

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

Balance Sheet Analysis

Consolidated balance sheet analysis

Explanation of significant changes (at least a 20% change) in the past two years' assets, liabilities and shareholders' equity:

1. Current assets increased as accounts receivable and inventories rose due to higher smartphone and bundled sales.
2. Investments increased mainly due to a capital injection in Taipei New Horizon.
3. Intangible assets increased due to the acquisition of 4G license.
4. Current liabilities increased due to rising short-term borrowings to finance the payment of 4G license fees.
5. Non-current liabilities increased due to a new corporate bond issuance in 2013 and increased borrowings to finance mid and long-term working capital requirements.

2012 - 2013 Consolidated Balance Sheet

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Current assets	23,772,918	29,493,868	5,720,950	24.06
Investments	3,057,545	4,194,570	1,137,025	37.19
Property, plant and equipment	40,737,678	42,985,801	2,248,123	5.52
Intangible assets	26,654,154	54,837,271	28,183,117	105.74
Other assets	6,167,930	6,840,869	672,939	10.91
Total assets	100,390,225	138,352,379	37,962,154	37.81
Current liabilities	29,930,393	58,605,638	28,675,245	95.81
Non-current liabilities	12,816,539	21,226,100	8,409,561	65.61
Total liabilities	42,746,932	79,831,738	37,084,806	86.75
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	12,431,851	12,456,891	25,040	0.20
Retained earnings	40,668,067	41,433,176	765,109	1.88
Other equity and treasury stock	(30,737,157)	(30,664,501)	72,656	(0.24)
Non-controlling interests	1,072,204	1,086,747	14,543	1.36
Total equity	57,643,293	58,520,641	877,348	1.52

Stand-alone balance sheet analysis

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2012- 2013 Stand-alone Balance Sheet

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Current assets	16,467,066	19,819,698	3,352,632	20.36
Investments	33,717,978	39,563,373	5,845,395	17.34
Property, plant and equipment	29,799,766	28,975,365	(824,401)	(2.77)
Intangible assets	11,932,848	40,247,043	28,314,195	237.28
Other assets	6,647,558	5,571,753	(1,075,805)	(16.18)
Total assets	98,565,216	134,177,232	35,612,016	36.13
Current liabilities	30,377,402	57,236,700	26,859,298	88.42
Non-current liabilities	11,616,725	19,506,638	7,889,913	67.92
Total liabilities	41,994,127	76,743,338	34,749,211	82.75
Paid-in capital	34,208,328	34,208,328	-	-
Capital surplus	12,431,851	12,456,891	25,040	0.20
Retained earnings	40,668,067	41,433,176	765,109	1.88
Other equity and treasury stock	(30,737,157)	(30,664,501)	72,656	(0.24)
Total shareholders' equity	56,571,089	57,433,894	862,805	1.53

Impact of changes on financial results: No significant impact

Preventive measures: Not applicable

Statements of Comprehensive Income Analysis

Consolidated Statements of Comprehensive Income

1. Increase in revenue and operating costs: Growing mobile broadband and online shopping businesses, coupled with strong smartphone sales, led to higher revenue and operating costs.
2. Increase in operating expenses: Operating expenses rose due to expansion of company stores.
3. Increase in non-operating expenses: Non-operating expenses expanded due to higher losses from asset write-offs and disposal of fixed assets.

2012 – 2013 Consolidated Statements of Comprehensive Income

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Revenue	99,740,256	109,143,367	9,403,111	9.43
Operating costs	61,625,644	70,033,319	8,407,675	13.64
Gross profit	38,114,612	39,110,048	995,436	2.61
Operating expenses	17,402,414	18,374,554	972,140	5.59
Operating income	20,782,210	20,794,837	12,627	0.06
Non-operating income (expenses)	(840,885)	(1,676,296)	(835,411)	99.35
Income before tax	19,941,325	19,118,541	(822,784)	(4.13)
Net income	16,550,199	15,817,781	(732,418)	(4.43)

Stand-alone Statements of Comprehensive Income

1. Increase in operating costs: Operating costs rose in 2013 due to rising smartphone sales and mobile data subscriber number.
2. Increase in operating expenses: Operating expenses rose due to store expansion and handset promotional campaigns to acquire new or retain customers.
3. Increase in non-operating income: Non-operating income rose due to higher investment gains from Taiwan Fixed Network.

