amendments to *IFRS 15* “Clarifications to *IFRS 15* Revenue from Contracts with Customers”) are as follow:

IFRS 15 replaces *IAS 11 Construction Contracts*, *IAS 18 Revenue* and related Interpretations. In accordance with the transition provision in *IFRS 15*, the Company elected to recognize the cumulative effect of initially applying *IFRS 15* at the date of initial application (January 1, 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company’s principal revenue from contracts consists of royalty revenue and game operation revenue. Royalty revenue derives from licensing its solely developed intellectual property (IP) to others that grant use in game development, game operations and film content. The impacts arising from the adoption of *IFRS 15* on the Company are summarized as follows:

- (A) Please refer to Note 4 for the accounting policies before or after January 1, 2018.
- (B) Please refer to the table above for the impact on each of the Company's financial statements for the year ended December 31, 2018 line items compared with the requirements of *IAS 18*.
- (C) Revenue Recognition – Royalties

Before January 1, 2018, revenue recognition for royalties was recognized by straight-line method over the contract period or according to the acceptance progress. Starting from January 1, 2018, the Company recognized the aforementioned revenue in accordance with *IFRS 15*. The Company identifies performance obligations and determines whether the licensing nature provides a customer with a right to access the Company and its subsidiaries’ IP over time or with a right to use the Company and its subsidiaries’ IP at a point in time and recognizes revenue accordingly. However, for some contracts, if the Company has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets, which is different from the accounting treatment of recognizing trade receivables before the date of initial application. Besides, loss allowance for contract assets was assessed in accordance with *IFRS 9*. For some rendering of services contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the services subsequently. Before January 1, 2018, the Company recognized the consideration received in advance from customers under other current liabilities. Starting from January 1, 2018, in accordance with *IFRS 15*, it should be recognized as contract liabilities.

(D) Estimating variable consideration

Starting from January 1, 2018, implied by the Company's business practices, the Company determines that it expects to provide a price concession. This price concession will depend on the situation of the industry at the time and the customer. In accordance with IFRS 15, the expected value method is used to estimate variable consideration to predict the amount of the consideration that the Company will be entitled to. When the aforementioned method for estimating variable consideration is included in the transaction price, the scope is limited to the accumulated amount of the revenue recognized which is likely to not be significantly reversed in the subsequent period when the uncertainty associated with the contracts are eliminated. The aforementioned method for estimating variable consideration was not applied by the Company before January 1, 2018.

(E) Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS.

(2) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Company:

(A) The Company adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.

(B) In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications of financial assets and its carrying amounts as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through other comprehensive income		Fair value through other comprehensive income (Equity Instrument)	\$197,457
Available-for-sale financial assets (including \$186,703 measured at cost)	\$197,457		
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, current, refundable deposits, and other financial assets, noncurrent)	245,815
Loans and receivables (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, current, refundable deposits, and other financial assets, noncurrent)	245,815		
Total	<u>\$443,272</u>	Total	<u>\$443,272</u>

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(C) The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at January 1, 2018 are as follow:

IAS 39		IFRS 9		Difference	Retained	Other
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts		earnings	components
					Adjustment	Adjustment
						of equity
Available-for-sale financial assets	\$197,457	Measured at fair value through other	\$197,457	\$-	\$39,222	\$(39,222)
(including investments measured at cost, reported as a separate line item) (Note 1)		comprehensive income (equity instruments)				
Subtotal	<u>197,457</u>					
Loans and receivables (Note 2)						
Cash and cash equivalents	127,135	Cash and cash equivalents	127,135	-	-	-
Accounts receivable	80,904	Accounts receivable	80,904	-	-	-
Other receivables	9,353	Other receivables	9,353	-	-	-
Other financial assets, current	6,022	Other financial assets, current	6,022	-	-	-
Refundable deposits	5,651	Refundable deposits	5,651	-	-	-
Other financial assets, noncurrent	16,750	Other financial assets, noncurrent	16,750	-	-	-
Subtotal	<u>245,815</u>	Subtotal	<u>245,815</u>			
Total	<u>\$443,272</u>	Total	<u>\$443,272</u>		<u>\$39,222</u>	<u>\$(39,222)</u>

Notes:

(1) In accordance with of IAS 39, the Company's available-for-sale financial assets included investments in funds, stocks and bonds of listed companies and stocks of unlisted companies. Adjustment details are described as follow:

Stocks (including listed and unlisted companies)

The Company assessed the facts and circumstances existed as at January 1, 2018, and determined these stocks were not held-for-trading; therefore, the Company elected to designate them as financial assets measured at fair value through other comprehensive income. As at January 1, 2018, the Company reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of NT\$197,457 thousand. Other related adjustments are described as follow:

(A) The stocks of unlisted companies previously measured at cost in accordance with IAS 39 had an original cost NT\$186,703 thousand, NT\$39,222 thousand of which was fully impaired. However, in accordance with IFRS 9, stocks of unlisted companies must be measured at fair value and shall not recognize impairment. The fair value of the stocks of unlisted companies was NT\$186,703 thousand as at January 1, 2018. Accordingly, the Company adjusted the carrying amount of financial assets measured at fair value through other comprehensive income of NT\$186,703 thousand and also adjusted the retained earnings and other equity by NT\$39,222 thousand and NT\$39,222 thousand, respectively.

(B) As of January 1, 2018, the Company reclassified the stocks of listed companies of NT\$10,754 thousand measured at fair value from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income. This adjustment did not result any differences in the carrying amounts of assets, but reclassified within equity accounts.

(2) In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arised from the assessment of impairment losses for the aforementioned assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018.

(D) Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

(3) IFRIC 22 *“Foreign Currency Transactions and Advance Consideration”*

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 *“The Effects of Changes in Foreign Exchange Rates”*, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Company originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Company elected to apply this interpretation prospectively on January 1, 2018. This change in accounting principle did not significantly impact the Company's recognition and measurement.

(4) *Disclosure Initiative – Amendment to IAS 7 “Statement of Cash Flows”:*

The Company required to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Please refer to Note 12 for more details.

- (2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are endorsed by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
(A)	IFRS 16 “Leases”	January 1, 2019
(B)	IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
(C)	IAS 28 “Investment in Associates and Joint Ventures” – Amendments to IAS 28	January 1, 2019
(D)	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
(E)	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
(F)	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019

(A) *IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

(B) IFRIC 23 “*Uncertainty Over Income Tax Treatments*”

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

(C) IAS 28 “*Investment in Associates and Joint Ventures*” – *Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

(D) *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

(E) *Improvements to International Financial Reporting Standards (2015-2017 cycle):*

IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

(F) *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. Apart from item (a), the remaining standards and interpretations have no material impact on the Company:

IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Company are summarized as follows:

- (A) For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019 and; the Company chooses an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

The Company expects the right-of-use asset will increase by NT\$50,371 thousand and the lease liability will increase by NT\$50,371 thousand on January 1, 2019.

- (B) The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company’s financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
(A)	IFRS 10 “Parent company only financial statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
(B)	IFRS 17 “Insurance Contracts”	January 1, 2021
(C)	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
(D)	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

- (A) IFRS 10 “*Parent company only financial statements*” and IAS 28 “*Investments in Associates and Joint Ventures*” – *Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Parent company only financial statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

- (B) IFRS 17 “*Insurance Contracts*”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a Company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (a) estimates of future cash flows;
- (b) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (c) a risk adjustment for non-financial risk.

The carrying amount of a Company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(C) *Definition of a Business* (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(D) *Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company determined the potential impact of the standards and interpretations, it has no material impact on the Company.

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4. Summary of significant accounting policies

(1) Statement of compliance

The parent company only financial statements of the Company for the years ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(2) Basis of preparation

According to article 21 of the Regulations, the profit or loss and other comprehensive income presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports will be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis. Therefore, the investments in subsidiaries will be disclosed under "Investments accounted for using the equity method" in the parent company only financial report and change in value will be adjusted.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars ("NT\$") unless otherwise stated.

(3) Foreign currency transactions

The Company's parent company only financial statements are presented in NT\$, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- (A) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (B) Foreign currency items within the scope of IFRS 9 *Financial Instruments* (Before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.
- (C) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(5) Current and non-current distinction

An asset is classified as current when:

- (A) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
- (B) The Company holds the asset primarily for the purpose of trading.
- (C) The Company expects to realize the asset within twelve months after the reporting period.
- (D) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (A) The Company expects to settle the liability in its normal operating cycle.
- (B) The Company holds the liability primarily for the purpose of trading.
- (C) The liability is due to be settled within twelve months after the reporting period.
- (D) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. 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 and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within one month) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IAS 9 *Financial Instruments: Financial Instruments* (Before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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(A) Financial instruments: Recognition and Measurement

The accounting policy from January 1, 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (a) the Company's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - a. Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

The accounting policy before January 1, 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss. A financial asset is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a Company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

If financial assets do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets at fair value through profit or loss, or meet the definition of loans and receivables.

After initial measurement held-to-maturity financial assets are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

(B) Impairment of financial assets

The accounting policy from January 1, 2018 as follow:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before January 1, 2018 as follow:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (a) significant financial difficulty of the issuer or obligor; or
- (b) a breach of contract, such as a default or delinquency in interest or principal payments; or
- (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (d) the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(C) Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

(D) Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity.

Compound instruments

The Company evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Company assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*).

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IFRS 9 *Financial Instruments* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a Company of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before January 1, 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(E) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(8) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (A) In the principal market for the asset or liability, or
- (B) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(9) Investments accounted for using the equity method

According to Art. 21 of Regulation Governing the Preparation of Financial Reports by Securities Issuers, the Company's investments in its subsidiaries are presented as Investments accounted for using equity method with necessary adjustments so that the net income and other comprehensive income of individual financial report equal the net income and other comprehensive income attributed to the parent of consolidated financial report, and that the shareholder's equity of individual financial report equals the shareholder's equity attributed to the parent of consolidated financial report. Considering the accounting treatment for investment in subsidiaries specified in IFRS 10 "Consolidated Financial Reports", and the different accounting treatments for different level of investees, necessary adjustments are made by debiting or crediting "Investments accounted for using equity method", "Share of profit or loss of subsidiaries, associates and joint ventures accounted for using equity method", and "Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method".

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangements have rights to the net assets of the arrangement.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

When the associate or joint venture issues new stock, and the Company's interest in an associate is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional paid in capital and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement). If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

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Because goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss, furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

(10) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. 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 is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Machinery and equipment	3~5 years
Office equipment	1~5 years
Leasehold improvements	3~6 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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(11) Leases

Company as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(12) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Trademark and licences

Trademark and licences acquired separately are measured on initial recognition at cost. Trademark and licences are intangible assets with finite useful lives and are amortized over three to twenty years.

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Computer software

The cost of computer software is amortized on a straight-line basis over the estimated useful life (3 to 5 years).

A summary of the policies applied to the Company's intangible assets is as follows:

	<u>Trademark</u>	<u>Licences</u>	<u>Computer software</u>
Useful lives	Finite	Finite	Finite
Amortization method used	Amortized on a straight-line basis over the period of the trademark	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the estimated useful life
Internally generated or acquired	Acquired	Acquired	Acquired

(13) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

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A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (Company of units), then to the other assets of the unit (Company of units) pro rata on the basis of the carrying amount of each asset in the unit (Company of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(14) Treasury stocks

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

(15) Revenue recognition

The accounting policy from January 1, 2018 as follow:

The Company's revenue arising from contracts are primarily related to royalties. Licensing content includes licensing its solely developed intellectual property (IP) to others that grant use in game development, game operations and film content and online game operation services. The accounting policies are explained as follow:

Sale of goods

The Company manufactures and sells products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main products of the Company are game software and related peripherals and revenue is recognized based on the consideration stated in the contract.

