8. Minority interest increased due to the acquisition of a 51% stake in momo.

2010 - 2011 Consolidated Balance Sheet

Unit: NT$'000, %

	2010	2011	YoY change	
			Amount	%
Current assets	15,242,392	18,132,547	2,890,155	18.96
Investments	3,196,711	2,161,551	(1,035,160)	(32.38)
Fixed assets	43,613,993	41,305,336	(2,308,657)	(5.29)
Intangible assets	20,347,050	27,251,800	6,904,750	33.93
Other assets	3,084,054	2,943,134	(140,920)	(4.57)
Total assets	85,484,200	91,794,368	6,310,168	7.38
Current liabilities	23,231,653	36,354,411	13,122,758	56.49
Long-term liabilities	10,300,000	4,000,000	(6,300,000)	(61.17)
Other liabilities	1,053,129	1,376,072	322,943	30.67
Total liabilities	34,584,782	41,730,483	7,145,701	20.66
Paid-in capital	38,009,254	34,208,328	(3,800,926)	(10.00)
Capital surplus	12,432,489	12,432,446	(43)	-
Retained earnings	32,243,481	33,272,277	1,028,796	3.19
Other equity	(31,815,669)	(30,965,040)	850,629	2.67
Minority interest	29,863	1,115,874	1,086,011	3,636.64
Total shareholders' equity	50,899,418	50,063,885	(835,533)	(1.64)

Impact of changes on financial results: No significant impact

Preventive measures: Not applicable

Income Statement Analysis

Standalone income statement analysis

1. Increase in operating costs and the drop in operating income: Cost of handsets sold increased in 2011 due to an increase in smartphone sales volume.
2. Decrease in non-operating expense: Losses from asset write-offs shrank in 2011 compared with a year earlier.

2010 – 2011 Standalone Income Statement

Unit: NT$'000, %

	2010	2011	YoY change	
			Amount	%
Revenue	58,547,285	61,919,273	3,371,988	5.76
Operating costs	32,808,712	37,793,874	4,985,162	15.19
Gross profit	25,738,573	24,125,399	(1,613,174)	(6.27)
Operating expense	12,038,007	12,955,675	917,668	7.62
Operating income	13,700,566	11,169,724	(2,530,842)	(18.47)
Non-operating income	4,465,716	4,506,462	40,746	0.91
Non-operating expense	1,768,138	833,190	(934,948)	(52.88)
Income before tax	16,398,144	14,842,996	(1,555,148)	(9.48)
Net income	13,822,186	13,468,763	(353,423)	(2.56)

Consolidated income statement analysis

1. Revenue, operating cost and operating expense rose due to the consolidation of momo and increased sales of smartphones.
2. Despite fewer losses from asset write-offs in 2011, non-operating expense grew from a year earlier due to impairment losses from Taiwan High Speed Rail (THSR).

2010 – 2011 Consolidated Income Statement

Unit: NT$'000, %

	2010	2011	YoY change	
			Amount	**%**
Revenue	70,146,004	81,369,183	11,223,179	16.00
Operating costs	38,162,363	48,655,458	10,493,095	27.50
Gross profit	31,983,641	32,713,725	730,084	2.28
Operating expense	13,675,930	15,123,920	1,447,990	10.59
Operating income	18,307,711	17,589,805	(717,906)	(3.92)
Non-operating income	739,516	672,876	(66,640)	(9.01)
Non-operating expense	1,945,905	2,134,112	188,207	9.67
Income before tax	17,101,322	16,128,569	(972,753)	(5.69)
Net income	13,817,778	13,626,180	(191,598)	(1.39)

Consolidated financial ratio analysis

			2010	2011
Financial structure (%)	Liability to asset ratio		40.46	45.46
	Long-term capital to fixed asset ratio		140.32	130.89
Solvency (%)	Current ratio		65.61	49.88
	Quick ratio		57.83	41.77
	Interest coverage ratio (x)		54.53	67.97
Operations	Accounts receivable turnover (x)		9.25	10.35
	Average collection days		39.46	35.27
	Inventory turnover (x)		10.31	11.39
	Accounts payable turnover (x)		11.68	9.73
	Average days sales		35.40	32.05
	Fixed asset turnover (x)		1.61	1.97
	Total asset turnover (x)		0.82	0.89
Profitability (%)	Return on assets		16.44	15.60
	Return on equity		26.84	26.99
	% of paid-in capital	Operating income	48.17	51.42
		Pre-tax income	44.99	47.15
	Net profit margin		19.70	16.75
	EPS (NT$)		4.62	4.70
Cash flow (%)	Cash flow ratio		111.89	69.48
	Cash flow adequacy ratio		140.61	154.40
	Cash reinvestment rate		12.87	14.30

Leverage	Operating leverage	1.91	1.97
	Financial leverage	1.02	1.01

Explanation for items in 2011 with major changes (>20%) from the previous year:

(1) Significant increases in sales and in procurement of smartphones resulted in an increase in advanced receipts from customers and accounts payable to vendors, which, coupled with higher short-term borrowings, led to a rise in the ratio of liabilities to assets.
(2) The decrease in shareholders' equity and long-term debts and the increase in current liabilities were due to capital reduction and the reclassification of corporate bonds due within one year to corporate bonds-current portion in 2011. As a result, the long-term capital to fixed-asset ratio, current ratio, quick ratio and cash flow ratio all decreased.
(3) As syndicated loans were due and paid in March 2011, interest expense dropped and interest coverage ratio rose.

Revenue outlook, key assumptions, potential impact on the Company's business and corresponding proposal:

In 2012, the Company will continue to leverage mobile internet products to expand its wireless market share. As global demand for smart devices expands, telecom operators are expected to aggressively devise new strategies and increase investments in value-added services to tap into this market's full growth potential. The Company will focus on developing the latest top-of-the-line mobile value-added services to satisfy customers' demand, such as mobile shopping, video/audio services and the myBook store (an e-book platform), raising the revenue from mobile value-added services and increasing average revenue per user (ARPU). To meet these targets, the Company will utilize full potential of its competitive edge in handset procurement to raise its marketing and cost-efficiency.

Cash Flow Analysis

Standalone cash flow analysis

1. Cash flow from investment activities: Cash outflow decreased in 2011 due to a decline in financing to related parties, despite rising investment in subsidiaries.
2. Cash flow from financing activities: Cash outflow was higher in 2011 due to repayment of bank loans and capital reduction.

2010 – 2011 Standalone Cash Flow Statement

Unit: NT$'000, %

	2010	**2011**	**YoY change**	
			Amount	**%**
Cash inflow (outflow) from operating activities	23,318,054	22,171,276	(1,146,778)	(4.92)
Cash inflow (outflow) from investment activities	(11,109,826)	(7,899,540)	(3,210,286)	(28.90)
Cash inflow (outflow) from financing activities	(9,384,389)	(17,275,099)	7,890,710	84.08
Net cash	2,823,839	(3,003,363)	(5,827,202)	(206.36)

Consolidated cash flow analysis

The changes in cash flow from operating activities and financing activities and acquisition of cash and cash equivalents for subsidiaries all resulted from the consolidation of momo.