2012 – 2013 Stand-alone Statements of Comprehensive Income

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Revenue	69,867,814	78,928,492	9,060,678	12.97
Operating costs	42,407,001	51,265,449	8,858,448	20.89
Gross profit	27,460,813	27,629,638	168,825	0.61
Operating expenses	14,450,553	19,424,256	4,973,703	34.42
Operating income	13,063,580	8,258,017	(4,805,563)	(36.79)
Non-operating income (expenses)	5,244,610	8,329,636	3,085,026	58.82
Income before tax	18,308,190	16,587,653	(1,720,537)	(9.40)
Net income	16,326,013	15,583,447	(742,566)	(4.55)

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

In 2014, the Company will continue to leverage mobile internet products to expand its wireless market share. As demand for smart devices expands, the Company aims to invest 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 and increase average revenue per user. The Company will make full use of its potential and competitive edge in handset procurement to raise its cost-efficiency so as to meet its profit target.

Cash Flow Analysis

Consolidated cash flow analysis

1. Increase in cash outflow from investment activities: Cash outflow rose due to the payment of 4G license fees.
2. Increase in cash inflow from financing activities: Cash inflow rose due to increased bank borrowings.

2012 – 2013 Consolidated Cash Flow Statement

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	25,984,728	24,833,011	(1,151,717)	(4.43)
Cash inflow (outflow) from investment activities	(10,227,809)	(42,345,998)	(32,118,189)	(314.03)
Cash inflow (outflow) from financing activities	(16,132,067)	19,267,519	35,399,586	NM
Impact from changes in exchange rate	(5,904)	8,622	14,526	NM
Net cash increase (decrease)	(381,052)	1,763,154	2,144,206	NM

Stand-alone cash flow analysis

1. Decrease in cash inflow from operating activities: Cash inflow decreased due to increasing operating expenditure from expanding scale of business.
2. Increase in cash outflow from investment activities: Cash outflow rose due to the payment of 4G license fees.
3. Increase in cash inflow from financing activities: Cash inflow rose due to increased bank borrowings.

2012 – 2013 Stand-alone Cash Flow Statement

Unit: NT\$'000, %

	2012	2013	YoY change	
			Amount	%
Cash inflow (outflow) from operating activities	17,863,604	12,197,463	(5,666,141)	(31.72)
Cash inflow (outflow) from investment activities	(8,278,465)	(32,140,946)	(23,862,481)	(288.25)
Cash inflow (outflow) from financing activities	(9,307,302)	19,389,851	28,697,153	NM
Net cash increase (decrease)	277,837	(553,632)	(831,469)	NM

Plans to improve negative liquidity: Not applicable

Consolidated projected cash flow for 2014

1. Projected cash inflow from operating activities: Expected to remain stable
2. Projected cash outflow from investment activities: For capital expenditure
3. Projected cash outflow from financing activities: For cash dividend distribution

2014 Consolidated Projected Cash Flow Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Forecast cash outflow from investment and financing activities (3)	Cash balance, end of the year (1) + (2) - (3)	Source of funding for negative cash balance	
				Cash inflow from investment activities	Cash inflow from financing activities
7,954,294	26,194,429	26,048,724	8,099,999	—	—

Source of funding for negative cash flow in 2014: Not applicable

Analysis of Major Capex and its Impact on Finance and Operations

Given stable operations and operating cash inflows, the Company funds its major capex with its own working capital, thus, having a minimal impact on its financials.

Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and Future Investment Plan

All of TWM's long-term holdings are strategic investments. The Company is committed to promoting digital convergence and becoming a leading player in the T.I.M.E (telecommunication, internet, media and entertainment) era. In 2013, on a consolidated basis, TWM's losses from long-term investments under the equity method amounted to NT\$55,403,000, as many of these investments were still in the initial stage. The Company expects return on investment to improve going forward. It will also continue to make prudent strategic investments.

Risk Management

Impact of inflation, interest and exchange rate fluctuations, and preventive measures:

1. Impact of interest rate fluctuations

Interest rate fluctuations had a minimal impact on TWM's 2013 short-term bank borrowings, as interest rates remained low and stable because of the global economic slowdown. The Company issued straight corporate bonds and signed a mid-term loan agreement with banks to lock in mid-to-long-term interest rates and minimize impacts from interest rate fluctuations.