The credit period of the Company's sale of goods is from 30 to 90 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as accounts receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

Rendering of services

(A) The Company provides services related to game licensing. The Company identifies performance obligations and determines whether the licensing nature provides a customer with a right to access the Company's IP over time or with a right to use the Company's IP at a point in time. Based on experience, the Company uses the expected value method to estimate variable consideration. The scope is limited to the accumulated amount of the revenue recognized which is likely to not be significantly reversed in the subsequent period, when the uncertainty associated with the contracts are eliminated. For some contracts, if the Company has the right to transfer the goods to customers but does not has a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. Besides, loss allowance for contract assets was assessed in accordance with IFRS 9. For some rendering of services contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the services subsequently and should be recognized as contract liabilities.

(B) The Company provides services related to online games. The Company main purpose of selling online game time points is to provide services, therefore sales amount from online game time points is recognized as a contract liabilities and revenue is recognized based on actual usage.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arised.

(C) The Company provides services related to the operation of online games. Players recharge their game credits and can use the credits to buy virtual items. The Company recognizes the proceeds received from the sales of game points as contract liabilities. Revenue is recognized in accordance with the estimated lifetimes of the virtual items after players recharge their game credits and subsequently use the credits to by virtual items.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arised.

Costs to fulfil a contract

The Company determines fulfillment costs should be capitalized if all the following criteria are met:

- (A) costs relate directly to a contract or to an anticipated contract the entity can specifically identify (e.g., costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract not yet approved);
- (B) costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future;
- (C) costs are expected to be recovered.

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The accounting policy after January 1, 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

The Company manufactures and sells game software related products. Revenue is the net fair value of the consideration received or receivable less value added tax, sales return, volume discount, and allowances for sales of goods to customers during normal business activities, and volume discount and allowance. Revenue is recognized when the products are delivered to the buyer, when the sales amount can be reliably measured, and when future economic benefits are likely to be recognized when they flow into the company. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the Company has neither continuing managerial involvement nor effective control over the goods sold have been retained and when the customer accepts the goods according to the contract, or when there is objective evidence that all acceptance terms have been met.

The Company provides volume discounts and returns for defective products. The Company recognizes a provision for sales returns and allowances based on past experience and other known factors for sales.

Rendering of services

- (A) The Company provides services related to licensing and recognizes revenue if all the following criteria are met:
- (a) The amount of the royalty is fixed or non-refundable;
 - (b) the contract cannot be cancelled;
 - (c) the authorized party is free to dispose of the relevant rights;
 - (d) the authorized party is not required to perform other obligations after the delivery of the rights.

If the license agreement does not meet the above conditions simultaneously, royalty income is recognized in a reasonable and systematic manner over the period of time.

(B) The Company provides services related to online games. The Company main purpose of selling online game time points is to provide services, therefore revenue from online game time points is initially deferred and recognized based on actual usage.

(C) The Company provides services related to the operation of online games. Players recharge their game credits and can use the credits to by virtual items. The Company recognizes the proceeds received from the sales of game points are initially deferred and revenue is recognized in accordance with the estimated lifetimes of the virtual items after players recharge their game credits and subsequently use the credits to by virtual items.

Interest income

For all financial assets measured at amortized cost (including loans and receivables and held-to-maturity financial assets) and available-for-sale financial assets, interest income is recorded using the effective interest rate method and recognized in profit or loss.

Dividends

Revenue is recognized when the Company's right to receive the payment is established.

(16) Borrowing Costs

Borrowing costs in line with the requirements which are directly attributable to the acquisition, construction or production of assets may be capitalized as part of the cost of the asset. All other borrowing costs are recognized as expenses incurred during the period. The borrowing costs include interest and other costs incurred in connection with the borrowing of funds.

(17) Post-employment benefits

All regular employees of the Company is entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company. Therefore fund assets are not included in the Company's parent company only financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (A) the date of the plan amendment or curtailment, and
- (B) the date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(18) Share-based payment transactions

The cost of equity-settled transactions between the Company is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(19) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- (A) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- (B) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- (A) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- (B) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant accounting judgements, estimates and assumptions

The preparation of the Company's parent company only financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Revenue recognition – royalties

Starting from January 1, 2018:

In accordance with IRFS 15, the Company identifies performance obligations and determine whether the licensing nature provides a customer with a right to access the Company's IP over time or with a right to use the Company's IP at a point in time and recognizes royalty revenue when performance obligations have been satisfied.

Before January 1, 2018:

The Company provides services related to licensing and recognizes revenue if all the following criteria are met:

- (A) The amount of the royalty is fixed or non-refundable;
- (B) the contract cannot be cancelled;
- (C) the authorized party is free to dispose of the relevant rights;
- (D) the authorized party is not required to perform other obligations after the delivery of the rights.

If the license agreement does not meet the above conditions simultaneously, royalty income is recognized in a reasonable and systematic manner over the period of time.

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(2) Estimating variable consideration

Starting from January 1, 2018:

Implied by the Company's business practices, the Company determines that it expects to provide a price concession. This price concession will depend on the situation of the industry at the time and the customer. The expected value method is used to estimate variable consideration to predict the amount of the consideration that the Company will be entitled to. When the aforementioned method for estimating variable consideration is included in the transaction price, the scope is limited to the accumulated amount of the revenue recognized which is likely to not be significantly reversed in the subsequent period elimination when the uncertainty associated with the contracts are eliminated. The aforementioned method for estimating variable consideration was not applied by the Company before January 1, 2018.

Before January 1, 2018:

The aforementioned method for estimating variable consideration was not applied by the Company before January 1, 2018.

(3) Accounts receivables—estimation of impairment loss

Starting from January 1, 2018:

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before January 1, 2018:

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

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6. Contents of significant accounts

(1) Cash and cash equivalents

	As of December 31,	
	2018	2017
Cash on hand & petty cash	\$265	\$259
Checking and saving accounts	119,695	127,135
Total	<u>\$119,960</u>	<u>\$127,394</u>

(2) Accounts receivable and Accounts receivable-related parties

	As of December 31,	
	2018	2017
Accounts receivable	\$69,777	\$57,245
Less: loss allowance	(710)	(710)
Subtotal	<u>69,067</u>	<u>56,535</u>
Accounts receivable from related parties	15,701	24,369
Less: loss allowance	-	-
Subtotal	<u>15,701</u>	<u>24,369</u>
Total	<u>\$84,768</u>	<u>\$80,904</u>

Accounts receivable were not pledged.

Accounts receivable are generally on 30-90 day terms. The Company adopted IFRS 9 for impairment assessment since January 1, 2018. Please refer to Note 6 for more details on impairment of trade receivables. The Company adopted IAS 39 for impairment assessment before January 1, 2018. The movements in the provision for impairment of accounts receivable and accounts receivable from related parties are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Individually impaired	Collectively impaired	Total
As of January 1, 2017	\$-	\$538	\$538
Charge (reversal) for the current period	-	172	172
As of December 31, 2017	<u>\$-</u>	<u>\$710</u>	<u>\$710</u>

There was no impairment loss arising from the individual assessment of accounts receivable for the year ended December 31, 2017.

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Aging analysis of accounts receivable and accounts receivable from related parties that are past due as of the end of the reporting period but not impaired is as follows:

As of	Neither past due nor impaired	Past due but not impaired				Total
		<=30 days	31-120 days	121-365 days	>=365 days	
December 31, 2017	\$62,746	\$5,089	\$3,707	\$9,362	\$-	\$80,904

(3) Prepayment

	As of December 31,	
	2018	2017
Prepaid outsourcing expense	\$70,903	\$55,412
Other prepayments	2,253	6,610
Total	<u>\$73,156</u>	<u>\$62,022</u>

(4) Financial assets at fair value through other comprehensive income, noncurrent

	As of December 31,	
	2018	2017 (Note 1)
Equity instrument investments measured at fair value through other comprehensive income, noncurrent:		
Emerging stock		
SNSPLUS, INC.	5,484	
Private companies stocks		
AUER MEDIA & ENTERTAINMENT CORP.	137,247	
TAIWAN SMART CARD CO.	5,480	
DOUBLE EDGE ENTERTAINMENT CORP. (Note 2)	4,793	
FUNFIA INC.	-	
Total	<u>\$153,004</u>	

Note 1: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate period periods in accordance with the transition provision in IFRS 9.

Note 2: On April 25, 2018 the board of directors of DOUBLE EDGE ENTERTAINMENT CORP. resolved a capital reduction through by cash. The Company recovered the return of NT\$14,380 thousand from capital reduction.

Financial assets at fair value through other comprehensive income were not pledged.

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(5) Available-for-sale financial assets

	As of December 31,	
	2018 (Note)	2017
Emerging stock		
SNSPLUS, INC.		\$29,282
Valuation adjustment		(18,528)
Total		\$10,754

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Available-for-sale financial assets were not pledged.

(6) Financial assets measured at cost

	As of December 31,	
	2018 (Note)	2017
Private companies stocks		
AUER MEDIA & ENTERTAINMENT CORP.		\$175,233
TAIWAN SMARTCARD CO.		25,519
DOUBLE EDGE ENTERTAINMENT CORP.		19,173
FUNFIA INC.		6,000
Subtotal		225,925
Less: loss allowance		(39,222)
Total		\$186,703

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Company adopted IAS 39 before January 1, 2018. The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable due to the fact that the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

Financial assets measured at cost were not pledged.

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(7) Investments accounted for using the equity method

The following table lists the investments accounted for using the equity method of the Company:

Investees	As of December 31,			
	2018		2017	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in subsidiaries:				
SOFTSTAR INTERNATIONAL INC.	\$59,935	100%	\$47,015	100%
Kobe Co., Ltd.	36,921	100%	95,001	100%
Gamebase Digital Media Corporation	3,056	86.67%	11,718	80%
WECOOL GAME CO., LTD.	1,829	100%	14,780	100%
Fairy Palm Inc.	66	51%	-	51%
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.				
Softstar Agency Co., Ltd.	-	100%	24,877	100%
Marsware Entertainment Inc.	-	100%	364	100%
Fantasy Castle Inc.	-	-	-	100%
Subtotal	<u>101,807</u>		<u>193,755</u>	
Investments in associates:				
Chia-e International Inc.	10,729	28.21%	13,353	28.21%
A.R.T. Games Co., Ltd.	5,799	49%	3,044	49%
Total	<u>\$118,335</u>		<u>\$210,152</u>	

Investments accounted for using the equity method presented under other noncurrent liabilities are as follows:

Investees	As of December 31,			
	2018		2017	
	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in subsidiaries:				
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.				
Marsware Entertainment Inc.	\$(8,032)	100%	\$-	100%
Softstar Agency Co., Ltd.	(3,005)	100%	(3,110)	100%
Fairy Palm Inc.	(512)	100%	-	100%
	-	51%	(1,110)	51%
Total	<u>\$(11,549)</u>		<u>\$(4,220)</u>	

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

- (A) On August 10, 2017, the Company's Board of Directors passed the disposal of Fantasy Castle Inc. 34% shares, losing control of the company. The transaction was completed on August 31, 2017. The disposal price was NT\$10,302 thousand, and the disposal gain was NT\$11,199 thousand and was recognized under other gains and losses of the consolidated income statement.
- (B) During the third quarter of the 2017, the Company invested in Fairy Palm Inc in the amount of NT\$200 thousand, totaling 20,000 shares, with a shareholding ratio of 100%. The company is mainly engaged in software publishing and information software services.
- (C) During the fourth quarter of 2017, the Company invested in Gamebase Digital Media Corporation in the amount of NT\$15,000 thousand, totaling 1,600,000 shares, with a shareholding ratio of 80%. During the second quarter of 2018, the Company increased its capital by NT\$10,000 thousand, increasing its shareholding ratio to 86.67%. The company is mainly engaged in game media advertising, game intermodal transport and game virtual point card sales and other related businesses.
- (D) The subsidiaries are recognized under "Investment accounted for using the equity method" in the individual financial reports, and the necessary evaluation adjustments are made.
- (E) No investments accounted for using the equity method were pledged.
- (F) Investment in associates

In March 2017, the Company subscribed for the capital increase of 242,000 shares of Chia-e International Inc., totaling approximately NT\$12,221 thousand, recognized as financial assets measured at cost and purchased 154,040 shares for approximately NT\$7,779 thousand in June 2017. In June 2017, Chia-e International Inc. converted additional paid-in capital to common stock, resulting in an increase of 417,658 shares. The total investment of the aforementioned in Chia-e International Inc. is 813,698 shares, totaling approximately NT\$20,000 thousand, with a shareholding ratio of 28.21%, and is recognized as investments accounted for using the equity method.

