Far EasTone Telecommunications Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2016 are the same as the companies required to be included in the consolidated financial statements of parent and subsidiaries companies as of and for the years ended December 31, 2016 and 2015, as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiaries companies as of and for the years ended December 31, 2016 and 2015. Hence, we did not prepare a separate set of consolidated financial statements of affiliates for the year ended December 31, 2016.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By

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February 15, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Far EasTone Telecommunications Co., Ltd.

Opinion

We have audited the consolidated financial statements of Far EasTone Telecommunications Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The description of the key audit matters of the consolidated financial statements for the year ended December 31, 2016 are as follows:

Impairment Loss of Property, Plant and Equipment and Intangible Assets (Including Goodwill)

As of December 31, 2016, the consolidated balances of property, plant and equipment and intangible assets account for 76% of the total assets and are material for the consolidated financial statements as a whole. The economic trends, market competition, and technology development influence the operation of the Group and the management's evaluation and judgment on the expected economic benefits and recoverable amounts of the cash-generating unit to which the asset belongs, which in turn is used for the evaluation of the asset's impairment. Thus, the impairment of property, plant and equipment and intangible assets is considered as a key audit matter.

For the estimates and judgments related to property, plant and equipment and intangible assets, please refer to Note 5 to the consolidated financial statements. For other related disclosures, please refer to Note 15 and Note 17.

By conducting the tests of controls, we obtained an understanding of the Group's asset impairment evaluation processes and of the design and implementation of related controls. We also performed corresponding audit procedures as follows:

1. Obtain the Group's asset impairment evaluation reports for each cash-generating unit.

2. Evaluate the reasonableness of the Group's identification of asset impairment, the assumptions and sensitivity used in the asset impairment assessment, including the appropriateness of the classification of cash-generating unit, cash flows forecasts and discount rates used.

Recognition of Telecommunications Service Revenue

The telecommunications service revenue is the main source of the revenue, and it accounts for 71% of the Group's total revenue of 2016. The calculation of telecommunications service revenue highly relies on automated systems and includes complicated and huge data transmission. In order to meet market demands and remain competitive, the Group often launches different combinations of products and services which makes the calculation of revenue more complex and directly affects the accuracy and timing of revenue recognition. Therefore, the recognition of telecommunications service revenues is considered as a key audit matter.

For the accounting policies related to telecommunications service revenues, please refer to Note 4 to the consolidated financial statements.

By conducting the tests of controls, we obtained an understanding of the Group's recognition of telecommunications service revenues and of the design and implementation of related controls. We also engaged IT specialists to perform corresponding audit procedures as follows:

1. Review the contracts of mobile subscribers to confirm the accuracy of the information in the accounting system.

2. Perform test dialing to verify the accuracy and completeness of the traffic and information in the switch equipment.

3. Test the accuracy of the billing calculation.

4. Test the completeness and accuracy of the calculation and billing of monthly fees and airtime fees.

5. Test the completeness and accuracy of the calculation and billing of value-added service fees.

For the revenue recognition of billed and unbilled amounts, we conducted the following tests:

1. For the billed amounts, we compare if there is any difference between the reports generated from the accounting system and the billing system.

2. For the unbilled amounts, we recalculate the service revenue for services provided as of the balance sheet date based on the applied charge rates to confirm the accuracy.

Other Matter

We have also audited the parent company only financial statements of Far EasTone as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Group’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with statements that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are An-Hwei Lin and Cheng-Hung Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 15, 2017

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 33)	$ 10,258,743	8	$ 15,994,767	12
Available-for-sale financial assets - current (Notes 4, 7 and 33)	598,132	-	665,295	1
Derivative financial assets for hedging - current (Notes 4 and 8)	2,073	-	6,015	-
Debt investments with no active market - current (Notes 4, 10 and 33)	910,396	1	1,522,052	1
Notes receivable, net (Notes 4 and 11)	64,361	-	60,620	-
Accounts receivable, net (Notes 4 and 11)	7,445,520	6	6,795,633	5
Accounts receivable - related parties (Notes 4, 11 and 33)	205,425	-	224,184	-
Inventories (Notes 4 and 12)	2,488,365	2	4,505,195	3
Prepaid expenses	1,190,030	1	1,260,828	1
Other financial assets - current (Notes 4, 33 and 34)	3,079,280	2	2,777,469	2
Other current assets (Note 33)	315,063	-	487,315	-
Total current assets	26,557,388	20	34,299,373	25
NONCURRENT ASSETS				
Financial assets carried at cost (Notes 4 and 9)	218,308	-	218,308	-
Investments accounted for using the equity method (Notes 4, 14 and 33)	1,025,081	1	1,051,237	1
Property, plant and equipment, net (Notes 4, 15 and 33)	49,849,572	37	52,045,655	38
Investment properties (Notes 4 and 16)	1,041,406	1	1,107,586	1
Concessions, net (Notes 1, 4 and 17)	38,383,531	29	31,834,869	23
Goodwill (Notes 4 and 17)	10,808,901	8	10,808,901	8
Other intangible assets (Notes 4 and 17)	3,266,025	2	3,034,226	2
Deferred income tax assets (Notes 4 and 27)	943,784	1	768,344	1
Other noncurrent assets (Notes 4, 18, 23, 33 and 34)	713,326	1	1,712,672	1
Total noncurrent assets	106,249,934	80	102,581,798	75
TOTAL	$ 132,807,322	100	$ 136,881,171	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 19)	$ 2,800,000	2	$ 506,971	1
Short-term bills payable (Notes 4 and 19)	3,149,171	2	329,708	-
Derivative financial liabilities for hedging - current (Notes 4, 8 and 33)	47,767	-	11,016	-
Notes payable	15,425	-	13,494	-
Accounts payable (Note 33)	4,126,464	3	4,526,958	4
Other payables (Note 21)	8,795,001	7	9,660,725	7
Current tax liabilities (Note 4)	2,157,366	2	1,718,345	1
Provisions - current (Notes 4 and 22)	219,922	-	203,557	-
Unearned revenue (Note 4)	2,447,193	2	2,444,973	2
Current portion of long-term borrowings (Notes 4 and 20)	6,197,478	5	1,599,112	1
Guarantee deposits received - current	257,597	-	267,164	-
Other current liabilities (Note 33)	767,320	-	401,282	-
Total current liabilities	30,980,704	23	21,683,305	16
NONCURRENT LIABILITIES				
Bonds payable (Notes 4 and 20)	12,190,103	9	18,381,236	13
Long-term borrowings (Notes 4 and 19)	14,048,345	11	20,490,001	15
Provisions -noncurrent (Notes 4 and 22)	859,586	1	811,094	1
Deferred income tax liabilities (Notes 4 and 27)	1,595,238	1	1,467,505	1
Deferred revenue - noncurrent (Note 21)	193,188	-	214,367	-
Net defined benefit liabilities - noncurrent (Notes 4 and 23)	764,232	1	732,152	1
Guarantee deposits received - noncurrent	310,364	-	318,443	-
Other noncurrent liabilities (Notes 4 and 14)	142,961	-	124,172	-
Total noncurrent liabilities	30,104,017	23	42,538,970	31
Total liabilities	61,084,721	46	64,222,275	47
EQUITY ATTRIBUTABLE TO OWNERS OF FAR EASTONE				
Capital stock				
Common stock	32,585,008	24	32,585,008	23
Capital surplus	10,166,874	8	12,058,158	9
Retained earnings				
Legal reserve	16,270,878	12	15,127,206	11
Special reserve	769,907	1	824,480	1
Unappropriated earnings	11,346,830	8	11,436,725	8
Total retained earnings	28,387,615	21	27,388,411	20
Other equity	(133,479)	-	(125,212)	-
Total equity attributable to owners of Far EasTone	71,006,018	53	71,906,365	52
NONCONTROLLING INTERESTS	716,583	1	752,531	1
Total equity	71,722,601	54	72,658,896	53
TOTAL	$ 132,807,322	100	$ 136,881,171	100