2. Impact of exchange rate fluctuations

The Company's main service area is Taiwan. Except for its international roaming business, all operating revenues and expenses are denominated in NT dollars. However, some of the Company's expenditures are denominated in euros and US dollars. To minimize the impact from foreign exchange rate fluctuations, the Company hedges risks through foreign exchange spot market transactions. Overall, exchange rate fluctuations had a minimal impact on the Company.

3. Impact of inflation

Inflation had a minimal impact on the Company's operating performance in 2013 and up to the publication date.

4. Objectives and methods for hedge accounting of financial instruments (including derivatives) owned or used by the Company:

Not applicable as the financial instruments owned or used by the Company do not meet the criteria for hedge accounting.

Investment policy and reasons for gains & losses for high-risk/high-leverage financial products, derivatives, loans to others and guarantees of debts:

1. The Company was not involved in any high-risk, high-leverage financial investment.
2. The Company passed the "Rules and Procedures on Lending and Making Endorsements/Guarantees" to supervise its financing and endorsement activities.
3. Derivatives transaction: None.

Research and development plans

Project name	Objective	Status	Completion date	Key to success
Sales incentive and sales performance evaluation system for repair and logistics	Develop an automated sales incentive and performance evaluation system to replace manual processing in order to enhance channel management and boost sales efficiency	Working on system design	Aug. 2014	TWM has control over the core technology as it was developed in-house.
Collection scorecard	Optimize collection process using collection scorecard results to forecast repayment probability to achieve a higher collection rate	Working on system design	Sept. 2014	TWM has mastered data mining techniques.
4G LTE billing system enhancement	Enhance TWM billing system to cope with the launch of the Company's 4G LTE service	Working on system implementation	2Q14 ~ 4Q14	TWM already has an established billing system that it can build on to support the new technology.
Mobile payment	Provide Mobile Wallet service using QR codes or NFC. Users can make payments through a credit card or bank account that is embedded on their mobile phones	Working on system design	Sept. 2014	Both the business model and technology are mature.

Regulatory changes and developments

1. Revision of digital convergence regulations

(1) Status

The "digital convergence development program" approved by the Executive Yuan is divided into two stages. The first stage involves promoting cross-media convergence services, solving urgent problems relating to other laws or regulations that might hinder its implementation and cross-industry barriers. The second stage focuses on creating a new environment to facilitate digital convergence, overcoming the obstacles left from the first stage and establishing a management structure with layers of networks, platforms and content.

For the first stage, proposed amendments to the Satellite Broadcasting Act, the Radio and Television Act and the Cable Radio and Television Act are currently under review by the Legislative Yuan, while the draft revision to the Telecommunications Act was returned by the Executive Yuan to the National Communications Commission (NCC) for changes amid concern over "separation of functions." In September 2013, the NCC decided to stop pushing for the revision of the Telecommunications Act and to move directly into the second stage by promoting legislation relating to digital convergence. The commission has been soliciting public opinions on digital convergence development since December 2013.

(2) Countermeasures

The Company is closely monitoring the progress of the amendments and continues to communicate with and forward suggestions and recommendations concerning related policies and regulations to the NCC.

2. TWM received NCC's approval for its 4G network rollout on January 15, 2014, and permit for equipment installation on March 12, 2014

(1) Status

The 4G license auction was completed on October 30, 2013, with TWM winning two 15MHz x 2 blocks on the 700MHz (spectrum A4) and the 1800MHz (spectrum C1) bands. The NCC approved the Company's 4G network rollout plan on January 15, 2014 and a permit for equipment installation on March 12, 2014. TWM aims to provide high-speed wireless broadband service to the public officially after receiving the 4G license.

(2) Countermeasures

To meet urgent public demand for high-speed wireless broadband service, the Company is working not only to speed up its own 4G network rollout, but has also urged the NCC to set up a designated window and simplify the approval process and steps to facilitate the launch of 4G services.

