Income Statement Analysis

Stand-alone income statement analysis

1. Increase in operating costs: Cost of handsets sold rose in 2012 due to an increase in smartphone sales volume.
2. Increase in operating expenses: Operating expenses rose due to continuous expansion of company stores and increasing commission expenses to acquire new or retain existing customers with handset bundled rate plans.
3. Increase in non-operating income: Non-operating income rose due to the full-year consolidation of momo's P&L in 2012 vs. only 5.5 months in 2011, as well as higher investment gains from Taiwan Fixed Network.
4. Increase in non-operating expenses: Non-operating expenses expanded due to higher losses from asset write-offs and disposal of fixed assets.

2011 – 2012 Stand-alone Income Statement

Unit: NT$'000, %

	2011	2012	YoY change	
			Amount	%
Revenue	61,919,273	67,406,445	5,487,172	8.86
Operating costs	37,793,874	42,377,796	4,583,922	12.13
Gross profit	24,125,399	25,028,649	903,250	3.74
Operating expenses	12,955,675	14,264,103	1,308,428	10.10
Operating income	11,169,724	10,764,546	(405,178)	(3.63)
Non-operating income	4,506,462	6,688,400	2,181,938	48.42
Non-operating expenses	833,190	1,068,104	234,914	28.19
Income before tax	14,842,996	16,384,842	1,541,846	10.39
Net income	13,468,763	14,691,605	1,222,842	9.08

Consolidated income statement analysis

1. Revenue, operating costs and operating expenses rose due to the full-year consolidation of momo's P&L in 2012 vs. only 5.5 months in 2011.
2. Non-operating income increased in 2012 owing to an increase in penalty income from customers' cancelation of contracts.
3. Non-operating expenses dropped from a year earlier due to a higher base in 2011 from the booking of an impairment loss from investment in Taiwan High Speed Rail (THSR).

2011 – 2012 Consolidated Income Statement

Unit: NT$'000, %

	2011	2012	YoY change	
			Amount	%
Revenue	81,369,183	98,140,954	16,771,771	20.61
Operating costs	48,641,510	62,733,818	14,092,308	28.97
Gross profit	32,727,673	35,407,136	2,679,463	8.19
Operating expenses	15,137,868	17,226,678	2,088,810	13.80
Operating income	17,589,805	18,180,458	590,653	3.36
Non-operating income	672,876	841,110	168,234	25.00
Non-operating expenses	2,134,112	1,050,146	(1,083,966)	(50.79)
Income before tax	16,128,569	17,971,422	1,842,853	11.43
Net income	13,626,180	14,916,282	1,290,102	9.47

Consolidated financial ratio analysis

<table>
<tr><th colspan="3"></th><th>2011</th><th>2012</th></tr>
<tr><td rowspan="2">Financial structure (%)</td><td colspan="2">Liability to asset ratio</td><td>45.46</td><td>45.00</td></tr>
<tr><td colspan="2">Long-term fund to fixed asset ratio</td><td>132.50</td><td>150.12</td></tr>
<tr><td rowspan="3">Solvency (%)</td><td colspan="2">Current ratio</td><td>50.20</td><td>65.36</td></tr>
<tr><td colspan="2">Quick ratio</td><td>42.04</td><td>53.17</td></tr>
<tr><td colspan="2">Interest coverage ratio</td><td>6,796.94</td><td>5,576.39</td></tr>
<tr><td rowspan="7">Operations</td><td colspan="2">Accounts receivable turnover (x)</td><td>10.35</td><td>11.62</td></tr>
<tr><td colspan="2">Average collection days</td><td>35.27</td><td>31.41</td></tr>
<tr><td colspan="2">Inventory turnover (x)</td><td>11.39</td><td>13.07</td></tr>
<tr><td colspan="2">Accounts payable turnover (x)</td><td>9.73</td><td>8.88</td></tr>
<tr><td colspan="2">Average days sales</td><td>32.05</td><td>27.93</td></tr>
<tr><td colspan="2">Fixed asset turnover (x)</td><td>1.99</td><td>2.46</td></tr>
<tr><td colspan="2">Total asset turnover (x)</td><td>0.89</td><td>1.06</td></tr>
<tr><td rowspan="6">Profitability (%)</td><td colspan="2">Return on assets</td><td>15.60</td><td>16.49</td></tr>
<tr><td colspan="2">Return on equity</td><td>26.99</td><td>29.78</td></tr>
<tr><td rowspan="2">% of paid-in capital</td><td>Operating income</td><td>51.42</td><td>53.15</td></tr>
<tr><td>Pre-tax income</td><td>47.15</td><td>52.54</td></tr>
<tr><td colspan="2">Net profit margin</td><td>16.75</td><td>15.20</td></tr>
<tr><td colspan="2">EPS (NT$)</td><td>4.70</td><td>5.46</td></tr>
<tr><td rowspan="3">Cash flow (%)</td><td colspan="2">Cash flow ratio</td><td>69.93</td><td>84.09</td></tr>
<tr><td colspan="2">Cash flow adequacy ratio</td><td>154.74</td><td>130.24</td></tr>
<tr><td colspan="2">Cash reinvestment rate</td><td>14.50</td><td>12.42</td></tr>
<tr><td rowspan="2">Leverage</td><td colspan="2">Operating leverage</td><td>1.97</td><td>2.02</td></tr>
<tr><td colspan="2">Financial leverage</td><td>1.01</td><td>1.02</td></tr>
<tr><td colspan="5">Explanation for items in 2012 with major changes from the previous year:
(1) The current ratio, quick ratio and cash flow ratio increased due to the repayment of short-term borrowings and notes and bills payable in 2012.
(2) The long-term fund to fixed asset ratio increased due to higher long-term liabilities resulting from the issuance of new corporate bonds in 2012.
(3) As revenue increased, the fixed asset turnover and total assets return rose accordingly.</td></tr>
</table>

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

In 2013, the Company will continue to leverage mobile internet products to expand its wireless market share. As 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, such as mobile shopping, video/audio services and myBook store (an e-book platform), to satisfy customers’ demand in order to boost revenue from such services and increase average revenue per user (ARPU). To meet these targets, the Company will make full use of its potential and competitive edge in handset procurement to raise its marketing and cost-efficiency.