The accompanying notes are an integral part of the consolidated financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 4, 25 and 33)	$ 94,344,266	100	$ 97,293,218	100
OPERATING COSTS (Notes 4, 12, 26 and 33)	56,193,147	60	58,783,432	60
GROSS PROFIT	38,151,119	40	38,509,786	40
OPERATING EXPENSES (Notes 4, 26 and 33)				
Marketing	17,274,374	18	17,034,243	18
General and administrative	5,852,395	6	6,082,506	6
Total operating expenses	23,126,769	24	23,116,749	24
OPERATING INCOME	15,024,350	16	15,393,037	16
NONOPERATING INCOME AND EXPENSES				
Other income (Notes 4, 26 and 33)	93,536	-	125,031	-
Other gains and losses (Notes 4, 8, 16, 17 and 33)	275,644	-	102,366	-
Financial costs (Notes 4, 26 and 33)	(441,781)	-	(442,567)	(1)
Share of the loss of associates (Note 4)	(164,917)	-	(277,267)	-
Loss on disposal of property, plant, equipment and intangible assets (Note 4)	(683,934)	(1)	(962,734)	(1)
Impairment loss recognized on property, plant and equipment (Notes 4 and 15)	(313,563)	-	-	-
Total nonoperating income and expenses	(1,235,015)	(1)	(1,455,171)	(2)
INCOME BEFORE INCOME TAX	13,789,335	15	13,937,866	14
INCOME TAX (Notes 4 and 27)	2,378,660	3	2,403,615	2
NET INCOME	11,410,675	12	11,534,251	12
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 4)	(35,245)	-	(59,416)	-
Share of other comprehensive income of associates accounted for using the equity method (Note 4)	-	-	206	-
	(35,245)	-	(59,210)	-

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 24)	$ 5,590	-	$ (1,370)	-
Unrealized losses on available-for-sale financial assets (Notes 4 and 24)	(60,497)	-	(84,459)	-
Cash flow hedges (Notes 4, 8 and 24)	(17,269)	-	21,697	-
Share of other comprehensive income of associates accounted for using the equity method (Note 4)	65,243	-	77,975	-
	(6,933)	-	13,843	-
Total other comprehensive income, net of income tax	(42,178)	-	(45,367)	-
TOTAL COMPREHENSIVE INCOME	$ 11,368,497	12	$ 11,488,884	12
NET INCOME ATTRIBUTABLE TO:				
Owners of Far EasTone	$ 11,391,303	12	$ 11,485,695	12
Noncontrolling interests	19,372	-	48,556	-
	$ 11,410,675	12	$ 11,534,251	12
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of Far EasTone	$ 11,347,860	12	$ 11,440,332	12
Noncontrolling interests	20,637	-	48,552	-
	$ 11,368,497	12	$ 11,488,884	12
EARNINGS PER SHARE, NEW TAIWAN DOLLARS (Note 28)				
Basic	$ 3.50		$ 3.52	
Diluted	$ 3.49		$ 3.52	

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of Far EasTone										
			Retained Earnings			Other Equity					
	Share Capital (Note 24)	Capital Surplus (Notes 4, 24 and 29)	Legal Reserve (Note 24)	Special Reserve (Note 24)	Unappropriated Earnings (Notes 4, 24 and 29)	Exchange Differences on Translating Foreign Operations (Notes 4 and 24)	Unrealized Gains (Losses) on Available-for-sale Financial Assets (Notes 4 and 24)	Cash Flow Hedges (Notes 4 and 24)	Total	Noncontrolling Interests (Notes 4 and 24)	Total Equity
BALANCE AT JANUARY 1, 2015	$ 32,585,008	$ 14,009,061	$ 13,978,791	$ 755,749	$ 11,558,138	$ 2,156	$ 99,084	$ (240,337)	$ 72,747,650	$ 805,351	$ 73,553,001
Appropriation of the 2014 earnings											
Legal reserve	-	-	1,148,415	-	(1,148,415)	-	-	-	-	-	-
Special reserve	-	-	-	68,731	(68,731)	-	-	-	-	-	-
Cash dividends - NT$3.167 per share	-	-	-	-	(10,319,672)	-	-	-	(10,319,672)	-	(10,319,672)
Cash dividends from capital surplus - NT$0.583 per share	-	(1,899,706)	-	-	-	-	-	-	(1,899,706)	-	(1,899,706)
Adjustments to share of changes in equities of associates	-	(51,197)	-	-	(11,042)	-	-	-	(62,239)	-	(62,239)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(85,107)	(85,107)
Net income for the year ended December 31, 2015	-	-	-	-	11,485,695	-	-	-	11,485,695	48,556	11,534,251
Other comprehensive income (losses) for the year ended December 31, 2015	-	-	-	-	(59,248)	(1,327)	(84,459)	99,671	(45,363)	(4)	(45,367)
Return of cash capital due to a subsidiary's liquidation	-	-	-	-	-	-	-	-	-	(16,265)	(16,265)
BALANCE AT DECEMBER 31, 2015	32,585,008	12,058,158	15,127,206	824,480	11,436,725	829	14,625	(140,666)	71,906,365	752,531	72,658,896
Appropriation of the 2015 earnings											
Legal reserve	-	-	1,143,672	-	(1,143,672)	-	-	-	-	-	-
Special reserve	-	-	-	(54,573)	54,573	-	-	-	-	-	-
Cash dividends - NT$3.174 per share	-	-	-	-	(10,342,482)	-	-	-	(10,342,482)	-	(10,342,482)
Cash dividends from capital surplus - NT$0.576 per share	-	(1,876,896)	-	-	-	-	-	-	(1,876,896)	-	(1,876,896)
Adjustments to share of changes in equities of associates	-	-	-	-	(1,892)	-	-	-	(1,892)	-	(1,892)
Changes in ownership interests of subsidiaries	-	(14,388)	-	-	(12,549)	-	-	-	(26,937)	26,937	-
Cash capital reduction by subsidiaries	-	-	-	-	-	-	-	-	-	(15)	(15)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(83,507)	(83,507)
Net income for the year ended December 31, 2016	-	-	-	-	11,391,303	-	-	-	11,391,303	19,372	11,410,675
Other comprehensive income (losses) for the year ended December 31, 2016	-	-	-	-	(35,176)	3,809	(60,497)	48,421	(43,443)	1,265	(42,178)
BALANCE AT DECEMBER 31, 2016	$ 32,585,008	$ 10,166,874	$ 16,270,878	$ 769,907	$ 11,346,830	$ 4,638	$ (45,872)	$ (92,245)	$ 71,006,018	$ 716,583	$ 71,722,601