The Company subscribed for the capital increase in May 2017 of 245,000 shares of A.R.T. Games Co., Ltd., totaling NT\$2,450 thousand and 490,000 shares, totaling NT\$4,900, with a shareholding ratio of 49%, respectively.

In June 2018 and November 2018, the Company subscribed for the capital increase of 490,000 shares of A.R.T. Games Co., Ltd., totaling approximately NT\$4,900 thousand, with a shareholding ratio of 49%.

The Company's investments in Chia-e International Inc. and A.R.T. Games Co., Ltd. are not individually material. The aggregate carrying amount of the Company's interests in Chia-e International Inc. and A.R.T. Games Co., Ltd. is NT\$16,528 thousand and NT\$16,397 thousand, as of December 31, 2018 and 2017, respectively. The aggregate financial information of the Company's investments in Chia-e International Inc. and A.R.T. Games Co., Ltd. is as follows:

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	For the years ended December, 31	
	2018	2017
Profit or loss from continuing operations	\$(7,218)	\$(8,503)
Other comprehensive income (post-tax)	-	-
Total comprehensive loss	\$(7,218)	\$(8,503)

The associates had no contingent liabilities or capital commitments as at December 31, 2018 and 2017. No investments accounted for using the equity method were pledged.

(8) Property, plant and equipment

	Machinery and equipment	Office equipment	Leasehold improvements	Total
Cost:				
As of January 1, 2018	\$8,451	\$7,170	\$13,778	\$29,399
Additions	1,610	927	-	2,537
Disposals	-	(1,099)	-	(1,099)
Transfers	(524)	524	-	-
As of December 31, 2018	\$9,537	\$7,522	\$13,778	\$30,837
As of January 1, 2017	\$8,268	\$6,239	\$13,569	\$28,076
Additions	695	923	209	1,827
Disposals	-	(504)	-	(504)
Transfers	(512)	512	-	-
As of December 31, 2017	\$8,451	\$7,170	\$13,778	\$29,399
Depreciation and impairment:				
As of January 1, 2018	\$4,407	\$3,853	\$4,468	\$12,728
Additions	1,628	1,124	1,980	4,732
Disposals	-	(894)	-	(894)
Transfers	(631)	631	-	-
As of December 31, 2018	\$5,404	\$4,714	\$6,448	\$16,566
As of January 1, 2017	\$3,786	\$2,517	\$2,509	\$8,812
Additions	1,372	1,070	1,959	4,401
Disposals	-	(485)	-	(485)
Transfers	(751)	751	-	-
As of December 31, 2017	\$4,407	\$3,853	\$4,468	\$12,728
Net carrying amount as of:				
December 31, 2018	\$4,133	\$2,808	\$7,330	\$14,271
December 31, 2017	\$4,044	\$3,317	\$9,310	\$16,671

Property, plant and equipment were not pledged.

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(9) Intangible assets

	Trademarks	Computer software	Total
Cost:			
As of January 1, 2018	\$3,951	\$39,316	\$43,267
Addition-acquired separately	-	2,307	2,307
Deduction-derecognized	-	(10,116)	(10,116)
As of December 31, 2018	<u>\$3,951</u>	<u>\$31,507</u>	<u>\$35,458</u>
As of January 1, 2017	\$3,667	\$28,665	\$32,332
Addition-acquired separately	284	10,651	10,935
As of December 31, 2017	<u>\$3,951</u>	<u>\$39,316</u>	<u>\$43,267</u>
Amortization and impairment:			
As of January 1, 2018	\$2,305	\$26,991	\$29,296
Amortization	1,646	8,330	9,976
Deduction-derecognized	-	(10,116)	(10,116)
As of December 31, 2018	<u>\$3,951</u>	<u>\$25,205</u>	<u>\$29,156</u>
As of January 1, 2017	\$1,808	\$22,902	\$24,710
Amortization	497	4,089	4,586
As of December 31, 2017	<u>\$2,305</u>	<u>\$26,991</u>	<u>\$29,296</u>
Net carrying amount as of:			
December 31, 2018	<u>\$-</u>	<u>\$6,302</u>	<u>\$6,302</u>
December 31, 2017	<u>\$1,646</u>	<u>\$12,325</u>	<u>\$13,971</u>

Amortization expense of intangible assets under the statement of comprehensive income:

	For the years ended December, 31	
	2018	2017
Operating costs	\$-	\$-
Research and development expenses	\$2,244	\$1,150
General and administrative	\$7,732	\$3,436

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(10) Short-term borrowings

	Interest Rate (%)	As of December 31,	
		2018	2017
Unsecured bank loans	2.30%	\$30,000	\$-

The Company's did not have short-term lines of credits amounts as of December 31, 2018 and 2017, respectively.

(11) Other payables

	As of December 31,	
	2018	2017
Salary payable	\$24,250	\$22,057
Professional service fees payable	2,067	2,000
Insurance payable	1,628	1,609
Advertising payable	-	42
Other accrued expenses payable	11,036	2,617
Total	\$38,981	\$28,325

(12) Other current liabilities

	As of December 31,	
	2018	2017
Advance royalty (Note 1)	(Note 3)	\$101,210
Deferred revenue (Note 2)	(Note 3)	633
Other	\$1,075	1,062
Total	\$1,075	\$102,905

Note 1: Advance royalty is mainly from game licensing and revenue is allocated over a reasonable allocation period.

Note 2: Deferred revenue relates to virtual items and game point card revenue. Virtual items revenue is allocated in accordance with the expected lifetimes of the virtual items.

Note 3: The Company adopted IFRS 15 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 15.

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(13) Long-term borrowings

Details of long-term loans are as follows:

Lenders	As of December 31, 2018	Interest Rate (%)	Maturity date and terms of repayment
Hua Nan Bank credit loan	\$1,250	2.5%	Repayable monthly from February 20, 2017 to February 20, 2019. Interest paid monthly.
Taiwan Business Bank credit loan	13,000	2.2%	Repayable quarterly from March 16, 2017 to March 16, 2022. Interest paid monthly.
Chang Hwa Bank credit loan	10,000	2.26%	Repayable quarterly from April 13, 2017 to April 13, 2020. Interest paid monthly.
Taiwan Cooperative Bank credit loan	12,019	2.28%	Repayable monthly from May 25, 2017 to May 25, 2020. Interest paid monthly.
Taiwan Business Bank credit loan	28,333	2.2%	Repayable monthly from October 23, 2018 to October 23, 2021. Interest paid monthly.
Bank of Kaohsiung credit loan	20,000	2.2%	Repayable monthly from December 19, 2018 to December 19, 2021. Interest paid monthly.
Subtotal	<u>84,602</u>		
Less: current portion	<u>(36,881)</u>		
Total	<u>\$47,721</u>		

Lenders	As of December 31, 2017	Interest Rate (%)	Maturity date and terms of repayment
Hua Nan Bank credit loan	\$8,750	2.5%	Repayable monthly from February 20, 2017 to February 20, 2019. Interest paid monthly.
Taiwan Business Bank credit loan	17,000	2.2%	Repayable quarterly from March 16, 2017 to March 16, 2022. Interest paid monthly.
Chang Hwa Bank credit loan	16,666	2.26%	Repayable quarterly from April 13, 2017 to April 13, 2020. Interest paid monthly.
Taiwan Cooperative Bank credit loan	20,272	2.28%	Repayable monthly from May 25, 2017 to May 25, 2020. Interest paid monthly.
Subtotal	<u>62,688</u>		
Less: current portion	<u>(26,420)</u>		
Total	<u>\$36,268</u>		

Please refer to Note 8 for more details on pledged long-term borrowings.

(14) Post-employment benefits

Defined contribution plan

The Company and its domestic subsidiaries adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, and the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employee's monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2018 and 2017 are NT\$5,189 thousand and NT\$5,209 thousand, respectively.

Defined benefits plan

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor standards Act, The Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. At the end of each year, if the balance in the designated labor pension reserve funds is inadequate to cover the benefit estimated to be paid in the following year, the Company and its domestic subsidiaries will make up the difference in one appropriation before the end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$589 thousand to its defined benefit plan during the 12 months after December 31, 2018.

The average-weighted duration of the defined benefits plan obligation as at December 31, 2018 and 2017, are 13 years and 14 years.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

Pension costs recognized in profit or loss for the years ended December 31, 2018 and 2017:

	For the years ended December 31,	
	2018	2017
Current period service costs	\$361	\$644
Interest income or expense	223	261
Total	\$584	\$905

Reconciliation of present value of the pension obligation under defined benefit pension plans and fair value of the plan assets are as follows:

	As of		
	December 31, 2018	December 31, 2017	January 1, 2018
Present value of the pension obligation under defined benefit pension plans	\$38,906	\$36,312	\$45,381
Fair value of plan assets	(17,678)	(17,727)	(27,950)
Net defined benefit liabilities, noncurrent	\$21,228	\$18,585	\$17,431

Reconciliation of liability (asset) of the defined benefit plan are as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
As of January 1, 2017	\$45,381	\$(27,950)	\$17,431
Current period service costs	644	-	644
Net interest expense (income)	680	(419)	261
Subtotal	1,324	(419)	905
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	1,409	-	1,409
Experience adjustments	(748)	111	(637)
Subtotal	661	111	772
Payments from the plan	(11,054)	11,054	-
Contributions by employer	-	(523)	(523)
As of December 31, 2017	36,312	(17,727)	18,585
Current period service costs	361	-	361
Net interest expense (income)	436	(213)	223
Subtotal	797	(213)	584
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	957	-	957
Experience adjustments	2,366	(738)	1,628
Subtotal	3,323	(738)	2,585
Payments from the plan	(1,526)	1,526	-
Contributions by employer	-	(526)	(526)
As of December 31, 2018	\$38,906	\$(17,678)	\$21,228

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The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of December 31,	
	2018	2017
Discount rate	1.00%	1.20%
Expected rate of salary increases	2.00%	2.00%

A sensitivity analysis for significant assumption as of December 31, 2018 and 2017 is, as shown below:

	2018		2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.25%	\$-	\$(1,191)	\$-	\$(1,178)
Discount rate decrease by 0.25%	1,237	-	1,226	-
Future salary increase by 0.25%	1,124	-	1,121	-
Future salary decrease by 0.25%	-	(1,090)	-	(1,086)

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(15) Equities

(A) Common stock

The Company's authorized capital was NT\$1,000,000 thousand and issued capital was NT\$477,945 thousand and NT\$478,313 as at December 31, 2018 and 2017, respectively, each at a par value of NT\$10. Each share has one voting right and a right to receive dividends.

