

## Appendix 2

### Accounting procedure manual of relevant maintenance expenses in promoting cable television universal service in remote areas

#### 1. Sources of law

- (1) Cable Radio and Television Act
- (2) Regulations Governing Accounting system and Formula Standards of Cable Radio and Television System Operators.
- (3) Essential operations in promoting the development of cable broadcasting.

#### 2. Range of universal service

- (1) The remote areas appointed by National Communication Commission (hereinafter as "NCC") .the remote areas shall refer to the township (town, city) is with a population density no more than one-fifth of the average national population density, or isolated lands at least 7.5 km away from the location of local governments of special municipalities or counties/cities. The relevant data source used in calculating the population density of remote areas shall be adopted from "the Population for Township and District of Taiwan and Fuchien area" announced by Department of Household Registration, Minister of Interior affairs every six months.
- (2) If the system operator in preceding paragraph deems there are annual losses in in providing cable television service to the isolated islands or remote area in its business area, the system operator may also apply for subsidy from NCC for maintenance expenses with detailed information of annual operating losses reports certified by a CPA

#### 3. Calculation of amount of the annual losses

- (1) Maintenance and operating cost in the universal service area shall include the capital cost and operating cost in the service area during the accounting period.

I. Capital cost: the capital cost of fixed assets and operating fund for operating in the universal service area, which may be calculated by the methods in the following (i) or (ii):

- (i) The weighted amount of operating capital ,fixed assets and intangible assets times cost-of-funds rate,
- (ii) The weighted amount of capital, capital reserve, legal reserve, special reserve and undistributed net income times the cost-of-funds rate.
- (iii) Operating capital is the amount that liquid assets deduct the current liability. The current liability includes the subscription fee collected in advance, but does not include short-term liability with interest.
- (iv) Fixed assets and intangible assets are limited to the ones has been used in the broadcasting of cable radio and television.
- (v) The weighted amount of operating capital, fixed assets and intangible assets shall be calculated with the percentage of inputted period among the whole year.
- (vi) The part of special reserve which was collected according to the regulation of securities and futures management commission due to shareholder 's equity debit shall not be included in the capital cost.
- (vii) The cost-of-funds rate applied to the cable radio and television universal service shall

equal to the current basic interest rate of Taiwan Bank

II. The necessary expenses to maintain the normal operation of the facilities and properties of the aforementioned cable radio and television contains the following items:

(i)Subscriber reception service cost

- A. Program production cost
- B. Program copyright cost
- C. Program broadcasting cost
- D. Others.

(ii) Network element transmitting cost

- A. Depreciation on head-end telecommunication equipment room
- B. Depreciation on network facilities
- C. Others.

(iii) Supporting functions cost

- A. Network management cost
- B. Repair expenses
- C. Electricity fees in transmission.
- D. Expenses on collecting debt.
- E. Others

(iv) General management functions cost

- A. General management expenses on salaries
- B. Education and training expenses
- C. Office rents
- D. Information management expenses
- E. Depreciation on office facilities
- F. Depreciation on computers
- G. Others

(2) The revenues collected in the universal service area shall be the income of universal service provider providing goods or labors in the universal service area, which includes:

- A. Subscriber basic channels revenues
- B. Subscriber paid channels revenues
- C. Subscriber paid programs revenues
- D. Subscriber installation fee revenues
- E. Leased-Circuit revenues
- F. Lease-Channel revenues
- G. Channel operating revenues
- H. Advertisement revenues
- I. Others

(3.)The amount of financial support against natural disaster applied according to relevant regulations in universal service area in the current year shall be deducted from the amount of annual losses.

(4) The amount of annual losses shall be the cost of universal service provider providing service in universal service area deducted the revenues in universal service area and amount of

financial support against natural disaster.

(Amount of annual losses) = cost in universal service area - revenues in universal service area - amount of financial support against natural disaster

#### 4. Attribution of operating cost and allotment of cost in universal service area

##### (1) Attribution of operating cost

###### I. Attribution of operating cost

It refers to the procedure which the operating cost and expenses booked into the departments; such departments include subscriber reception service, Leased-Circuit service, channel service, advertisement service and others.