The accompanying notes are an integral part of the consolidated financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 13,789,335	$ 13,937,866
Adjustments for:		
Depreciation	9,444,179	8,538,292
Amortization	791,724	840,547
Amortization of concessions	2,581,338	2,041,126
Allowance for doubtful accounts	421,688	268,034
Financial costs	441,781	442,567
Interest income	(43,085)	(68,457)
Dividend income	(2,011)	(2,581)
Share of the loss of associates	164,917	277,267
Loss on disposal of property, plant, equipment and intangible assets	683,934	962,734
Transfer of property, plant and equipment to expenses	-	1,309
Gain on disposal of financial assets	(265)	(98,258)
Reversal of write-down of inventories	(31,779)	(51,629)
Impairment loss on nonfinancial assets	313,563	59,886
Loss on change in fair value of investment properties	18,653	51,835
Deferred gain (loss) on derivative assets for hedging	11,438	(24,786)
Net changes in operating assets and liabilities		
Notes receivable	(3,741)	9,669
Accounts receivable	(1,071,514)	75,535
Accounts receivable - related parties	18,759	20,914
Inventories	2,048,609	(1,606,676)
Prepaid expenses	70,798	55,052
Other current assets	(14,082)	(59,929)
Notes payable	1,931	(7,655)
Accounts payable	(400,494)	(660,083)
Other payables	(158,732)	283,417
Provisions	(9,808)	(4,340)
Unearned revenue	2,220	(137,829)
Other current liabilities	357,268	(185,215)
Net defined benefit liabilities	(10,272)	(9,022)
Cash generated from operations	29,416,352	24,949,590
Interest received	50,094	71,526
Dividend received	2,011	7,173
Interest paid	(421,965)	(399,034)
Income taxes paid	(1,971,801)	(3,577,501)
Net cash generated from operating activities	27,074,691	21,051,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(653,400)
Proceeds of the disposal of available-for-sale financial assets	190,134	597,301
Disposal of debt investments with no active market	611,656	886,629
Proceeds of capital reduction of financial assets carried at cost	-	6,004

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FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	2016	2015
Acquisition of investments accounted for using the equity method	$ (30,000)	$ (106,000)
Disposal of investments accounted for using the equity method	-	19,600
Acquisition of property, plant and equipment	(8,906,250)	(10,905,829)
Proceeds of the disposal of property, plant and equipment	38,081	47,612
Increase in refundable deposits	(316,693)	(304,694)
Decrease in refundable deposits	312,106	293,322
Acquisition of intangible assets	(9,147,729)	(916,612)
Increase in other financial assets	(297,880)	(826,506)
Increase in other noncurrent assets	-	(1,000,000)
Net cash used in investing activities	(17,546,575)	(12,862,573)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,293,029	148,976
Increase (decrease) in short-term bills payable	2,819,463	(199,940)
Repayments of bonds payable	(1,600,000)	-
Proceeds of long-term borrowings	1,699,831	19,740,001
Repayment of long-term borrowings	(8,141,487)	(3,350,000)
Increase in guarantee deposits received	114,190	130,302
Decrease in guarantee deposits received	(131,836)	(170,608)
Decrease in deferred revenue	(21,179)	(24,975)
Cash dividends paid	(12,302,885)	(12,304,485)
Net changes in noncontrolling interests	(15)	(16,265)
Net cash (used in) generated from financing activities	(15,270,889)	3,953,006
EFFECT OF EXCHANGE RATE CHANGES	6,749	(458)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,736,024)	12,141,729
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	15,994,767	3,853,038
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 10,258,743	$ 15,994,767

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (Far EasTone) was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's shares began to be traded on the ROC over-the-counter (OTC) securities exchange (known as The Taipei Exchange, TPEx) on December 10, 2001. Later, Far EasTone's shares ceased to be traded on OTC exchange and became listed on the ROC Taiwan Stock Exchange (TWSE) on August 24, 2005. Far EasTone provides wireless communications, leased circuit, internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2016 and 2015, Far Eastern New Century Corporation (Far Eastern New Century) and its affiliates directly and indirectly owned 38.28% of Far EasTone's shares. Since Far Eastern New Century and its subsidiaries have the power to cast majority of votes at the meeting of Far EasTone's board of directors, Far Eastern New Century has control over Far EasTone's finances, operations and personnel affairs. Thus, Far Eastern New Century is the ultimate parent company of Far EasTone.

Far EasTone provides 2G (second-generation wireless communications services) by geographical sector under two type I licenses, GSM900 for the northern region of Taiwan and GSM1800 island-wide ("GSM" means "global system for mobile communications"), issued by the Directorate General of Telecommunications (DGT) of the ROC. These licenses allowed Far EasTone to provide services for 15 years from 1997. The National Communications Commission (NCC) approved the renewal of the licenses when they were due. The license of GSM1800 island-wide was returned to the NCC in April 2015, and the license of GSM900 for the northern region of Taiwan was renewed and is valid from the application date to June 30, 2017.

The DGT also issued a type II license to Far EasTone to provide internet and ISR services until December 2018. Far EasTone is also licensed to provide local/domestic long-distance land cable leased circuit services for 15 years from January 2003.

Through the completion of the merger with Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze Telecom), on May 2, 2005, Far EasTone acquired a 3G license which was issued by DGT on January 24, 2005 and is valid through December 31, 2018. Far EasTone became licensed to provide 3G wireless communications service and began commercial operations from 2005.

On October 30, 2013, Far EasTone bid for 4G (fourth-generation wireless communications services) wireless communications licenses, GSM700 and GSM1800, with validity through December 31, 2030, and became licensed to provide 4G services and has had commercial operations of the 4G telecommunications services since then. Far EasTone also bid for a 4G wireless communications license, GSM2600, on December 7, 2015, and began commercial operations in April 2016. The GSM2600 license is valid until December 31, 2033.

The consolidated financial statements are presented in New Taiwan dollars, the functional currency of Far EasTone.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on February 15, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

Note 1: Unless stated otherwise, the above New or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

1) IFRIC 21 "Levies"

   IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Group accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

   Several standards including IFRS 8 "Operating Segments" and IAS 24 "Related Party Disclosures" were amended in this annual improvement.

   The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

   IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

   Several standards, including IFRS 13 "Fair Value Measurement" were amended in this annual improvement.

   The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

4) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Share Based Payment"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Clarifications to IFRS 15"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method.

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collection of contractual cash flows and sale of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

a) Identify the contract with the customer;

b) Identify the performance obligations in the contract;

c) Determine the transaction price;

d) Allocate the transaction price to the performance obligations in the contracts; and

e) Recognize revenue when the entity satisfies a performance obligation.

Under IFRS 15, the Group will allocate the transaction price to each performance obligation identified in bundle sale contract on a relative stand-alone selling price basis. Under the former standard, the Group enters into transactions that involve the bundling of the service of air time with goods such as data card and handset, resulting in the recognition of the revenue for service and goods based on the allocation of the total consideration received from customers using the relative fair values, and the sales of goods are limited to the amount that customers pay for.

Direct and incremental costs of obtaining a contract will be recognized as an asset to the extent the Group expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

The Group provides service-type warranty in addition to the assurance that the product complies with agreed-upon specifications. IFRS 15 requires such service to be considered as a performance obligation. Transaction price allocated to service-type warranty will be recognized as revenue and related costs will be recognized when warranty service is performed. Under current standard, transaction price of the aforementioned transaction is fully recognized as revenue when products are sold, and a corresponding provision is recognized for the expected warranty cost.

IFRS 15 and related amendment require that when another party is involved in providing goods or services to a customer, the Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. Since a specified good or service is a distinct good or service, the Group determines whether it is a principal or an agent for each specified good or service.

The Group is a principal if it obtains control of any one of the following:

a) The good or another asset that it then transfers to the customer.

b) The right to a service to be performed by other party, which gives the Group the ability to direct that party to provide the service to the customer on its behalf.

c) The good or service from the other party that it then combines with the other goods or services in providing the specified good or service to the customer.

Indicators to support the Group's assessment of whether it controls a specified good or service include, but are not limited to, the following:

a) The Group is primarily responsible for fulfilling the promise to provide the specified good or service.

b) The Group has inventory risk before or after the specified good or service is transferred to the customer.

c) The Group has discretion in establishing the price of the specified good or service.

Under current standard, the Group determines whether it is a principal or an agent based on its exposure to the significant risks and rewards of the transaction.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and investment properties that are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c. Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Basis of Consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of Far EasTone and the entities controlled by Far EasTone (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by Far EasTone.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Total comprehensive income of subsidiaries is attributed to the owners of Far EasTone and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of Far EasTone.