3. Rezoning of CATV service areas

(1) Status

On July 27, 2012, the NCC announced plans to expand CATV service areas based on city/county and to open license applications to new entrants. At press time, the NCC had approved a total of 10 applicants: four in New Taipei City, three in Greater Taichung, two in Taipei City and one in Greater Kaohsiung. The commission is further reviewing five new applications: one each in New Taipei City, Taipei City, Greater Taichung, Changhua County and Greater Taipei (New Taipei City and Taipei City).

(2) Countermeasures

With the threat of new competition, the Company is integrating its mobile, fixed-line, CATV and digital content to provide users with more digital convergence services, accelerating digitization services and offering more HD channels to enhance customer satisfaction.

4. Legislative Yuan reviewing ban on media investments by political interests

(1) Status

In March 2012, the Executive Yuan submitted a draft amendment to the Cable Radio and Television Act that will allow a company in which the government indirectly holds less than 10% of its shares to invest in the media industry. The threshold was lowered to 5% by the legislature's Transportation Committee. The amendment still has to be approved by the legislative plenary.

(2) Countermeasures

The relaxation on indirect government ownership should ease the restrictions preventing the Company from venturing into other CATV service areas, giving the Company more flexibility in managing its business. The Company will be closely monitoring the progress of the proposed amendment and continue to communicate with and forward suggestions and recommendations concerning related policies and regulations to the Legislative Yuan.

5. NCC drafting bill on preventing monopolies and promoting diversity in media

(1) Status

Following several controversial deals in recent years, public calls for a media anti-monopoly bill have intensified amid concern that the nation's media outlets may soon be controlled by a few powerful groups. The Legislative Yuan asked the Executive Yuan to submit a draft media anti-monopoly bill before March 22, 2013. In May 2013, the Executive Yuan submitted a draft on preventing monopolies and promoting diversity in the media industry to the Legislative Yuan. The Democratic Progressive Party (DPP) drafted another bill on preventing monopolies. Chinese Nationalist Party (KMT) Legislator Yang Li-hung and DPP Legislator Liu Chien-kuo also drafted their own versions of the bill.

The legislature's Transportation Committee completed reviewing all the above-mentioned drafts in June 2013. The Legislative Yuan held interparty negotiations twice, but failed to reach a consensus over controversial articles such as "restrictions on media investments by financial institutions" and whether they should be implemented retroactively.

(2) Countermeasures

Legislative approval will take time, as the government and the ruling and opposition lawmakers seek a consensus. The Company is closely monitoring the progress of the amendments and continues to communicate with and forward suggestions and recommendations concerning related policies and regulations to the Legislative Yuan to ensure room for development for the media industry.

6. NCC expects to implement "a la carte" pricing for basic channels starting in 2017

(1) Status

In April 2013, the NCC proposed an adjusted CATV pricing plan in response to digital convergence. The plan includes implementing "a la carte" pricing for basic channels starting in 2017 and a monthly fee cap for pay TV of less than NT\$500. The NCC has asked new entrants to commit to such a plan when they launch their service.

(2) Countermeasures

Discussions on adjusting CATV pricing are still in the initial stage, but the implementation of "a la carte" pricing for basic channels is expected to have a significant impact on the CATV industry. The Company is closely monitoring the progress of the policy and continues to communicate with the NCC, the Executive Yuan and lawmakers in hopes of maintaining the original cap on pay TV monthly fees and have more flexibility in bundling channels and rate plans.

Technology changes and development

1. Long Term Evolution (LTE)

(1) Status

LTE is the next generation mobile broadband access technology after 3G. As LTE can be used in different spectrum bands and is able to provide faster and more efficient mobile broadband access service than 3G, most mobile operators worldwide have built or plan to base their 4G services on LTE.

(2) Countermeasures

TWM has been monitoring LTE's technology evolution and commercial development for years. In 2013, TWM built three LTE trial networks in Taipei, Taichung and Tainan for LTE-related tests. During the 4G spectrum auction, TWM won two 15MHz x 2 blocks on the 700MHz (spectrum A4) and the 1800MHz (spectrum C1) bands. TWM is aggressively rolling out its LTE network and plans to launch commercial services in 2014.

2. Rising popularity of internet protocol

(1) Status

The popularity of internet protocol (IP) has revolutionized the telecommunications business and network infrastructure, giving rise to increased IP-based communications traffic. IP-based telecom is able to simplify network infrastructure, translating into big savings on operating costs. On the other hand, not only has the increasing availability of cheap or free VoIP services had a great impact on traditional fixed-line operators' long distance and international voice call revenue, free mobile IP messaging services even caused a decline in SMS traffic during the New Year holidays in 2012 to 2014.