On April 30, 2015, the shareholders' meeting of the Company approved the issuance no more than 10,000 thousand shares of common stock through private placement issuance. The subscription price of the private placement common stock was NT\$84.61 per share, totaling 2,000 thousand shares. The private placement date was March 25, 2016. The capital increase by cash is for the purpose of enriching working capital and repaying bank loans. The Company received NT\$169,220 thousand through private placement issuance and has completed registration for change. Apart from the fact that private placement common stock are subject to the Securities and Exchange Act's restrictions of transfer and must reapply for public offering after three years for public transaction, the remaining rights and obligations are the same as other issued common stock.

On April 30, 2015, the shareholders' meeting of the Company resolved to issue 600 thousand shares of restricted employee stock and the grant price is 0. The rights and obligations of the issuance of ordinary shares are the same as those of other issued ordinary shares, except for the transfer rights in which employees must first reach the vested conditions. The new share issuance has been declared effective by the Financial Supervisory Commission on July 28, 2015.

On August 4, 2017, in order to maintain the Company's credit and shareholders' rights and interests, the Company's board of directors approved to repurchase the Company's common stock in the open market, and on November 10, 2017, in accordance with the Company Act, the Company cancelled 322 common shares of treasury stock, totaling NT\$25,736 thousand. The registration for change has been completed.

On June 29, 2018, the shareholders' meeting of the Company approved the issuance of common stock through private placement issuance. The total number of shares issued by private placement issuance is no more than 10 million shares, and the par value of each share is NT\$10. It is expected to be issued three times within one year from the Annual Meeting of Shareholders date of resolution.

On November 1, 2018, the provisional shareholders' meeting of the Company approved the issuance of an additional 1,500 thousand shares of restricted employee stock and the grant price is 0. The rights and obligations of the issuance of ordinary shares are the same as those of other issued ordinary shares, except for the transfer rights in which employees must first reach the vested conditions. The new share issuance has been declared effective by the Financial Supervisory Commission on November 21, 2018.

For the years ended December 31, 2018 and 2017, the Company redeemed and cancelled 37 thousand shares and 40 thousand shares of issued restricted stocks for employees, respectively, respectively.

(B) Capital surplus

	As of December	
	2018	2017
Additional Paid-in Capital	\$20,492	\$12,954
Increase (decrease) through changes in ownership interests in subsidiaries	1,205	2,532
Restricted employee stock	157,500	9,688
Total	\$179,197	\$25,174

According to the Company Act, the capital reserve shall not be used except for offset the deficit of the company. When a company incurs no loss, it may distribute the capital surplus generated from the excess of the issuance price over the pay value of capital and donations. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(C) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

- (a) Payment of all taxes and dues;
- (b) Offset prior years' operation losses;
- (c) Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
- (d) Set aside or reverse special reserve in accordance with law and regulations; and
- (e) The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The company's dividend distribution adopts conservatism principle, and stock dividend as priority. If there is a surplus, it will be distributed to shareholders as cash dividends, but the ratio of cash dividend distribution is not higher than 50% of the total dividend distribution.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

In accordance with Order No. Financial-Supervisory-Securities-Corporate-1010012865 and 「Applicable question and answer for the provision of special reserves after the adoption of International Financial Reporting Standards (IFRSs)」, the Company makes provisions and reverses special reserves.

The general shareholders' meeting approved the appropriation of profit or loss on June 22, 2017, reducing additional paid-in capital by NT\$136,074 thousand. After the compensation, retained earnings was amounted to NT\$0.

Details of the 2018 and 2017 earnings distribution and dividends per share as approved by the board of director's and shareholder's meeting on March 19, 2019 and June 29, 2018, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NTD)	
	2018	2017	2018	2017
Legal reserve	\$12,657	\$1,824	\$-	\$-
Special reserve	113,909	15,648	-	-

Please refer to Note 6(20) for details on employees' compensation and remuneration to directors and supervisors.

(16) Share-based payment plans

Certain employees of the Company are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

(A) The Company issued restricted employee stock in 2015. The share-based payment agreement is as follows:

Type of grant	Date of grant	Total numbers of options granted (unit)	Contract period	Vesting Conditions
Restricted employee stock plan (Note 1)	August 11, 2015	600,000	3 years	Achievement of performance conditions (Note 2)

Note 1: The restricted employee stock issued by the Company are not transferable during the period, but they do not restrict voting rights and included in the distribution of dividends. Employees who leave during the vested period are required to return the shares but the the dividends obtained is not required to return.

Note 2: Once employees are entitled to the restricted employee stock, if the individual performance is in line target performance set by the company, the cumulative maximum share vested is 40%, 30% and 30% through one to three years.

The following table contains further detail on the aforementioned share-based payment plan:

	For the years ended	
	December 31,	
	2018	2017
Number of restricted employee stock (in thousands)		
Outstanding at beginning of year	546	586
Granted	-	-
Expired	(37)	(40)
Outstanding at end of year	509	546

For the years ended December 31, 2018 and 2017, the Company redeemed and cancelled 37 thousand shares and 40 thousand shares of issued restricted stocks for employees, respectively without compensation in accordance with the issuance regulations. The capital reserve of NT\$2,150 thousand and NT\$2,361 thousand that arose was also reversed.

(B) The Company applied for an additional issuance of restricted employee stock in 2018 to be issued in 2019. The share-based payment agreement is as follows:

Type of grant	Date of grant	Total numbers of options granted (unit)	Contract period	Vesting Conditions
Restricted employee stock plan (Note 1)	December 5, 2018	1,500,000	28 months	Achievement of performance conditions (Note 2)

Note 1: The restricted employee stock issued by the Company are not transferable during the period, but they do not restrict voting rights and included in the distribution of dividends. Employees who leave during the vested period are required to return the shares without the need to return the dividends obtained.

Note 2: Once employees are entitled to the restricted employee stock, if the individual performance is in line target performance set by the company, the cumulative maximum share vested is 40%, 30% and 30% through one to three years.

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(C) The expenses recognized for employee services received for the years ended December 31, 2018 and 2017, are shown in the following table:

	For the years ended December 31,	
	2018	2017
Total expense arising from equity-settled share-based payment transactions	\$-	\$7,686

(17) Operating revenue

	For the years ended December 31,	
	2018 (Note)	2017
Revenue from contracts with customers		
Rendering of service revenue	\$547,106	\$353,406

Note: The Company has adopted IFRS 15 from January 1, 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application.

The Company has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

(A) Disaggregation of revenue

For the year ended December 31, 2018

Timing of revenue recognition:

At a point in time	\$190,546
Over time	356,560
Total	\$547,106

(B) Contract balances

Net contract assets (liabilities) are as follows:

	Ending balance	Beginning balance	Difference	%
Contract assets, current	\$37,640	\$6,737	\$30,903	459%
Contract assets, noncurrent	65,231	11,964	53,267	445%
Contract liabilities, current	(13,975)	(8,732)	(5,243)	60%
Net contract assets	\$88,896	\$9,969	\$78,927	

Net contract assets increased by NT\$78,927 thousand from December 31,2017 to December 31,2018 was mainly due to the recognition of contractual assets from film and television licensing.

(C) Transaction price allocated to unsatisfied performance obligations

The Company's transaction price allocated to unsatisfied performance obligations amounted to NT\$13,975 as at December 31, 2018. Management expects that the transaction price allocated to unsatisfied performance obligations will be recognized as revenue in 1 to 3 years.

(18) Expected credit losses/ (gains)

	For the years ended	
	December 31,	
	2018	2017 (Note)
Operating expenses -- Expected credit losses/(gains)		
Contract assets	\$6,973	Note
Accounts receivable	2,908	
Total	<u>\$9,881</u>	

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The credit risk for the Company's measured at amortized cost are assessed as low (the same as the assessment result in the beginning of the period). Therefore, the loss allowance is measured at an amount equal to 12-month expected credit losses (loss ratio of 0%).

The Company measures the loss allowance of its contract assets and trade receivables (including notes receivable and accounts receivable) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at December 31, 2018 is as follows:

(A) the gross carrying amount of contract asset is NT\$102,871 thousand, its loss allowance amounting to NT\$0 which is measured at expected credit loss ratio of 0%.

(B) the Company considers the Companying of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follow:

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	Not yet due (Note)	Overdue				Total
		<=30 days	31-120 days	121-365 days	>=365 days	
Gross carrying amount	\$79,428	\$252	\$2,431	\$3,367	\$-	\$85,478
Loss ratio	-%	1.19%	1.97%	19.57%	100%	
Lifetime expected credit losses	-	(3)	(48)	(659)	-	(710)
Total	\$79,428	\$249	\$2,383	\$2,708	\$-	\$84,768

Note: The Company's notes receivable are not overdue.

The movement in the provision for impairment of contract assets and accounts receivable during the December 31, 2018 is as follows:

	Contract Assets	Accounts Receivable
Beginning balance (in accordance with IAS 39)	\$-	\$710
Transition adjustment to retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	710
Addition/(reversal) for the current period	6,973	2,908
Write off	(6,973)	(2,908)
Ending balance	\$-	\$710

Please refer to Note 12 for further details on credit risk.

(19) Operating leases

The Company has entered into commercial leases on property and equipment such as offices. These leases have an average life of one to five years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as of December 31, 2018 and 2017 are as follows:

	As of December 31,	
	2018	2017
Not later than one year	\$22,340	\$18,984
Later than one year and not later than five years	32,334	43,021
Later than five years	-	-
Total	\$54,674	\$62,005

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Operating lease expenses recognized are as follows:

	For the years ended	
	December 31,	
	2018	2017
Minimum lease payments	\$18,339	\$17,112

(20) Summary statement of employee benefits, depreciation and amortization expense by function during the years ended December 31, 2018 and 2017:

	For the years ended December 31,					
	2018			2017		
	Operating costs	Operating expenses	Total amount	Operating Costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$-	\$98,805	\$98,805	\$-	\$90,387	\$90,387
Labor and health insurance	-	9,797	9,797	-	10,062	10,062
Pension	-	5,773	5,773	-	6,114	6,114
Directors' remuneration	-	3,067	3,067	-	957	957
Other employee benefits expense	-	6,974	6,974	-	7,090	7,090
Depreciation	-	4,732	4,732	-	4,401	4,401
Amortization	-	9,976	9,976	-	4,586	4,586

According to the Articles of Incorporation, no less than 3% of profit of the current year is distributable as employees' compensation and no higher than 3% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit for the year ended December 31, 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 to be 5% of profit of the current year and 1% of profit of the current year, respectively, recognized as employee benefits expense. As such, employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2018 amount to NT\$6,484 thousand and NT\$1,297 thousand, respectively. A resolution was passed at a Board of Directors meeting held on March 19, 2019 to distribute NT\$6,580 thousand and NT\$1,316 thousand in cash as employees' compensation and remuneration to directors and supervisors of 2018, respectively.