See Note 13, Schedule G and Schedule H for the detailed information of subsidiaries, including the percentage of ownership and main business.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Nonmonetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of nonmonetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of nonmonetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Nonmonetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including those of the subsidiaries, companies in other countries as well as currencies different from the ones used by Far EasTone) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of Far EasTone and noncontrolling interests as appropriate).

On the disposal of a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests of the subsidiary but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is determined as normal market value minus predicted selling expenses. Cost is determined using the weighted-average method.

Investment in Associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary.

The Group uses the equity method to account for its investment in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate, at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease item is shorter than the useful lives, assets are depreciated over the lease item. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs, and are subsequently measured using the fair value model. Gains or losses on changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

For a transfer from investment property to property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the commencement of owner-occupation.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

a. Intangible assets acquired separately

   Intangible assets with finite useful lives that are acquired separately are initially measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. The estimated useful life residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

   When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognizes an intangible asset at fair value upon initial recognition. The intangible asset is subsequently measured at cost less accumulated amortization and any accumulated impairment loss.

b. Intangible assets acquired in a business combination

   Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

c. Derecognition of intangible assets

   On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are included in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

   All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

   1) Measurement category

      Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

      a) Available-for-sale financial assets

         Available-for-sale financial assets are non-derivatives that either are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity financial assets do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit or loss.

b) Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalents, debt investments with no active market and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment.

For all other financial assets, the objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will undergo bankruptcy or financial reorganisation, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, where the carrying amount is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that are written off against the allowance account.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and recognized in equity is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Derivative financial instruments

The Group uses a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including forward exchange contracts, foreign exchange swap contracts and cross-currency swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Group designates certain hedging instruments (including derivatives) as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

a. Decommissioning, restoration and similar liabilities

The cost of an item of property, plant and equipment comprises:

1) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

2) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

3) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

b. Warranties

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Group's obligation by the management of the Group.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Since the future values of operating revenue resulting from receivables within one year approximate the fair values of these receivables, the fair values are not recalculated using the pro forma interest rate method. Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Related revenues are recognized as follows:

a. Services revenue

Usage revenue from fixed network service, cellular services and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) monthly fees are accrued every month, and (b) prepaid and recharge services are recognized as income based upon actual usage by customers.

b. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

1) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

3) The amount of revenue can be measured reliably;

4) It is probable that the economic benefits associated with the transaction will flow to the Group; and

5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where the Group enters into transactions which involve both the service of air time bundled with products, revenue for service and product are recognized based on the allocation of the total consideration received from customers using the relative fair values and the sales of product are limited to the amount that customers pay for.

Services revenue and sales of goods that result in award credits for customers, under the Group's award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the services and inventories supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value, the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

c. Dividend and interest income

Dividend income from investments is recognized when the stockholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Group as a lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire noncurrent assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Employee Benefits

a. Short-term employee benefits

   Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

   Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

   Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Termination benefits

   A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve the retention of earnings.

   Adjustments of prior years' tax liabilities are added to or deducted from the current period's income tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for the acquisition of a subsidiary, the tax effect is included in the accounting for the investments in subsidiaries.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Impairment of property, plant and equipment and intangible assets other than goodwill

For impairment test of assets, the Group evaluates and decides on certain assets' independent cash flows, the useful lives of the assets, and the probable future profit or loss which is based on subjective judgment, utilized asset mode, and telecommunications industry characteristics. Any changes in national and local economic conditions or the Group's strategy may cause significant impairment loss.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Income tax

As of December 31, 2016 and 2015, the realizability of the deferred tax asset (liability) mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets (liabilities) may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

d. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand	$ 45,668	$ 13,901
Checking and demand deposits	1,317,818	4,062,117
Cash equivalents		
Commercial paper purchased under resell agreements	8,864,085	11,822,650
Certificates of deposits	31,172	96,099
	$ 10,258,743	$ 15,994,767

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	**2015**
Current		
Overseas investments		
Mutual funds	$ 598,132	$ 665,295

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
Financial assets - current		
Cash flow hedge		
Forward exchange contracts	$ 2,073	$ 3,790
Foreign exchange swap contracts	-	2,225
	$ 2,073	$ 6,015
Financial liabilities - current		
Cash flow hedge		
Forward exchange contracts	$ 40,229	$ 3,916
Cross-currency swap contracts	-	1,775
Foreign exchange swap contracts	7,538	5,325
	$ 47,767	$ 11,016

Cash Flow Hedge

The Group used forward exchange contracts, foreign exchange swap contracts and cross-currency swap contracts to hedge against adverse cash flow fluctuations on its foreign currency-denominated assets and expected future transactions. These contracts were negotiated in accordance with the contracts on the hedged items. The outstanding contracts of the Group at the end of the reporting period were as follows:

	Currency	Maturity Date/Period	Contract Amount (In Thousands)
December 31, 2016			
Forward exchange contracts	NT$ to EUR	2017.01.25-2017.10.25	EUR 29,500
Foreign exchange swap contracts	US$ to NT$	2017.01.11-2017.02.15	US$ 20,000
December 31, 2015			
Forward exchange contracts	NT$ to EUR	2016.01.25-2016.06.27	EUR 18,500
Cross-currency swap contracts	US$ to NT$	2016.01.15	US$ 5,000
Foreign exchange swap contracts	US$ to NT$	2016.01.15-2016.02.26	US$ 20,000

The Group invested in overseas mutual funds and used cross-currency swap contracts and foreign exchange swap contracts to hedge against adverse cash flow fluctuations, and the foreign exchange agreements were designated as cash flow hedge. Far EasTone also used forward exchange contracts to hedge against fluctuations of exchange rates for expected future purchases, and the forward exchange contracts were designated as cash flow hedge.

For the years ended December 31, 2016 and 2015, expected future trading exposures on above contracts, amounting to $(17,269) thousand and $21,697 thousand, were recognized in other comprehensive income (losses). The expected cash flows will occur when the hedge target is sold or expected future purchase transactions take place, and will be reclassified from equity to profit or loss.

Gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	For the Years Ended December 31	
	2016	2015
Other gains and losses	$ (41,589)	$ (40,608)

9. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2016	2015
Noncurrent		
Domestic unlisted common stock	$ 218,308	$ 218,308
Distinguish from the type of measure		
Available-for-sale	$ 218,308	$ 218,308

Management believed that the above unlisted equity investments held by the Group, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2016	2015
Current		
Certificates of deposits with original maturity of more than 3 months	$ 910,396	$ 1,522,052

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2016	2015
Notes receivable		
Notes receivable	$ 64,361	$ 60,620
Less: Allowance for doubtful accounts	-	-
	$ 64,361	$ 60,620
Accounts receivable		
Accounts receivable	$ 8,550,522	$ 8,076,200
Less: Allowance for doubtful accounts	(899,577)	(1,056,383)
	$ 7,650,945	$ 7,019,817

Accounts Receivable

The Group's average credit period for the sale of inventories is 30 to 45 days, and the average credit period for telecommunications services is 30 to 60 days. When deciding the recoverability of accounts receivable, the Group considers any change in the credit quality from the date credit was initially granted up to the end of the reporting period. The Group has recognized an allowance for doubtful accounts of 100% against all receivables past due over 120 days because the historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowance for doubtful accounts is recognized against accounts receivable past due among 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counter-party and the analysis of its current financial position.

The aging of receivables was as follows:

	December 31	
	2016	**2015**
Not overdue	$ 7,091,325	$ 6,512,168
Overdue		
0-60 days	381,567	388,018
61 days or more	178,053	119,631
	$ 7,650,945	$ 7,019,817

The above aging schedule was based on the past due date.