(i) Direct cost shall refer to the cost may directly attributed to the cost object, there is clear causal link between the imputed cost and cost object, and benefited level and amount of used resources may be definitely evaluated.

(ii) Indirect cost shall refer to the cost may not directly attributed to the cost object; it shall be collected or allotted according to its nature in the cost pool with same nature, and then allotted to the cost object on proper base.

The cost pool in the preceding paragraph shall refer to the joint account collecting respective cost items, such as Network element transmitting cost, Supporting functions cost or General management functions cost and so on;

The costs collected in the same cost pool shall share the homogeneity; the so-called homogeneity shall refer to that there are some or similar causal link or benefited level between the cost and cost object.

###### II. Accounting title coding principles

Please take reference of "Establishment Guidelines on Account Titles of Cable Radio and Television Operators"

##### (2) Allotment of cost in universal service area

I. The allotment basis of indirect cost shall take principle of the "Regulations Governing Accounting system and Formula Standards of Cable Radio and Television System Operators", and choose the proper allotment basis with consideration of casual link and benefited level.

###### II. Allotment steps of cost in universal service area

Allotment of cost in universal service area is divided into 4 steps

Step 1	Allotment of Subscriber reception service cost
Step 2	Allotment of Network element transmitting cost
Step 3	Allotment of Supporting functions cost
Step 4	Allotment of General management functions cost

Description listed below respectively:

**Step 1: Allotment of Subscriber reception service cost**

Before allotment		After allotment		Allotment factor	Allotment factor adopted reason	Remarks
Cost title	Area	Cost title	Area			
Subscriber reception service cost	Operating area	Subscriber reception service cost	Remote area	Number of actual subscribers in operating area and remote area	Because the inputted maintenance and operating cost is relevant to the number of subscribers, the number of subscribers shall be allotment basis.	Calculating the allotted Subscriber reception service cost of such remote area among the cost in operating area
		Subscriber reception service cost	Non-remote area			

**Step 2: Allotment of Network element transmitting cost**

Before allotment		After allotment		Allotment factor	Allotment factor adopted reason	Remarks
Cost title	Area	Cost title	Area			
Network element transmitting cost	Operating area	Network element transmitting cost	Remote area	The length of existing fiber cable networks and coaxial cable networks in operating area and remote area	Because the inputted maintenance and operating cost is relevant to the length of existing fiber cable networks and coaxial cable networks, the length of existing fiber cable networks and coaxial cable networks shall be allotment basis.	Calculating the allotted Network element transmitting cost of such remote area among the cost in operating area
		Network element transmitting cost	Non-remote area			

**Step 3: Allotment of supporting functions cost**

Before allotment		After allotment		Allotment factor	Allotment factor adopted reason	Remarks
Cost title	Area	Cost title	Area			

Supporting functions cost	Operating area	Supporting functions cost	Remote area	The length of existing fiber cable networks and coaxial cable networks in operating area and remote area	Because the inputted maintenance and operating cost is relevant to the length of existing fiber cable networks and coaxial cable networks, the length of existing fiber cable networks and coaxial cable networks shall be allotment basis.	Calculating the allotted supporting functions cost of such remote area among the cost in operating area
		Supporting functions cost	Non-remote area			

**Step 4:** Allotment of General management functions cost

Before allotment		After allotment		Allotment factor	Allotment factor adopted reason	Remarks
Cost title	Area	Cost title	Area			
General management functions cost	Operating area	General management functions cost	Remote area	The length of existing fiber cable networks and coaxial cable networks in operating area and remote area	Because the inputted maintenance and operating cost is relevant to the length of existing fiber cable networks and coaxial cable networks, the length of existing fiber cable networks and coaxial cable networks shall be allotment basis.	Calculating the allotted General management functions cost of such remote area among the cost in operating area
		General management functions cost	Non-remote area			