A resolution was passed at a Board of Directors meeting held on March 19, 2018 to distribute NT\$1,726 and NT\$0 in cash as employees' compensation and remuneration to directors and supervisors of 2017, respectively, whereas the estimated amount accrued in the financial statements for the year ended December 31, 2017 were NT\$1,551 and NT\$0, respectively. Differences between the estimated amount and the resolution amount of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2017 of NT\$175 thousand and NT\$0, respectively are recognized in profit or loss of the subsequent year in 2018.

The number of employees for the Company as of December 31, 2018 and 2017 was 128 and 121, respectively, of which the number of directors were not concurrent employees was 6 and 6, respectively.

(21) Non-operating income and expenses

(A) Other income

	For the years ended	
	December 31,	
	2018	2017
Interest income	(Note)	\$220
Financial assets measured at amortized cost	\$407	(Note)
Dividend income	1,131	-
Other income	2,106	1,419
Total	<u>\$3,644</u>	<u>\$1,639</u>

Note: The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

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(B) Other gains and losses

	For the years ended December 31,	
	2018	2017
Losses on disposal of property, plant and equipment	\$41	\$15
Gains (losses) on disposal of investments	-	11,199
Foreign exchange losses, net	(2,295)	(2,652)
Impairment losses	-	(15,085)
Total	<u>\$ (2,254)</u>	<u>\$ (6,523)</u>

(C) Finance costs

	For the years ended December 31,	
	2018	2017
Interest on borrowings from bank	<u>\$1,383</u>	<u>\$1,590</u>

(22) Components of other comprehensive loss

For the year ended December 31, 2018:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive loss, before tax	Income tax relating to components of	
				other comprehensive loss	Other comprehensive loss, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(2,585)	\$-	\$(2,585)	\$-	\$(2,585)
Unrealized gains or losses from financial assets at fair value through other comprehensive loss	(30,073)	-	(30,073)	-	(30,073)
Share of unrealized gains or losses from financial assets at fair value through other comprehensive loss of associates and joint ventures accounted for using the equity method	(58,016)	-	(58,016)	-	(58,016)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(433)	-	(433)	-	(433)
Total of other comprehensive loss	<u>\$ (91,107)</u>	<u>\$-</u>	<u>\$ (91,107)</u>	<u>\$-</u>	<u>\$ (91,107)</u>

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For the year ended December 31, 2017:

	Arising during the period	Reclassification adjustments during the period	Other comprehensive loss, before tax	Income tax relating to components of other comprehensive loss	Other comprehensive loss, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$(772)	\$-	\$(772)	\$-	\$(772)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(803)	-	(803)	-	(803)
Unrealized share of unrealized of associates and joint ventures accounted for using the equity method	(19,779)	-	(19,779)	-	(19,779)
Share of unrealized gains or losses from available-for-sale financial assets of associates and joint ventures accounted for using equity method	(3,698)	-	(3,698)	-	(3,698)
Total of other comprehensive loss	\$(25,052)	\$-	\$(25,052)	\$-	\$(25,052)

(23) Income tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense for 2018 and 2017 are as follows:

Income tax expense recognized in profit or loss

	For the years ended December 31,	
	2018	2017
Current income tax expense:		
Current income tax charge	\$39,469	\$14,724
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(3,477)	-
Total income tax expense	\$35,992	\$14,724

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Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the years ended	
	December 31,	
	2018	2017
Accounting profit before tax from continuing operations	\$123,815	\$32,968
Tax at the domestic rates (20% for 2018 and 17% for 2017) applicable to profits in the country concerned	\$24,763	\$5,605
Tax effect of revenues exempt from taxation	(226)	(1,648)
Tax effect of deferred tax assets/liabilities	(28,014)	(3,957)
Overseas withholding tax	39,469	14,724
Total income tax expense recognized in profit or loss	\$35,992	\$14,724

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2018

	Beginning balance as of January 1, 2018	Recognized in profit or loss	Ending balance as of December 31, 2018
Temporary differences			
Unrealized bad debt expense	\$-	\$142	\$142
Unrealized foreign exchange losses	-	365	365
Unused vacation bonus	-	(593)	(593)
Unrealized sales return gross profit	-	(11)	(11)
Defined benefit liability, non-current	-	3,574	3,574
Deferred tax income/ (expense)		\$3,477	
Net deferred tax assets/(liabilities)	\$-		\$3,477
Reflected in balance sheet as follows:			
Deferred tax assets	\$-		\$4,081
Deferred tax liabilities	\$-		\$604

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The information of the unused tax losses is as follows:

Year	Tax losses for the period	Unused tax losses		Expiration year
		As of December 31,		
		2018	2017	
2008	\$108,758	\$-	\$16,174	2018
2010	55,785	-	55,785	2020
2011	66,462	-	66,462	2021
2012	82,588	-	82,588	2022
2013	4,226	-	4,226	2023
2014	15,029	-	15,029	2024
		\$-	\$240,264	

Unrecognized deferred tax assets

As of December 31, 2018 and 2017, deferred tax assets have not been recognized in respect of unused tax losses and deductible temporary differences amounting to NT\$58,089 thousand and NT\$110,249 thousand, respectively, as the future taxable profit may not be available.

The assessment of income tax returns

As at December 31, 2018, the income tax returns of the Company have been assessed and approved up to 2016.

(24) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	For the years ended	
	December 31,	
	2018	2017
(A) Basic earnings per share		
Net income attributable to ordinary equity holders of the Company (in thousand NT\$)	\$87,823	\$18,244
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	47,708	47,771
Basic earnings per share (NT\$)	\$1.84	\$0.38

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	For the years ended December 31,	
	2018	2017
(B) Diluted earnings per share		
Net income attributable to ordinary equity holders of the Company after dilution (in thousand NT\$)	\$87,823	\$18,244
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	47,708	47,771
Effect of dilution:		
Restricted employee stock	10	147
Weighted average number of ordinary shares outstanding after dilution (in thousands)	47,718	47,918
Diluted earnings per share (NT\$)	\$1.84	\$0.38

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

7. Related party transactions

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

<u>Name of the related parties</u>	<u>Nature of relationship of the related parties</u>
Global Angel Investments Limited	The director of the Company is the director of this company
DOUBLE EDGE ENTERTAINMENT CORP.	The Company is the director of this company
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	Subsidiary
Perfecten Corporation	Subsidiary
PERFECT TEN INTERNATIONAL LIMITED (Note1)	Subsidiary
Marsware Entertainment Inc.	Subsidiary
Softstar Agency Co., Ltd.	Subsidiary
SOFTSTAR CREATIVE INC.	Subsidiary
Kobe Co., Ltd.	Subsidiary
Fairy Palm Inc.	Subsidiary
Gamebase Digital Media Corporation	Subsidiary
SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	Subsidiary

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Name of the related parties	Nature of relationship of the related parties
A.R.T. Games Co., Ltd.	Associate
The Playground Investment Limited, Taiwan Branch	The key management personnel of the subsidiary of the Company is chairman of this company
NEWCROSS CO., LTD.	The director of the Company and the director of this company are second-degree relatives
Bakesi Wine Group Co., Ltd.	The director of the Company is the chairman of this company
TOKYO FASHION CO., LTD.	The director of the Company and the director of this company are second-degree relatives
Oriental Golden Richness LTD.	The director of the Company is the chairman of this company
NEWLOGISTICS CO., LTD.	The director of the Company and the director of this company are second-degree relatives
FUNFIA INC.	The key management personnel of the subsidiary of the Company is the person in charge of this company

Note1: To integrate resources, PERFECT TEN INTERNATIONAL returned its capital on March 22, 2018 and finalized its liquidation on August 10, 2018.

Significant transactions with the related parties

(1) Rendering of services

	For the years ended	
	December 31,	
	2018	2017
Subsidiary		
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	\$24,020	\$119,557
Others	25	537
Other related parties		
The Playground Investment Limited, Taiwan Branch	16,964	-
Others	-	2,733
Total	<u>\$41,009</u>	<u>\$122,827</u>

The sales price to the above related parties was determined through mutual agreement. The collection period from sales to the related party customers are 30~60 days, which is the same with third party customers.

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(2) Operating costs

	For the years ended December 31,	
	2018	2017
Subsidiary		
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	\$5,388	\$9,104
Perfecten Corporation	1,553	4,456
Other related parties		
A.R.T. Games Co., Ltd.	4,286	-
Total	\$11,227	\$13,560

Operating costs relate to subsidiary database fees and royalty costs.

(3) Accounts receivable-related parties

	As of December 31,	
	2018	2017
Subsidiary		
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	\$10,540	\$24,216
Others	-	153
Other related parties	5,161	-
Total	\$15,701	\$24,369

(4) Other receivables-related parties

	As of December 31,	
	2018	2017
Subsidiary		
Marsware Entertainment Inc.	\$7,533	\$7,656
Softstar Agency Co., Ltd.	1,657	533
Others	1,940	1,164
Other related parties	181	-
Total	\$11,311	\$9,353

Other receivables – related parties relates to subsidiary assistance of daily operations.

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(5) Prepayment-related parties

	As of December 31,	
	2018	2017
Subsidiary		
Fairy Palm Inc.	\$-	\$11,429
Other related parties		
A.R.T. Games Co., Ltd.	1,905	-
FUNFIA INC.	2,022	-
Total	\$3,927	\$11,429

Prepayment-related parties relates to game outsourcing costs.

(6) Accounts payable-related parties

	As of December 31,	
	2018	2017
Subsidiary		
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	\$1,421	\$1,581

(7) Other payables – related parties

	As of December 31,	
	2018	2017
Subsidiary		
SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	\$2,849	\$-

(8) Other current liabilities – advance receipts

	As of December 31,	
	2018	2017
Other related parties	\$-	\$3,053

Other current liabilities – advance receipts relates to royalty revenue.

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(9) Other

Other transactions between the Company and subsidiaries are shown below:

Item	For the years ended December 31,	
	2018	2017
Advertising fee	\$-	\$11
Professional service fee	85,056	6
Miscellaneous expenses	177	150
Total	<u>\$85,233</u>	<u>\$167</u>

Other transactions between the Company and other related parties are shown below:

Item	For the years ended December 31,	
	2018	2017
Professional service fee	<u>\$2,143</u>	<u>\$-</u>

(10) Endorsements and guarantee

The Company provided endorsement/ guarantee to subsidiaries on requirement, please refer to attachment 2 for details.

(11) Key management personnel compensation

	For the years ended December 31,	
	2018	2017
Short – term employee benefits	\$23,614	\$22,602
Post – employment benefits	634	590
Share – based payment	-	2,267
Other long – term benefits	754	725
Total	<u>\$25,002</u>	<u>\$26,184</u>

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8. Assets pledged as security

The following table lists assets of the Company pledged as security:

Items	Carrying amount		Secured liabilities
	December 31, 2018	December 31, 2017	
Other financial assets, current	\$43,641	\$6,022	Short - term borrowings and time deposits pledge
Other financial assets, noncurrent	23,000	16,750	Long - term borrowings and demand deposits pledge
Total	\$66,641	\$22,772	

9. Commitments and contingencies

On April 25, 2018, the Company's board of directors approved the capital increase plan for SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD. (hereinafter referred to as SOFTSTAR BEIJING), a subsidiary of the Company, is seeking to increase its capital in order to introduce long-term partners. All of the shares have been subscribed by CMGE TECHNOLOGY COMPANY LIMITED (hereinafter referred to as CMGE), an overseas affiliate of China Mobile Company. The total amount of capital injection is RMB\$213,000 thousand. After the capital injection, CMGE holds a 51% shares in SOFTSTAR BEIJING. The Company holds a 49% shares in SOFTSTAR BEIJING through its subsidiary, SOFTSTAR INTERNATIONAL INC., and the Company will waive the right to subscribe shares this time. The Company will recognize the losses and gains on disposal of investment, but the profit or loss impact will to be assessed upon completion.