The Group does not have accounts receivable with the aging being past due but not impaired.

Movements of the allowance for doubtful accounts were as follows:

	Individually Assessed for Impairment	**Collectively Assessed for Impairment**	**Total**
Balance at January 1, 2016	$ 5,845	$ 1,050,538	$ 1,056,383
Add: Accounts recovered during the period	-	211,333	211,333
Add: Impairment losses/bad debts	1,615	420,073	421,688
Less: Amounts written off during the period as uncollectible	(5,906)	(783,921)	(789,827)
Balance at December 31, 2016	$ 1,554	$ 898,023	$ 899,577
Balance at January 1, 2015	$ 3,313	$ 1,076,516	$ 1,079,829
Add: Accounts recovered during the period	-	286,936	286,936
Add: Impairment losses/bad debts	5,845	262,189	268,034
Less: Amounts written off during the period as uncollectible	(3,313)	(575,103)	(578,416)
Balance at December 31, 2015	$ 5,845	$ 1,050,538	$ 1,056,383

Sale of Overdue Accounts Receivable

Under agreements on sales of accounts receivable signed during the years ended December 31, 2016 and 2015, the Group sold to asset management companies the overdue accounts receivable that had been written off. Thus, as of December 31, 2016 and 2015, the Group was not under the risk of irrecoverable receivables.

Related information as of December 31, 2016 and 2015 is as follows:

Counterparties	Amounts of Accounts Receivable Sold	Proceeds of the Sale of Accounts Receivable
For the year ended December 31, 2016		
E-Hao Management Consultant Co., Ltd.	$ 1,226,233	$ 67,735
For the year ended December 31, 2015		
Long Sun Asset Management Co., Ltd.	$ 1,405,347	$ 74,077

12. INVENTORIES

	December 31	
	2016	2015
Cellular phone equipment and accessories	$ 2,020,733	$ 3,992,655
Others	467,632	512,540
	$ 2,488,365	$ 4,505,195

Costs of inventories sold were $27,713,680 thousand and $30,962,789 thousand for the years ended December 31, 2016 and 2015, respectively.

The inventory reversal of write-down amounting to $31,779 thousand and $51,629 thousand were included in the cost of sales for the years ended December 31, 2016 and 2015, respectively.

13. SUBSIDIARIES

Entities Included in the Consolidated Financial Statements

Intercompany relationships and percentages of ownership are shown as follows:

Investor Company	Investee Company	Main Businesses and Products	Percentage of Ownership December 31 2016	2015	Note
Far EasTone	NCIC	Type I, II telecommunications services	100.00	100.00	
	ARCOA	Sales of communications products and office equipment	61.63	61.63	
	KGEx.com	Type II telecommunications services	99.99	99.99	
	Hiiir	Electronic information providing services	89.54	89.54	
	Yuan Cing	Call center services	100.00	99.99	
	E. World	Investment	-	-	Liquidated and dissolved on November 4, 2015
	FEIS	Investment	100.00	100.00	
	Far EasTron Holding	Investment	-	-	Liquidated and dissolved on November 6, 2015
	Omusic	Electronic information providing services	50.00	50.00	
	Q-ware com.	Type II telecommunications services	81.46	81.46	
FEIS	FETI	Computer software, data processing and network information providing services	41.67	41.67	

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Percentage of Ownership December 31 2016	2015	Note
NCIC	ISSDU	Security and monitoring service via Internet	100.00	100.00	
	DU (Cayman)	Investment	100.00	100.00	
	New Diligent	Investment	100.00	100.00	
	Simple InfoComm	Electronic information providing services	-	-	Dissolved on December 19, 2015 and liquidated on April 6, 2016
New Diligent	FEND	Investment	100.00	100.00	
	Sino Lead	Telecommunications services	100.00	100.00	
	New Diligent Hong Kong Company Ltd.	Investment	-	-	Establishment completed on December 4, 2014, but the investment amount had not been remitted to the investee as of December 31, 2016
FEND	FETI	Computer software, data processing and network information providing services	58.33	58.33	
	FENCIT	Electronic information providing services	89.56	76.92	
FETI	FENCIT	Electronic information providing services	0.96	2.12	
DU (Cayman)	DUIT	Design and research of computer system	100.00	100.00	
ARCOA	DataExpress	Sale of communications products	70.00	70.00	
DataExpress	Linkwell	Sale of communications products	100.00	100.00	
	Home Master	Sale of communications products	100.00	100.00	

(Concluded)

All of the subsidiaries' financial statements as of and for the years ended December 31, 2016 and 2015 had been audited, except for those of immaterial subsidiaries including FENCIT for the year ended December 31, 2016, E. World, Far EasTron Holding and Simple InfoComm for the year ended December 31, 2015. The Group believes that had the financial statements of those subsidiaries been audited, any adjustments would have had no material effect on the Group's consolidated financial statements.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	December 31 2016	2015
Material associate		
Far Eastern Electronic Toll Collection Co., Ltd.	$ 685,125	$ 631,848
Associates that are not individually material	249,706	374,548
	934,831	1,006,396
Credit balance on carrying values of investments accounted for using equity method reclassified to other liabilities	90,250	44,841
	$ 1,025,081	$ 1,051,237

a. Material associates

Company	Nature of Activities	Principle Place of Business	Proportion of Ownership and the Voting Rights December 31 2016	2015
Far Eastern Electronic Toll Collection Co., Ltd.	Electronic information services	Taiwan	39.42%	39.42%

Summarized financial information in respect of the Group's material associate is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Far Eastern Electronic Toll Collection Co., Ltd.

	December 31	
	2016	**2015**
Current assets	$ 624,831	$ 1,524,271
Noncurrent assets	7,057,459	6,366,374
Current liabilities	(1,263,956)	(992,517)
Noncurrent liabilities	(4,678,843)	(5,295,144)
Equity	$ 1,739,491	$ 1,602,984
Proportion of the Group's ownership	39.42%	39.42%
Carrying amount	$ 685,125	$ 631,848

	For the Years Ended December 31	
	2016	**2015**
Operating revenue	$ 1,990,204	$ 1,934,248
Net profit for the year	$ (30,408)	$ (264,208)
Other comprehensive income	166,916	198,437
Total comprehensive income for the year	$ 136,508	$ (65,771)

The usage rate of electronic toll collection (ETC) services had not reached the requirement stated in the contract of the Electronic Toll Collection BOT Project ("ETC Project") as of June 30, 2011. Thus, Far Eastern Electronic Toll Collection Co., Ltd. (FETC) filed a lawsuit against Taiwan Area National Freeway Bureau (TANFB), and the Supreme Court remanded this case to the Taipei District Court Civil Division in September 2015. FETC had accrued the related penalties.

FETC failed to complete the taximeter system infrastructure within a specified period under the ETC Project requirements. The Taipei District Court Civil Division pronounced on May 20, 2016 that FETC should pay $71,250 thousand compensation for breach of contract to TANFB. FETC had filed an appeal on May 31, 2016 and accrued related penalties.

b. Aggregate information of associates that are not individually material

	For the Years Ended December 31	
	2016	**2015**
The Group's share of:		
Net profit for the year	$ (152,504)	$ (134,096)
Other comprehensive income	(447)	(37)
Total comprehensive income for the year	$ (152,951)	$ (134,133)

For the year ended December 31, 2015, the Group has disposed an associate that is not individually material, and gained $2,422 thousand on the disposal of investment.

The Group has one or more representation on the boards of directors of some associates that are not individually material according to original agreement or other agreements, therefore the Group has significant influence over these associates.

