

Chapter 6. Review and Analysis of Financial Conditions, Operating Results and Risk Management

Balance Sheet Analysis

Standalone balance sheet analysis

Explanation of significant changes – i.e., at least a 10% change amounting to more than NT\$10 million – in the past two years' assets, liabilities and shareholders' equity:

1. The Company had a capital reduction and acquired a 51% stake in Fubon Multimedia Technology (momo), leading to a decrease in current assets.
2. Investments increased due to the acquisition of a 51% stake in momo.
3. Other assets declined because of lower deferred income tax assets.
4. Current liabilities rose while long-term liabilities declined as a result of reclassification of a portion of long-term corporate bonds due within one year.
5. Paid-in capital dropped because of a capital reduction in 2011.

2010- 2011 Standalone Balance Sheet

Unit: NT\$'000, %

	2010	2011	YoY change	
			Amount	%
Current assets	23,819,685	10,307,087	(13,512,598)	(56.73)
Investments	11,359,143	26,670,657	15,311,514	134.79
Fixed assets	35,014,385	31,677,951	(3,336,434)	(9.53)
Intangible assets	12,818,208	12,356,964	(461,244)	(3.60)
Other assets	4,144,036	3,715,045	(428,991)	(10.35)
Total assets	87,155,457	84,727,704	(2,427,753)	(2.79)
Current liabilities	25,621,285	29,904,013	4,282,728	16.72
Long-term liabilities	8,800,000	4,000,000	(4,800,000)	(54.55)
Other liabilities	1,864,617	1,875,680	11,063	0.59
Total liabilities	36,285,902	35,779,693	(506,209)	(1.40)
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
Total shareholders' equity	50,869,555	48,948,011	(1,921,544)	(3.78)

Consolidated balance sheet analysis

Explanation of significant changes – i.e., at least a 10% change amounting to more than NT\$10 million – in the past two years' assets, liabilities and shareholders' equity:

1. Current assets increased due to the consolidation of momo.
2. Investments decreased due to the recognition of an impairment loss from investments in Taiwan High Speed Rail.
3. Intangible assets rose due to the increase in goodwill from the acquisition of momo.
4. Current liabilities rose due to an increase in short-term borrowings, the consolidation of momo and a portion of long-term corporate bonds to be due within one year.
5. Long-term borrowings decreased owing to reclassification of a portion of long-term corporate bonds due within one year and repayment of syndicated loans.
6. Other liabilities increased due to the consolidation of momo.
7. Paid-in capital dropped because of a capital reduction in 2011.

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)