As several terms in the agreement changed, Supplementary Agreement(I) was signed on May 28, 2018. The main details are as follows:

- (1) CMGE waives part of the settlement terms in the Supplemental Agreement(I), therefore the settlement terms have already been met or waived on the date of the Supplemental Agreement(I).
- (2) CMGE shall, within three working days after the signing of the Supplemental Agreement(I), instruct China Mobile Games and its affiliate Entertainment Company Limited Shenzhen, to wire transfer five percent of the subscription amount to the designated bank account of SOFTSTAR BEIJING as a performance deposit indicating that CMGE will fulfill the share subscription agreement and Supplemental Agreement(I).

- (3) SOFTSTAR BEIJING shall send a written notice to CMGE after the capital increase, completion of the registration for change and filing for restatement of the articles of association and the change of directors and other personnel, filing at the Ministry of Commerce, foreign exchange registration and filing (collectively, “registration and filing”). CMGE shall wire transfer 100% of the subscription price to SOFTSTAR BEIJING’s bank account within 30 working days after receiving the aforementioned written notice from SOFTSTAR BEIJING. If CMGE fails to pay the full subscription price within 60 working days in accordance with this Supplemental Agreement(I), the original shareholder SOFTSTAR ENTERTAINMENT INC. and SOFTSTAR BEIJING shall have the right to cancel the transaction and request to resume the original status before the proposed transaction, and to confiscate the performance deposit received.

On January 30, 2019, CMGE and SOFTSTAR BEIJING signed Supplementary Agreement(II). The main details are as follows:

- (1) CMGE shall instruct China Mobile Games and Entertainment Company Limited Shenzhen to pay a guarantee deposit of RMB\$10,000 thousand before February 25, 2019 (with guarantee deposit of RMB\$10,650 thousand received mentioned in Supplementary Agreement(I), total security deposits amounted to RMB\$20,650 thousand), indicating that CMGE will fulfill the original share subscription agreement and Supplementary Agreement(II).
- (2) CMGE shall pay the remaining amount before March 31, 2019. If the payment is not completed as scheduled, CMGE shall designate its affiliates and all parties to re-sign the share subscription agreement. If the new agreement is not signed before the deadline, but CMGE has remitted the total share purchase price, the capital increase will still be deemed complete.
- (3) If CMGE fails to complete the payment before the deadline, or fails to re-sign the share subscription agreement with the parties on the date of the deadline, then the shareholders of SOFTSTAR BEIJING, SOFTSTAR ENTERTAINMENT INC. has the right to cancel the transaction documents. Changes in transaction documents and registration for change of business and industry should be returned to their original status.

CMGE remitted the performance deposit of RMB\$10,000 thousand on February 25, 2019. Although under Mainland China’s Company Act, CMGE has a 51% equity interest in Softstar Beijing, CMGE will only obtain substantial control over SOFTSTAR BEIJING after it completes payment and the equity transaction. As at the reporting date, the Company's capital increase has not been completed.

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10. Loss due to major disasters

None.

11. Significant subsequent events

On November 1, 2018, the shareholders' meeting of the Company resolved to issue 1,500 thousand shares of restricted employee stock for NT\$15,000 thousand. The issuance period shall be within one year from the date of the notification of the effective date of application. The shares of restricted employee stock were issued on January 5, 2019.

12. Others

(1) Categories of financial instruments

<u>Financial assets</u>	<u>As of December 31,</u>	
	<u>2018</u>	<u>2017</u>
Financial assets at fair value through other comprehensive income	\$153,004	(Note 1)
Available-for-sale financial assets (including measured at cost financial assets)	(Note 1)	\$197,457
Financial assets measured at amortized cost (Note 2)	288,249	(Note 1)
Loans and receivables (Note 2)	(Note 1)	245,815
Total	<u>\$441,253</u>	<u>\$443,272</u>
<u>Financial liabilities</u>	<u>As of December 31,</u>	
	<u>2018</u>	<u>2017</u>
Financial liabilities at amortized cost:		
Short-term borrowings	\$30,000	\$-
Accounts payable	101,260	75,333
Long-term borrowings (including current portion)	84,602	62,688
Total	<u>\$215,862</u>	<u>\$138,021</u>

Note:

- 1) The Company adopted IFRS 9 since January 1, 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.
- 2) Including cash and cash equivalents (exclude cash on hand), accounts receivable, accounts receivable-related parties, other receivables – related parties, other financial assets, current, refundable deposits, and other financial assets, noncurrent.

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(2) Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk (such as equity risk).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for foreign currency A and foreign currency B. The information of the sensitivity analyses as follows:

(A) When NTD strengthens/weakens against USD by 1%, the profit or loss for the years ended December 31, 2018 and 2017 is increased/(decreased) by NT\$55 thousand and NT\$89 thousand, respectively.

(B) When NTD strengthens/weakens against RMB by 1%, the profit or loss for the years ended December 31, 2018 and 2017 is increased/(decreased) by NT\$1,528 thousand and NT\$506 thousand, respectively.

Equity price risk

The fair value of the Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company's listed and unlisted equity securities are classified under financial asset at fair value through other comprehensive income (available-for-sale financial assets in 2017). The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company's senior management on a regular basis. The Company's Board of Directors reviews and approves all equity investment decisions.

As of December 31, 2017, an increase/decrease of 10% in the price of the listed equity securities classified as available-for-sale could have an impact of NT\$1,075 thousand on the equity attributable to the Company.

As of December 31 2018, an increase/decrease of 10% in the price of the listed companies stocks classified as equity instruments investments measured at fair value through other comprehensive income could have an impact of NT\$548 thousand on the equity attributable to the Company.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment.

As of December 31, 2018, and December 31, 2017, accounts receivable and contract assets from top ten customers represent 77% and 67% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivable is relatively insignificant.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	Less than				
	1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of December 31, 2018					
Short-term borrowings	\$30,284	\$-	\$-	\$-	\$30,284
Accounts payable (including other payables)	101,260	-	-	-	101,260
Long-term borrowings (including estimated interest)	37,743	47,717	1,022	-	86,482

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	Less than				Total
	1 year	2 to 3 years	4 to 5 years	> 5 years	
As of December 31, 2017					
Accounts payable (including other payables)	\$75,333	\$-	\$-	\$-	\$75,333
Long-term borrowings (including estimated interest)	27,138	31,928	5,110	-	64,176

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2018:

	Short-term borrowings	Long-term borrowings (including current portion)	Total liabilities from financing activities
As of January 31, 2018	\$-	\$62,688	\$62,688
Cash flows	30,000	21,914	51,914
As of December 31, 2018	<u>\$30,000</u>	<u>\$84,602</u>	<u>\$114,602</u>

Reconciliation of liabilities for the year ended December 31, 2017: Not applicable

(7) Fair values of financial instruments

(A) The methods and assumptions applied in determining the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

(a) The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.

- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities, beneficiary certificates, bonds and futures etc.) at the reporting date.
- (c) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method or income approach valuation techniques. The market method valuation is based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities). The income method is based on the estimated recoverable amount of the present value of similar financial assets that are expected to be received from cash dividends or disposals of investments.
- (d) Fair value of debt instruments without market quotations, bank loans, bonds payable and other non-current liabilities are determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the GreTai Securities Market, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)
- (e) The fair value of derivatives which are not options and without market quotations, is determined based on the counterparty prices or discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using on the counterparty prices or appropriate option pricing model (for example, Black-Scholes model) or other valuation method (for example, Monte Carlo Simulation).

(B) Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and financial liabilities measured at amortized cost is approximate their fair value.

(C) Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

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(8) Fair value measurement hierarchy

(A) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(B) Fair value measurement hierarchy of the Company's assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	<u>\$5,484</u>	<u>\$-</u>	<u>\$147,520</u>	<u>\$153,004</u>

As of December 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Available-for-sale financial assets				
Stock	<u>\$10,754</u>	<u>\$-</u>	<u>\$-</u>	<u>\$10,754</u>

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Transfers between Level 1 and Level 2 during the period

During the years ending December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	Assets
	Measured at fair value through other comprehensive income
	Stocks
Beginning balances as of January 1, 2018	\$186,703
Total gains and losses recognized for the year ended December 31, 2018	
Amount recognized in OCI (presented in “Unrealized gains (losses) from financial asset at fair value through other comprehensive income)	(24,803)
Capital reduction and return of stock for the year ended December 31, 2018	(14,380)
Ending balances as of December 31, 2018	\$147,520

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As of December 31, 2018

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
Financial assets at fair value through other comprehensive income					
Stocks	Income approach	Discount for lack of marketability	16%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability would result in (decrease) increase in the Company's equity by NT\$14,752 thousand

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Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Company's Finance Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies at each reporting date.

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	(Expressed in thousands)		
	December 31, 2018		
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$178	30.77	\$5,484
RMB	34,170	4.47	152,807

	(Expressed in thousands)		
	December 31, 2017		
	Foreign currencies	Foreign exchange rate	NTD
<u>Financial assets</u>			
Monetary items:			
USD	\$299	29.80	\$8,898
NTD	11,096	4.56	50,655

The above information is disclosed based on the carrying amount of foreign currency (after conversion of functional currency).

The Company has a variety of functional currencies, therefore the monetary impact on financial assets and liabilities impact for each individual currency cannot be disclosed. For the year ended December 31, 2018 and 2017, foreign exchange losses were NT\$2,295 thousand and NT\$2,652 thousand, respectively.

(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Additional disclosure

(1) Information at significant transactions

- (A) Financing provided to other: Please refer to Attachment 1.
- (B) Endorsement/Guarantee provided to others: Please refer to Attachment 2.
- (C) Securities held (excluding subsidiaries, associates and joint venture): Please refer to Attachment 3.
- (D) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million and 20 percent of the capital stock: None.
- (E) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million and 20 percent of the capital stock: None.
- (F) Disposal of individual real estate with amount exceeding the lower of NT\$300 million and 20 percent of the capital stock: None.
- (G) Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million and 20 percent of the capital stock: None.
- (H) Receivables from related parties with amounts exceeding the lower of NT\$100 million and 20 percent of capital stock: None.
- (I) Financial instruments and derivative transactions: None.
- (J) Business relationship between the parent and the subsidiaries and between each subsidiary, and the circumstances and amounts of any significant transactions: Please refer to Attachment 4.

(2) Information on investees

Names, locations, and other information (excluding investment in Mainland China): Please refer to Attachment 5.

(3) Information on investments in mainland China

- (A) Basic information: Please refer to Attachment 6.
- (B) Directly or indirectly significant transactions through third regions with the investees in Mainland China: Please refer to Attachment 4.