The calculation of investments accounted for by the equity method and the share of profit or loss and other comprehensive income of the investments in the associates were based on the associates' audited financial statements except those of Alliance Digital Technology Co., Ltd. and Yuan Hsin Digital Payment Co., Ltd. Management believes there would have been no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income had the financial statements of Alliance Digital Technology Co., Ltd. and Yuan Hsin Digital Payment Co., Ltd. been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Building	Operating Equipment	Computer Equipment	Office Equipment	Leasehold Improvements	Miscellaneous Equipment	Construction-in-progress	Total
Cost									
Balance at January 1, 2016	$ 5,320,095	$ 7,699,419	$ 130,628,779	$ 14,729,957	$ 1,227,400	$ 4,734,727	$ 1,511,620	$ 2,383,501	$ 168,235,498
Additions	-	4,518	83,612	11,075	5,198	28,224	11,128	8,102,581	8,246,336
Disposals	-	(76,781)	(10,072,475)	(420,172)	(15,506)	(312,871)	(88,699)	(31,365)	(11,017,869)
Effect of foreign currency exchange difference	-	-	(4)	(466)	(68)	(53)	-	-	(591)
Adjustments and reclassification	(95)	254,107	7,106,539	684,745	13,832	186,431	122,453	(8,342,076)	25,936
Balance at December 31, 2016	$ 5,320,000	$ 7,881,263	$ 127,746,451	$ 15,005,139	$ 1,230,856	$ 4,636,458	$ 1,556,502	$ 2,112,641	$ 165,489,310
Accumulated depreciation and impairment									
Balance at January 1, 2016	$ (96,557)	$ (3,517,115)	$ (94,773,850)	$ (11,897,767)	$ (1,185,615)	$ (3,460,931)	$ (1,258,008)	$ -	$ (116,189,843)
Depreciation expense	-	(237,357)	(7,478,222)	(1,167,892)	(37,856)	(400,682)	(122,170)	-	(9,444,179)
Impairment loss	-	-	(313,563)	-	-	-	-	-	(313,563)
Disposals	-	76,773	9,412,351	417,581	14,955	299,432	86,269	-	10,307,361
Effect of foreign currency exchange difference	-	-	2	385	57	47	-	-	491
Adjustments and reclassification	-	-	-	(617)	(15)	-	627	-	(5)
Balance at December 31, 2016	$ (96,557)	$ (3,677,699)	$ (93,153,282)	$ (12,648,310)	$ (1,208,474)	$ (3,562,134)	$ (1,293,282)	$ -	$ (115,639,738)
Carrying amount at December 31, 2016	$ 5,223,443	$ 4,203,564	$ 34,593,169	$ 2,356,829	$ 22,382	$ 1,074,324	$ 263,220	$ 2,112,641	$ 49,849,572
Cost									
Balance at January 1, 2015	$ 5,320,095	$ 7,893,870	$ 141,729,588	$ 13,811,806	$ 1,251,214	$ 4,940,530	$ 1,544,521	$ 4,423,151	$ 180,914,775
Additions	-	3,216	91,587	25,193	6,283	42,687	12,053	10,478,186	10,659,205
Disposals	-	(283,424)	(21,966,435)	(408,137)	(40,262)	(490,606)	(127,956)	(19,094)	(23,335,914)
Effect of foreign currency exchange difference	-	-	1	(201)	(25)	(15)	-	-	(240)
Adjustments and reclassification	-	85,757	10,774,038	1,301,296	10,190	242,131	83,002	(12,498,742)	(2,328)
Balance at December 31, 2015	$ 5,320,095	$ 7,699,419	$ 130,628,779	$ 14,729,957	$ 1,227,400	$ 4,734,727	$ 1,511,620	$ 2,383,501	$ 168,235,498
Accumulated depreciation and impairment									
Balance at January 1, 2015	$ (96,557)	$ (3,575,949)	$ (109,219,851)	$ (11,189,540)	$ (1,169,340)	$ (3,443,125)	$ (1,281,936)	$ -	$ (129,976,298)
Depreciation expense	-	(220,417)	(6,634,255)	(1,115,691)	(55,238)	(409,078)	(103,613)	-	(8,538,292)
Disposals	-	279,251	21,079,499	406,901	38,947	391,263	127,733	-	22,323,594
Effect of foreign currency exchange difference	-	-	-	111	14	9	-	-	134
Adjustments and reclassification	-	-	757	452	2	-	(192)	-	1,019
Balance at December 31, 2015	$ (96,557)	$ (3,517,115)	$ (94,773,850)	$ (11,897,767)	$ (1,185,615)	$ (3,460,931)	$ (1,258,008)	$ -	$ (116,189,843)
Carrying amount at December 31, 2015	$ 5,223,538	$ 4,182,304	$ 35,854,929	$ 2,832,190	$ 41,785	$ 1,273,796	$ 253,612	$ 2,383,501	$ 52,045,655

The 2G license will expire in June 2017, and related service will be terminated. Accordingly, the future cash inflows of 2G operating equipment are expected to decline, which results in the recoverable amount being less than the carrying amount. Therefore, the Group recognized an impairment loss of $313,563 thousand for the year ended December 31, 2016.

The following useful lives of property, plant and equipment are used in the calculation of depreciation by the straight-line method:

Building	
Main building	41-55 years
Other building equipment	3-18 years
Operating equipment	2-25 years
Computer equipment	3-10 years
Office equipment	3-10 years
Leasehold improvements	2-11 years
Miscellaneous equipment	2-10 years

16. INVESTMENT PROPERTIES

	Completed Investment Properties
Balance at January 1, 2015	$ 1,159,421
Loss on change in fair value of investment properties	(51,835)
Balance at December 31, 2015	$ 1,107,586
Balance at January 1, 2016	$ 1,107,586
Reclassified to property, plant and equipment	(47,527)
Loss on change in fair value of investment properties	(18,653)
Balance at December 31, 2016	$ 1,041,406

The lease terms of investments properties were 3-6 years. The rights of lease term extension contain clauses for market rental reviews. The lessee does not have a bargain purchase option to acquire the investment property at the expiry of the lease period.

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31	
	2016	**2015**
No later than 1 year	$ 20,480	$ 20,530
Later than 1 year and not later than 5 years	41,189	29,645
Later than 5 years	-	247
	$ 61,669	$ 50,422

The fair value of investment properties were as follows:

	December 31	
	2016	**2015**
Independent valuation	$ 1,041,406	$ 1,107,586

The fair value of the investment properties as of December 31, 2016 and 2015 was based on the valuations carried out on January 17, 2017 and January 29, 2016, respectively, by independent qualified professional valuers, Ms. Hu, Chun-Chun and Mr. Tsai, Chia-ho, from DTZ | Cushman & Wakefield, members of certified ROC real estate appraisers.

The fair value of investment properties was estimated using unobservable inputs (Level 3). The unrealized gains (losses) on the fair value changes of investment properties are recognized in other gains and losses.

The fair value of investment properties was measured using the income approach. The significant assumptions used were stated below. The increase in estimated future net cash inflows, or the decrease in discount rates would result in increase in the fair value.

	December 31	
	2016	**2015**
Expected future cash inflows	$ 1,685,023	$ 1,392,344
Expected future cash outflows	(48,936)	(36,476)
Expected future cash inflows, net	$ 1,636,087	$ 1,355,868
Discount rate	1.845%-2.33%	1.985%-2.39%

The market rentals in the area where the investment property is located were between $1 thousand and $15 thousand per ping per month (i.e. 1 ping = 3.3 square meters). The market rentals for comparable properties were between $1 thousand and $15 thousand per ping per month.

All of the investment properties had been leased out under operating leases. The rental incomes generated for the years ended December 31, 2016 and 2015 were $25,255 thousand and $29,223 thousand, respectively.