(2) Countermeasures

The necessity of building an IP core network infrastructure based on next generation network (NGN) is an urgent task. TWM has been building the latest IP-based optical core network and has started to deploy IP core access and transmission technologies. It is also conducting laboratory tests of various End-to-End IP network quality measurements, VoIP and IP messaging application services to lead industry development.

In 2013, the Company started developing and testing new IPv6 technology and new IP application services, and conducting research on the latest optical packet carrier ethernet technologies to introduce more services that provide households with the most advanced and innovative broadband services. In addition to closely monitoring the free VoIP and IP messaging traffic trends, the Company launched its own free IP messaging service, M+, in 2012 to satisfy customers' real-time social communication needs, as well as proactively participate in the new over-the-top (OTT) service model.

3. Digital convergence and cloud services

(1) Status

Because of the digitalization trend, the transmission and exchange of related digital content and services among different carriers, systems and platforms have brought about changes in the wired and wireless communications and broadcasting industries. This has not only promoted competition and integration of the two industries, but also facilitated an industry consolidation. The digitalization of terrestrial TV, which went into force on July 1, 2012, is expected to accelerate the development of digital convergence services. As such, cloud computing technology and service – the base of digital convergence – have progressed from merely a concept to a profitable business, and should be the future trend.

(2) Countermeasures

Merging Taiwan Fixed Network (TFN) and Taiwan Telecommunication Network Services (TTN) in 2007 enhanced the Company's status as a leader in the digital convergence era. TWM had integrated the group's resources to facilitate research and development in digital convergence and launched fixed-mobile convergence (FMC) services for corporate accounts. It is also aggressively planning new digital convergence services that will integrate cable TV, digital TV, cable broadband, and interactive entertainment services. At the end of 2010, the Company launched its four-screen-and-a-cloud digital convergence service, integrating handset, PC, tablet and TV. Not only was TWM the first to introduce the

service in Taiwan, it was also an industry pioneer in Asia. In 2013, TWM completed the construction of a green data center and launched services. This data center is not only Taiwan's first world class data center, but also the only one to receive Uptime Tier III certification in the East Asian region. TWM will use this data center to provide infrastructure as a service (IAAS), enabling the Company to launch additional intelligent cloud services in four key areas – mobile life, digital content, intelligent life and intelligent enterprise – in the future.

4. Popularity of mobile smart devices and WiFi technologies

(1) Status

The popularity of the iPhone, Android phone and other mobile smart devices has dramatically boosted the growth of 3G data usage. This has forced global mobile operators to expand their 3G access networks' backhaul bandwidth and network capacity, which in turn has increased the pressure on their operating costs. Many mobile operators have started building WiFi networks to offload 3G data traffic.

(2) Countermeasures

In 2013, in addition to continuing to expand the backhaul bandwidth and network capacity of its HSPA network as well as WiFi coverage, the Company launched the EAP-SIM (Extensible Authentication Protocol for GSM Subscriber Identity Module) service to provide customers with easier WiFi access. The Company will continue to deploy more WiFi hotspots in the future.

Impact of changes in brand image on the Company's risk management policies:

None. TWM has long built up a sound image among investors and customers for its continuing efforts to enhance corporate governance, network communication quality and customer service, as well as to fulfill its corporate social responsibility. These efforts won numerous recognitions and awards in 2013 (please refer to Chapter 1) and should aid the Company in preventing, controlling and managing latent risks that it may face and help it maintain its good corporate image.

Expected benefits and risks from mergers in recent years until publication date: None.

Expected benefits and risks related to plant facility expansions: Not applicable as the Company is not a manufacturer.

Risks from supplier and buyer concentrations in recent years until publication date:

The Company encounters minimal risks from supplier and buyer concentrations (please refer to Chapter 4).

Significant changes in shareholdings of directors and major shareholders: None.

Changes in management controls: Not applicable.

Significant lawsuits and non-litigious matters

1. The Company: None.

2. The Company's directors, general manager, executives, major shareholder holding more than 10 percent of the Company's shares: None.