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ATTACHMENT 1: Financing provided to others for the year ended December 31, 2018

No. (Note 1)	Name of financing provider	Name of counterparty	Account	Related party	Maximum balance for the period (Note 5)	Ending balance (Note 6)	Actual amount provided	Interest rate	Nature of financing activity (Note 2)	Amount of sales to counterparty (purchase from)	Reason for financing	Loss Allowance	Assets pledged		Limit of financing amount for individual counterparty (Note 3)	Limit of total financing amount (Note 3)	Note
													Item	Value			
1	SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD	STAR (BEIJING) TECHNOLOGY CO., LTD.	Other receivables-related parties	Y	\$2,950	\$2,503	\$2,503	1.75%-3.25%	2	\$-	Operating	\$-	None	\$-	\$8,940	\$13,410	Note 7
2	SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	STAR (BEIJING) TECHNOLOGY CO., LTD.	Other receivables-related parties	Y	447	447	447	2.88%	2	-	Operating	-	None	-	22,350	26,820	Note 8
2	SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	SOFTSTAR MOBILE INFORMATION TECHNOLOGY (SHANGHAI) CO., LTD.	Other receivables-related parties	Y	6,258	4,917	4,917	2.88%-3.25%	2	-	Operating	-	None	-	22,350	26,820	Note 8
2	SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	Other receivables-related parties	Y	16,986	16,986	16,986	2.25%	2	-	Operating	-	None	-	22,350	26,820	Note 8
3	SOFTSTAR INTERNATIONAL INC.	SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	Other receivables-related parties	Y	19,968	19,968	-	1.75%	2	-	Operating	-	None	-	61,440	92,160	Note 9
4	SOFTSTAR INTERNATIONAL INC.	SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	Other receivables-related parties	Y	30,720	30,720	18,432	1.75%	2	-	Operating	-	None	-	61,440	92,160	Note 9

Note 1: The parent company is coded "0" and the subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: If the nature of the financing provided is for business transactions fill in "1", those who have short-term financing funds necessarily fill in "2".

Note 3: The financing amount shall not exceed the transaction amount between the lender and the counterparty for companies with transactions and shall not exceed 40% net worth of the Company. Individual financial amount not exceed 10% net worth of the Company. The term "business transaction amount" refers to the highest amount of purchase or sales in the latest year or the current year between the two parties; the short-term financing amount and the total amount are limited to 40% of the company's net value.

Note 4: The individual financing amount is limited to 10% of the company's net value.

Note 5: The amount of the individual financing amount by the Company to 100% directly and indirectly held foreign companies with voting rights are not subject to the above restrictions, but the accumulated balance shall not exceed the company's net value.

Note 6: It is converted according to the exchange rate on the balance sheet date of December 31, 2018.

Note 7: The maximum financing amount for the year. If public companies propose financing provided to others to the Board of Directors under the Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies, they should still state ending balances approved by the Board of Directors to disclose the risk taken. When the capital is repaid, the amount of repayment should be disclosed to reflect the adjusted risk. If public companies authorize the director to revoke credit under certain limit approved by the Board of Directors, limit approved by the Board of Directors should still be stated. Even though capital is repaid, limit approved by the Board of Directors should still be stated since the company may lend again.

Note 8: Softstar Technology (Shanghai) Co., Ltd.: The total financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed RMB\$3,000 thousand. The individual financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed RMB\$2,000 thousand.

Note 9: Softstar Technology (Beijing) Co., Ltd.: The total financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed RMB\$6,000 thousand. The individual financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed RMB\$5,000 thousand.

Note 9: Softstar International Inc. The total financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed USD\$3,000 thousand. The individual financing amount to the 100% directly or indirectly held subsidiaries of the parent company or companies with business transactions with the Group shall not exceed USD\$2,000 thousand.

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ATTACHMENT 2: Endorsement/Guarantee provided to others for the year ended December 31, 2018

No. (Note 1)	Name of endorser	Endorsee		Endorsement limit for a single entity (Note 3)	Maximum balance for the period (Note 4)	Ending balance (Note 5)	Actual amount provided (Note 6)	Amount of collateral guarantee/ endorsement	Percentage of accumulated guarantee amount to net assets value from the latest financial statement	Limit of total guarantee/endorsement amount (Note 3)	Guarantee provided by Parent Company (Note 7)	Guarantee provided by a Subsidiary (Note 7)	Guarantee provided to Subsidiaries in Mainland China (Note 7)
		Name of endorser	Relationship (Note 2)										
0	SOFTSTAR ENTERTAINMENT INC.	SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	3	\$482,893	\$103,110	\$103,110	\$33,457	\$34,351	21.35%	\$482,893	Y	N	Y
0	SOFTSTAR ENTERTAINMENT INC.	SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	3	482,893	54,000	54,000	-	-	11.18%	482,893	Y	N	Y

Note 1: The parent company and its subsidiaries are coded as follows:

(1) The parent company is coded "0".

(2) The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (4) The endorsed/guaranteed parent company directly or indirectly owns more than 90% voting shares of the endorser/guarantor subsidiary.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: According to the endorsement guarantee procedures, the endorsement guarantee limit is as follows:

- (1) Accumulated external endorsement guarantee is limited to 100% of the company's net value.
- (2) The endorsement guarantee limit for a single enterprise is limited to 100% of the company's net value. However, for a single overseas affiliated company, it is not limited to 100% of the net value. If the endorsement guarantee is due to business relationship, the total amount shall not exceed the total transactions with the company of the most recent year.
- (3) The higher amount of goods purchased or sold between the two parties.
- (4) The aforementioned net value of the Company shall be subject to the most recent financial statements audited or reviewed by an accountant.

Note 4: The maximum endorsements/guarantees amount for the year.

Note 5: All endorsements/guarantees that have been approved by bank shall be included in ending balance.

Note 6: Please fill in the actual amount provided by the endorser.

Note 7: Parent company endorsed/guaranteed for the subsidiaries, subsidiaries endorsed/guaranteed for the parent company, or endorsement/guarantee for entities in Mainland China shall fill in "Y".

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SOFTSTAR ENTERTAINMENT INC.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)
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ATTACHMENT 3: Securities held as of December 31, 2018

Names of companies held	Type of securities (Note 1)	Name of securities (Note 1)	Relationship with the Company (Note 2)	Financial statement account	December 31, 2018			Note (Note 4)	
					Shares (in thousand)	Carrying amount (Note 3)	Percentage of ownership (%)		Fair value
SOFTSTAR ENTERTAINMENT INC.	Stock	AUER MEDIA & ENTERTAINMENT CORP.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,696	\$137,247	19.48%	\$137,247	N
SOFTSTAR ENTERTAINMENT INC.	Stock	TAIWAN SMART CARD CO.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,552	5,480	15.95%	5,480	N
SOFTSTAR ENTERTAINMENT INC.	Stock	DOUBLE EDGE ENTERTAINMENT CORP.	-	Financial assets at fair value through other comprehensive income, noncurrent	479	4,793	17.43%	4,793	N
SOFTSTAR ENTERTAINMENT INC.	Stock	FUNFIA INC.	Other related party	Financial assets at fair value through other comprehensive income, noncurrent	600	-	14.23%	-	N
SOFTSTAR ENTERTAINMENT INC.	Emerging stock	SNSPLUS, INC.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,331	5,484	2.34%	5,484	N
Kobe Co., Ltd.	Listed stock	NEWRetail CO., LTD.	Other related party	Financial assets at fair value through other comprehensive income, noncurrent	5,001	36,502	4.24%	36,502	N
						\$189,506			

Note 1: Securities on the list refer to securities such as stocks, bonds, beneficiary certificates and securities derived from those items included in IFRS 9 "Financial Instruments".

Note 2: Fields do not have to be filled in if the security issuer is not a related party.

Note 3: Securities which were acquired by using fair value method, please fill in amount based on calculating after adjustment from fair value minus accumulated impairment; fill in the rest amount based on original acquired cost or after amortization minus accumulated impairment.

Note 4: Listed securities due to guarantees, pledged loans, or others who are restricted by agreement shall specify in the remarks column the number of guarantees or the number of shares borrowed, the amount of the guarantee or the amount of the loan, and restrictions on use.

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SOFTSTAR ENTERTAINMENT INC.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS (Continued)

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

Attachment 4: Significant intercompany transactions between consolidated entities

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Business Transactions			As a percentage of consolidated revenues (Note 3)
				Account	Amount	Term	
0	SOFTSTAR ENTERTAINMENT INC.	LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	1	Sales Revenue	\$24,020	Negotiated by both parties	2.81%
0	SOFTSTAR ENTERTAINMENT INC.	SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	1	Research and development expenses - Professional service fees	69,075	Negotiated by both parties	8.07%

Note 1: Information about related party transactions should be stated. The numbers of each company are illustrated as follows:

1. 0 is for the parent company.
2. Each subsidiary is numbered from 1.

Note 2: Transactions are categorized into three types as follows: (There is no need to repeat the disclosure of the same transaction between the parent company and each subsidiary.

For example, if the parent company has disclosed the transaction with the subsidiary, the subsidiary does not need to disclose it; if transactions between subsidiaries has been disclosed by one company, the other company does not need to disclose the transaction.

1. Parent company and subsidiary.
2. Subsidiary and Parent company.
3. Subsidiary and subsidiary.

Note 3: Transaction amount is stated as a percentage of total revenues. Percentages of assets or liabilities accounts are calculated as ending balance divided by consolidated assets, and percentages of profit or loss accounts are calculated as accumulated amount for the year divided by consolidated revenues.

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ATTACHMENT 5: Names, locations and related information of investee companies (Not including investment in Mainland China)

Investor company	Investee company	Location	Main business and products	Original investment amount		Investment as of December 31, 2018			Net income (loss) of investee (Note 1)	Investment income (loss) recognized (Note 1)	Note
				Ending balance	Beginning balance	Number of shares (in thousand)	Percentage of ownership (%)	Book value			
SOFTSTAR ENTERTAINMENT INC.	SOFTSTAR INTERNATIONAL INC.	Cayman Islands	Investment holding	\$200,899	\$165,484	6,259	100%	\$59,935	\$2,959	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	Taiwan	Software wholesale and information software services	95,000	95,000	2,850	100%	(8,032)	(32,909)	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	Softstar Agency Co., Ltd.	Taiwan	Performing arts	10,000	9,000	-	100%	(512)	(1,876)	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	Maisware Entertainment Inc.	Taiwan	Network software development and technical services	30,000	30,000	3,000	100%	(3,005)	426	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	Fairy Palm Inc.	Taiwan	Software publishing and information software services	102	102	10	51%	66	1,176	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	WECOOL GAME CO., LTD.	Taiwan	Network software development and technical services	47,000	40,000	4,700	100%	1,829	(19,951)	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	Kobe Co., Ltd.	Taiwan	General investment	98,792	98,792	-	100%	36,921	(64)	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	Gamebase Digital Media Corporation	Taiwan	Software publishing and information software services	25,000	15,000	2,600	86.67%	3,056	(17,335)	Subsidiary	
SOFTSTAR ENTERTAINMENT INC.	A.R.T. Games Co., Ltd.	Taiwan	Network software development and technical services	12,250	4,900	1,225	49%	5,799	(9,377)	Investments accounted for using the equity method	
SOFTSTAR ENTERTAINMENT INC.	Chia-e International Inc.	Taiwan	Investment holding	20,000	20,000	814	28.21%	10,729	(9,300)	Investments accounted for using the equity method	
SOFTSTAR INTERNATIONAL INC.	JP Soft L.L.C	U.S.A	Investment holding	-	4,717	-	-	-	-	Note 3	
SOFTSTAR INTERNATIONAL INC.	MAURITIUS WEBSTAR INC.	Mauritius	Investment holding	47,302	46,104	158	100%	575	(934)	Second-tier subsidiary	
SOFTSTAR INTERNATIONAL INC.	SOFTSTAR GLOBAL INC.	Mauritius	Investment holding	162,277	162,277	5,327	100%	(9,914)	(480)	Second-tier subsidiary	
SOFTSTAR INTERNATIONAL INC.	SOFTSTAR ANIMATION LIMITED	Samoa	Investment holding	51,829	36,247	1,680	100%	34,370	(16,779)	Second-tier subsidiary	
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	Perfecten Corporation	Taiwan	Network software development and technical services	50,000	50,000	5,000	100%	2,465	(7,729)	Second-tier subsidiary	
Perfecten Corporation	PERFECT TEN INTERNATIONAL LIMITED	Hong Kong	Network software development and technical services	466	466	-	-	-	25	Note 4	

Note 1: If the listed company set up the overseas investment company and consider companies creates consolidated financial statements as primary financial statements under local regulations, information about overseas investees can be disclosed only to the extent of the overseas investment co

Note 2: If not qualified for the situation stated in Note 1, the above table should be made under rules as follows:

- (1) Information about the Company's investments should be filled in the "Investee", "Location", "Main business", "Original investment" and "Investment as of December 31, 2018" columns. The relationship between the investee and the Company should be filled in the "Note" column.
- (2) The net income for the year of each investee should be filled in the "Net income (loss) of investee" column.
- (3) Only the investment income (loss) of subsidiaries or investees accounted for using the equity method recognized by the Company should be filled in the "Investment income (loss) recognized" column. The investment income (loss) recognized should include investment income (loss) recognized by the investee.