The expected future cash inflows generated by investment properties referred to rental income, interest income on rental deposits, and loss on vacancy rate of space and disposal value. The rental income was extrapolated using the comparative market rentals covering 10 years, excluding too-high and too-low values, taking into account the annual rental growth rate, loss on vacancy rate of space was extrapolated using the vacancy rates of the neighboring stores and factories, the interest income on rental deposits was extrapolated using 1.04%, the interest rate announced by the central bank for the one-year average deposit interest rate of five major banks, and the disposal value was determined using the direct capitalization method under the income approach. The expected future cash outflows on investment property included expenditures such as land value taxes, house taxes, insurance premium, management fee, maintenance costs, replacement allowance and depreciation. The expenditure was extrapolated on the basis of the current level of expenditure, taking into account the future adjustment to the government-announced land value and the tax rate promulgated under the House Tax Act.

The discount rate was determined by reference to the local same class product, a reasonable rental income level and the selling price of investment properties taking into consideration the liquidity, potential risk, appreciation and the complexity of management; in addition, the discount rate should not be lower than the interest rate for two-year time deposits of Chunghwa Post Co., Ltd plus 0.75%.

17. INTANGIBLE ASSETS

	Concessions	**Goodwill**	**Computer Software**	**Other Intangible Assets**	**Total**
Cost					
Balance at January 1, 2016	$ 41,484,000	$ 10,883,789	$ 16,980,015	$ 1,263,810	$ 70,611,614
Additions	9,130,000	-	1,017,729	-	10,147,729
Disposals	-	-	(1,714,859)	(76,351)	(1,791,210)

(Continued)

	Concessions	Goodwill	Computer Software	Other Intangible Assets	Total
Effect of foreign currency exchange difference	$ -	$ -	$ (398)	$ (2,111)	$ (2,509)
Adjustments and reclassification	-	-	21,695	(4,626)	17,069
Balance at December 31, 2016	$ 50,614,000	$ 10,883,789	$ 16,304,182	$ 1,180,722	$ 78,982,693
Accumulated amortization and impairment					
Balance at January 1, 2016	$ (9,649,131)	$ (74,888)	$(14,432,589)	$ (777,010)	$(24,933,618)
Amortization	(2,581,338)	-	(717,097)	(74,627)	(3,373,062)
Disposals	-	-	1,711,066	70,059	1,781,125
Effect of foreign currency exchange difference	-	-	211	1,178	1,389
Adjustments and reclassification	-	-	-	(70)	(70)
Balance at December 31, 2016	$(12,230,469)	$ (74,888)	$(13,438,409)	$ (780,470)	$(26,524,236)
Carrying amount at December 31, 2016	$ 38,383,531	$ 10,808,901	$ 2,865,773	$ 400,252	$ 52,458,457
Cost					
Balance at January 1, 2015	$ 41,484,000	$ 10,883,789	$ 16,134,259	$ 1,390,845	$ 69,892,893
Additions	-	-	890,663	25,949	916,612
Disposals	-	-	(44,816)	(152,987)	(197,803)
Effect of foreign currency exchange difference	-	-	(91)	3	(88)
Balance at December 31, 2015	$ 41,484,000	$ 10,883,789	$ 16,980,015	$ 1,263,810	$ 70,611,614
Accumulated amortization and impairment					
Balance at January 1, 2015	$ (7,608,005)	$ (57,615)	$(13,738,583)	$ (784,940)	$(22,189,143)
Amortization	(2,041,126)	-	(738,753)	(101,794)	(2,881,673)
Disposals	-	-	44,816	152,987	197,803
Impairment loss	-	(17,273)	-	(42,613)	(59,886)
Effect of foreign currency exchange difference	-	-	(69)	(650)	(719)
Balance at December 31, 2015	$ (9,649,131)	$ (74,888)	$(14,432,589)	$ (777,010)	$(24,933,618)
Carrying amount at December 31, 2015	$ 31,834,869	$ 10,808,901	$ 2,547,426	$ 486,800	$ 45,677,996

(Concluded)

The following useful lives are used in the calculation of amortization on a straight-line basis:

Concessions	14 to 17.75 years
Computer software	4 to 6 years
Other intangible assets	2 to 15.5 years

The Group was divided into four identifiable cash-generating units that enhance the Group’s operating effectiveness and integrate its telecommunications resources: The mobile telecommunications service business, telecommunications equipment business, Wifly business and integrated network business.

As of December 31, 2016 and 2015, the carrying values of the tangible and intangible assets used by the Group were $102,308,029 thousand and $97,723,651 thousand, respectively. The Group's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast with the following discount rates as of December 31, 2016 and 2015: Mobile telecommunications service business - 5.83% and 6.82%, respectively; telecommunications equipment business - 6.75% and 5.78%, respectively; integrated network business - 5.99% and 7.14%, Wifly business - 5.83% and 4.05%, respectively. The operating revenue forecast was based on the expected future growth rate of the telecom industry along with the projected advancement of the Group's own business. The principal assumptions and the relevant measurement of the recoverable amounts of the Group are summarized as follows:

a. Expected future growth rate of the telecommunications industry

   1) Mobile voice service (MVS): The anticipated MVS is measured based on the actual effective customer base and minutes of usage of previous years, while the development trend of the market is taken into account.

   2) Mobile data service (MDS): The anticipated MDS is measured based on the proportion of MDS to the total telecommunications service revenue of previous years, while the demands and changes of the market are taken into account.

   3) Business of selling cellular phone units: The anticipated selling cellular phone is based on the historical sales revenue and quantities of previous years, while the trend of the market is taken into account.

   4) Wifly business: The anticipated Wifly is based on present operating experience and the demand of Wifly, while the trend of the industry is taken into account.

   5) Integrated network business (INB): The anticipated INB is measured based on the actual effective customer base and service revenue of previous years, while the trend of the market is taken into account.

b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenue: The expected ratio is anticipated based on the historical ratio of EBITDA to operating revenues, while the possible influence of each revenue, cost and expense are taken into account.

   The Group's management believes that any reasonable changes in the principle assumptions would not result in the carrying values exceeding the recoverable amounts. Comparing the recoverable amounts in accordance with principle assumptions and the Group's tangible and intangible assets. The impairment loss for the year ended December 31, 2016, please refer to Note 15 to the consolidated financial statements, and for the year ended December 31, 2015, the Group recognized impairment losses of $17,273 thousand and $42,613 thousand in relation to goodwill and other intangible assets, respectively, which were included in other gains and losses.

18. OTHER NONCURRENT ASSETS

	December 31	
	2016	**2015**
Refundable deposits	$ 674,144	$ 669,557
Other financial assets	21,209	25,140
Others	17,973	1,017,975
	$ 713,326	$ 1,712,672

The mortgages of the bidding price that Far EasTone used to bid for a 4G wireless communication license, GSM2600, amounting to $1,000,000 thousand was included in other noncurrent assets as of December 31, 2015 and was used to pay a portion of the license getting price in 2016.

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2016	2015
Unsecured bank loans		
Credit loans	$ 2,800,000	$ 506,971
Credit loans interest rate	0.70%-1.80%	1.20%-5.75%

b. Short-term bills payable

	December 31	
	2016	2015
Commercial paper payable	$ 3,150,000	$ 330,000
Less: Unamortized discount	829	292
	$ 3,149,171	$ 329,708
Interest rate	0.858%-1.50%	1.135%-1.27%

c. Long-term borrowings

	December 31	
	2016	2015
Unsecured bank loans		
Credit loans	$ 12,150,000	$ 13,500,000
Long-term commercial paper payables	1,900,000	7,000,000
Less: Unamortized discount on commercial paper	1,655	9,999
Long-term borrowings	$ 14,048,345	$ 20,490,001

1) The credit loans are payable in New Taiwan Dollars. The repayment of the principal will be made once when it's due with interest payment. Under some contracts, loans are treated revolving credit facilities, and the maturity dates of the loans are based on terms under the contracts. The loans are all repayable by December 2018. The interest rates were 0.74%-1.13% and 0.903%-1.10% on as of December 31, 2016 and 2015, respectively.