3. The Company's subsidiaries

(1) Taiwan Fixed Network Co., Ltd. (TFN)

The Construction Bureau of the Greater Taichung Government ruled that TFN should pay the construction and

maintenance fee of NT\$18,688,057 for the reconstruction of the National Second Highway extension's interchange system – A-J bids for common duct construction for 2-1 Road in Fongyuan City.

Parties Involved: TFN is the defaulting party.

Deadline for Filing an Administrative Appeal by TFN: April 14, 2014

Grounds for Lawsuit:

The Construction Bureau ruled that TFN should pay the construction and maintenance fees of NT\$18,688,057 according to Article 21 of the Common Duct Act and Articles 2, 3, and 4 of the Regulations on Cost Allotment for Common Duct Construction and Management in March 2014. TFN disagreed with the administrative disposition and is expected to file an administrative appeal before April 14, 2014.

(2) TCC Investment Co., Ltd. (TCCI)

TCCI filed a lawsuit against Taiwan High Speed Rail Corp (THSRC) for the payment of preferred share dividends in 2007 and 2008.

Parties Involved: TCCI is the plaintiff and THSRC is the defendant.

Amount Claimed: NT\$24,726,027 for the dividends in 2007, and NT\$25,000,000 for the dividends in 2008.

Date of Filing: The lawsuits for the dividends in 2007 and 2008 were filed on June 24, 2013 and September 23, 2013, respectively.

Grounds for Lawsuit:

On January 27, 2003, TCCI purchased 50,000,000 Class A name-bearing convertible preferred shares issued by THSRC at NT\$10 per share. According to Article 7-1 and Article 36, paragraph 3 of THSRC's Articles of Association, and Article 8 of the Regulations for the Issuance and Conversion of Class A Name-Bearing Convertible Preferred Shares, preferred stock dividends are set at 5% of par value per annum. Dividends are payable in cash on a yearly basis, but THSRC has failed to pay any dividend since January 5, 2007. To protect its interests, TCCI filed lawsuits against THSRC to claim its preferred stock dividends (NT\$24,726,027 for 2007 and NT\$ 25,000,000 for 2008) plus late payment interest.

Status: The lawsuits are currently pending in the Shihlin District Court.

(3) Taiwan Kuro Times Co., Ltd. ("Taiwan Kuro")

The Taiwan Intellectual Property Office ("TIPO") issued an administrative disposition in response to Taiwan Kuro's appeal for a review of the generalized licensing royalty rates announced by the Music Copyright Society of Chinese Taipei ("MUST"). Taiwan Kuro disagreed with TIPO's disposition and filed an administrative appeal. When the Ministry of Economic Affairs dismissed Taiwan Kuro's appeal, Taiwan Kuro filed an administrative litigation.

Parties Involved: Taiwan Kuro is the plaintiff and TIPO is the defendant.

Date of Filing: August 23, 2013

Grounds for Lawsuit:

On December 19, 2012, TIPO issued an administrative disposition in response to an appeal filed by Taiwan Kuro on September 1, 2010, for a review of the generalized licensing royalty rates announced by MUST on August 12, 2010. TIPO stated that pursuant to Article 25, Paragraph 6 of the Copyright Collective Management Organization Act: "When there is sufficient reason for an application for review under Paragraph 1, the specialized agency in charge of copyright matters shall make a determination of the given royalty rate, which shall be effective from the date of application for review, provided that in the case of applications made prior to the date of implementation of a given royalty rate, the newly determined rate shall take effect from the date of implementation." Taiwan Kuro disagreed with the generalized

licensing royalty rates stipulated in TIPO's disposition and filed an administrative appeal. The Ministry of Economic Affairs dismissed the administrative appeal issued by Taiwan Kuro on June 25, 2013. Taiwan Kuro filed an administrative litigation to revoke TIPO's disposition on August 23, 2013.

Status: The lawsuit is currently pending in the Intellectual Property Court.

Other major risks

Customer fraud management policy

1. Verification before activation

Applicants' identity and qualifications are carefully reviewed and verified before service is activated.

2. Monitoring after activation

- (1) Exception management: Relatively "high-risk" applicants are filtered out by the system to protect users' interests.
- (2) Credit control: The system analyzes customers' behavior patterns to strengthen client management.

Other significant items: None.