Note 3: On February 26, 2018, the company completed the closing procedures.

Note 4: On March 22, 2018, in order to integrate the Group's resources, the Company settled the repatriation of Perfecten Corporation's share capital, and completed the liquidation procedure on August 10, 2018.

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ATTACHMENT 6: Investment in Mainland China

1. The following table presents names, main businesses and products, total amount of paid-in capital, method of investment, accumulated outflow of investment from Taiwan, investment income recognized, carrying amount, and accumulated inward remittance of earnings on investment of investees in Mainland China

Investee Company	Main business and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as at January 1, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income (loss) of investee Company	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018	Note (Note 2(2))
					Outflow	Inflow							
SOFTSTAR TECHNOLOGY (BEIJING) CO., LTD.	Information processing service	\$32,856	2	\$32,856	\$-	\$-	\$32,856	\$21,285	100%	\$21,285	\$10,179	\$-	B
SOFTSTAR TECHNOLOGY (SHANGHAI) CO., LTD.	Information processing service	116,314	2	22,294	-	-	22,294	(78,286)	100%	(78,286)	(18,423)	-	B
UNISTAR SOFTWARE CO., LTD.	Information processing service	13,865	2	3,708	-	-	3,708	-	21.66%	-	-	-	C(Note 4)
SOFTSTAR MOBILE INFORMATION TECHNOLOGY (SHANGHAI) CO., LTD.	Development of computer hardware and network technology	31,846	2	31,846	-	-	31,846	(479)	100%	(479)	(7,046)	-	B
JOYPARK WEBSTAR (BEIJING) TECHNOLOGY CO., LTD.	Network software development and technical services	65,263	2	65,263	-	-	65,263	(1)	100%	(1)	(2,868)	-	B

2. Investment quota for Mainland China:

Accumulated investment in Mainland China as of December 31, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment in accordance with Ministry of Economic Affairs regulations (Note 5)
\$155,967	\$285,526	\$289,736

Note 1: The method for engaging in investment in Mainland China include the following:

- (1) Direct investment in Mainland China with capital increase through companies registered in third region.
- (2) Indirectly investment in Mainland China through companies registered in a third region (Please specify the name of company in third region)
- (3) Other method.

Note 2: The investment income (loss) recognized in current period:

- (1) It should be noted if it is in preparation which there is no investment profit or loss.
- (2) The investment income (loss) were determined based on the following basis:

- A. The financial statement was audited by an international certified public accounting firm in cooperation with an R.O.C. accounting firm.
- B. The financial statement was audited by the auditors of the parent company.
- C. Others.

Note 3: The amount is stated in New Taiwan Dollars.

Note 4: Unistar Software Co., Ltd. has completed cancellation of registration.

Note 5: The upper limit of investment in Mainland China is 60% of the net value or consolidated net value.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

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Major accounting items in assets, liabilities and equity	
Statement of Cash and cash equivalents	1
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Statement of Financial assets at fair value through other comprehensive income, noncurrent	4
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Major accounting items in profit or loss	
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SOFTSTAR ENTERTAINMENT INC.

1. Statement of Cash and cash equivalents

December 31, 2018

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Cash on hand	Including USD 2,500.00 CNY 8,085.00	\$265	1. No bank deposits listed in the left column were pledged.
Checking accounts		6	2. As of December 31, 2018
Demand deposits	Including USD 175,709.28 CNY 7,758,993.88	119,689	Exchange rate: USD1 = NTD 30.72 CNY1 = NTD 4.47
Total		<u>\$119,960</u>	

SOFTSTAR ENTERTAINMENT INC.

2. Statement of Accounts receivable, net

December 31, 2018

In Thousands of New Taiwan Dollars

Customer name	Description	Amount	Note
Account receivables - third parties			
Customer A		\$42,518	
Customer B		11,647	
Customer C		7,360	
Customer D		5,367	
Others	The amount of individual customer in others does not exceed 5% of the account balance.	2,885	
Subtotal		<u>69,777</u>	
Less: loss allowance		<u>(710)</u>	
Net amount		<u>\$69,067</u>	

SOFTSTAR ENTERTAINMENT INC.

3. Statement of Prepayments

December 31, 2018

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Prepayments			
Advance payment	Subcontracting funds for making games or animations	\$70,903	
Prepaid income tax		1,313	
Prepaid expense		1,281	
Others	The amount of individual customer in others does not exceed 5% of the account balance.	972	
Total		<u>\$74,469</u>	

SOFTSTAR ENTERTAINMENT INC.

4. Statement of Financial assets at fair value through other comprehensive income, noncurrent

December 31, 2018

Item	In Thousands of Shares/ New Taiwan Dollars										
	Beginning Balance		Addition		Decrease		Valuation		Ending Balance		備註
	Shares	Fair Value	Shares	Amount	Shares	Amount	Amount	Amount	Shares	Fair Value	
SNSPLUS, INC.	1,331	\$10,754	-	\$-	-	-	\$(5,270)	1,331	\$5,484	None	
AUER MEDIA & ENTERTAINMENT CORP.	2,696	162,050	-	-	-	(24,803)	2,696	137,247	None		
FUNFIA INC.	600	-	-	-	-	-	-	600	-	None	
TAIWAN SMART CARD CO.	2,552	5,480	-	-	-	-	-	2,552	5,480	None	
DOUBLE EDGE ENTERTAINMENT CORP.	1,917	19,173	-	-	(1,438)	(14,380)	-	479	4,793	None	
		<u>\$197,457</u>		<u>\$-</u>		<u>\$(14,380)</u>			<u>\$153,004</u>		

SOFTSTAR ENTERTAINMENT INC.

5. Statement of changes in Investments accounted for using equity method
For the Year Ended December 31, 2018

Investee	Beginning balance		Additions		Disposals		Other changes				Ending balance		Fair value / Net assets value		Collateral	Note	
	Shares	Amount	Shares	Amount	Shares	Amount	Investment Income (Loss)	Unrealized Gains or Losses from Financial Assets at Fair Value Through Other Comprehensive Income (Loss)	Other	Exchange Differences Resulting from Translating the Financial Statements of Foreign Operations	Shares	%	Amount	Unit Price (NTD)			Total amount
LOFTSTAR INTERACTIVE ENTERTAINMENT INC.	9,500	\$24,877	-	\$-	-	\$-	\$(32,909)	\$8,032	\$-	\$-	9,500	100%	\$-	\$-	None	Note 1	
SOFTSTAR INTERNATIONAL INC.	5,094	47,016	1,165	35,415	-	-	2,958	(25,021)	(433)	(433)	6,259	100%	59,935	9.57	59,935	None	
Softstar Agency Co., Ltd.	900	363	100	1,000	-	-	(1,876)	512	-	-	1,000	100%	-	-	None	Note 1	
Marsware Entertainment Inc.	3,000	-	-	-	-	-	378	3,005	-	-	3,000	100%	-	-	None	Note 1	
WECOOL GAME CO., LTD.	4,000	14,780	700	7,000	-	-	(19,951)	-	-	-	4,700	100%	1,829	0.39	1,829	None	
Kobe Co., Ltd.	9,920	95,001	-	-	-	-	(64)	(58,016)	-	-	9,920	100%	36,921	3.72	36,921	None	
Fairy Palm Inc.	10	-	-	-	-	-	1,176	(1,110)	-	-	10	51%	66	6.60	66	None	
Gamebase Digital Media Corporation	1,600	11,718	1,000	10,000	-	-	(17,335)	(1,327)	-	-	2,600	49%	3,056	1.16	3,056	None	
A.R.T. Games Co., Ltd.	490	3,044	735	7,350	-	-	(4,595)	-	-	-	1,225	49%	5,799	4.73	5,799	None	
Chia-e International Inc.	396	13,353	-	-	-	-	(2,624)	-	-	-	814	28.21%	10,729	13.18	10,729	None	
合計		\$210,152		\$60,765		\$-	\$(74,842)	\$(15,909)	\$(58,016)	\$(433)				\$118,335			

Note 1: Others were negative for the current year and therefore reclassified to other non-current liabilities.

Note 2: Others have converted from negative to positive balances for the current year and are therefore reclassified from other non-current liabilities to investments using the equity method.

SOFTSTAR ENTERTAINMENT INC.

6. Statement of Accounts payable

December 31, 2018

In Thousands of New Taiwan Dollars

Vendor name	Description	Amount	Note
Accounts payable - third parties			
Vendor A		\$14,828	
Vendor B		38,407	
Vendor C		4,475	
Others	The amount of individual customer in others does not exceed 5% of the account balance.	299	
Total		<u>\$58,009</u>	

SOFTSTAR ENTERTAINMENT INC.

7. Statement of Operating costs

For the Year Ended December 31, 2018

In Thousands of New Taiwan Dollars

Item	Amount		Note
	Description	Total	
Labor cost		<u>\$39,467</u>	

SOFTSTAR ENTERTAINMENT INC.

8. Statement of Selling expenses

For the Year Ended December 31, 2018

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Salaries		\$5,478	
Taxes		29,341	
Other expenses	The amount of individual item in others does not exceed 5% of the account balance.	6,309	
Total		<u>\$41,128</u>	

SOFTSTAR ENTERTAINMENT INC.

9. Statement of General and administrative expenses

For the Year Ended December 31, 2018

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Salaries		\$28,150	
Other expenses	The amount of individual item in others does not exceed 5% of the account balance.	28,702	
Total		\$56,852	

SOFTSTAR ENTERTAINMENT INC.

10. Statement of Research and development expenses

For the Year Ended December 31, 2018

In Thousands of New Taiwan Dollars

Item	Description	Amount	Note
Salaries		\$74,017	
Rental expense		14,546	
Service expense		87,432	
Other expenses	The amount of individual item in others does not exceed 5% of the account balance.	25,133	
Total		<u>\$201,128</u>	