2) The long-term commercial paper payables are treated revolving credit facilities under contracts. The interest rates are 0.993%-1.0447% and 1.0323%-1.0875% on December 31, 2016 and 2015, respectively. The last repayment date is in December 2018.

20. BONDS PAYABLE

	December 31	
	2016	2015
4th unsecured domestic bonds	$ 4,995,406	$ 4,994,089
5th unsecured domestic bonds	4,997,042	4,995,133
6th unsecured domestic bonds	8,395,133	9,991,126
	18,387,581	19,980,348
Less: Current portion	6,197,478	1,599,112
	$ 12,190,103	$ 18,381,236

On June 27, 2013, Far EasTone issued the fourth seven-year unsecured domestic bonds, with an aggregate principal amount of $5,000,000 thousand and a par value of $10,000 thousand and a coupon interest rate of 1.33%, with simple interest due annually. Repayment will be made in the fifth and seventh years in equal installments.

On October 15, 2013, Far EasTone issued the fifth unsecured domestic bonds, with an aggregate principal amount of $5,000,000 thousand and a par value of $10,000 thousand. The bonds included four-year bonds and five-year bonds, with the principal amounts of $1,000,000 thousand and $4,000,000 thousand, and coupon interest rates of 1.46% and 1.58%, respectively, with simple interest due annually. Repayment will be made in the fourth and fifth years in the full amount. The four-year bonds will be repaid within one year from December 31, 2016.

On December 24, 2013, Far EasTone issued the sixth unsecured domestic bonds, with an aggregate principal amount of $10,000,000 thousand and a par value of $10,000 thousand. The bonds included three-year bonds, four-year bonds and six-year bonds, with the principal amounts of $1,600,000 thousand, $5,200,000 thousand and $3,200,000 thousand, respectively, and coupon interest rates of 1.17%, 1.27% and 1.58%, respectively, with simple interest due annually. Full repayment will be made in the third, fourth and sixth years. The repayment of the three-year bonds was made on December 24, 2016. The four-year bonds will be repaid within one year from December 31, 2016.

In addition, Far EasTone issued the first five-year unsecured domestic bonds of 2016 on January 5, 2017, with an aggregate principal amount of $5,200,000 thousand and a par value of $10,000 thousand and a coupon interest rate of 1.17%, with simple interest due annually. Repayment will be made in the full amount at maturity.

21. OTHER LIABILITIES

	December 31	
	2016	2015
Current		
Other payables		
Commission	$ 2,440,718	$ 2,016,140
Acquisition of properties	1,534,809	2,235,029
Salary and bonus	1,336,932	1,418,777
Bonus to employees and remuneration to directors	376,011	412,398
Other	3,106,531	3,578,381
	$ 8,795,001	$ 9,660,725

(Continued)

	December 31	
	2016	2015
Noncurrent		
Deferred revenue		
Cable and lease line service fee	$ 193,188	$ 214,367

(Concluded)

22. PROVISIONS

	December 31	
	2016	2015
Current		
Dismantling obligation	$ 115,985	$ 115,031
Product warranty	103,937	88,526
	$ 219,922	$ 203,557
Noncurrent		
Dismantling obligation	$ 859,586	$ 811,094

	Dismantling Obligation	Product Warranty
Balance at January 1, 2015	$ 870,515	$ 71,120
Additional provisions recognized	80,301	68,718
Reductions arising from payments	(24,691)	(48,312)
Reversing un-usage balances	-	(3,000)
Balance at December 31, 2015	$ 926,125	$ 88,526
Balance at January 1, 2016	$ 926,125	$ 88,526
Additional provisions recognized	74,665	60,847
Reductions arising from payments	(25,219)	(45,436)
Balance at December 31, 2016	$ 975,571	$ 103,937

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Group makes monthly contributions to employees' individual pension accounts at 6% of monthly wages and salaries. The subsidiaries which registered in mainland China made contributions at certain percentage of wages and salaries under local government's regulations.

The pension costs recognized in total comprehensive income under the defined contribution plan amounted to $285,242 thousand and $325,072 thousand for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plans

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 1,756,885	$ 1,709,046
Fair value of plan assets	(1,010,626)	(994,867)
Net defined benefit liability	$ 746,259	$ 714,179
Net defined benefit liability	$ 764,232	$ 732,152
Net defined benefit asset	(17,973)	(17,973)
Net defined benefit liability	$ 746,259	$ 714,179

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2015	$ 1,614,652	$ (962,935)	$ 651,717
Service cost			
Current service cost	13,013	-	13,013
Net interest expense (income)	36,123	(21,822)	14,301
Recognized in profit or loss	49,136	(21,822)	27,314
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,739)	(3,739)
Actuarial (gain) loss - changes in demographic assumptions	5,001	-	5,001

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Actuarial (gain) loss - changes in financial assumptions	$ 62,826	$ -	$ 62,826
Actuarial (gain) loss - experience adjustments	7,395	-	7,395
Recognized in other comprehensive income	75,222	(3,739)	71,483
Contributions from the employer	-	(36,335)	(36,335)
Benefits paid	(29,964)	29,964	-
Balance at December 31, 2015	$ 1,709,046	$ (994,867)	$ 714,179
Balance at January 1, 2016	$ 1,709,046	$ (994,867)	$ 714,179
Service cost			
Current service cost	12,362	-	12,362
Net interest expense (income)	33,962	(19,998)	13,964
Recognized in profit or loss	46,324	(19,998)	26,326
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	12,951	12,951
Actuarial (gain) loss - changes in demographic assumptions	1,223	-	1,223
Actuarial (gain) loss - changes in financial assumptions	2,000	-	2,000
Actuarial (gain) loss - experience adjustments	26,180	-	26,180
Recognized in other comprehensive income	29,403	12,951	42,354
Contributions from the employer	-	(36,600)	(36,600)
Benefits paid	(27,888)	27,888	-
Balance at December 31, 2016	$ 1,756,885	$ (1,010,626)	$ 746,259

(Concluded)

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	**2015**
Discount rates	1.25%-1.50%	1.75%-2.00%
Expected rates of salary increase	1.75%-2.75%	2.25%-2.75%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2016	**2015**
Discount rates		
0.25% increase	$ (59,876)	$ (61,646)
0.25% decrease	$ 62,552	$ 64,505
Expected rates of salary increase		
0.25% increase	$ 62,219	$ 64,167
0.25% decrease	$ (59,857)	$ (61,629)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 36,156	$ 36,181
The average duration of the defined benefit obligation	14.1-16.7 years	14.9-17.4 years

24. EQUITY

a. Share capital

1) Common shares

	December 31	
	2016	**2015**
Shares authorized (in thousands)	4,200,000	4,200,000
Capital authorized	$ 42,000,000	$ 42,000,000
Issued and fully paid shares (in thousands)	3,258,501	3,258,501
Issued capital	$ 32,585,008	$ 32,585,008

Issued common shares, which have a par value of NT$10, are entitled to one vote per share and a right to dividend.

2) Global depositary receipts

Far EasTone's global depositary receipts (GDRs) as of December 31, 2016 were as follows:

		GDRs (In Thousand Units)	Equivalent Common Stock (In Thousand Shares)
Initial offering	a)	10,000	150,000
Converted from overseas unsecured convertible bonds	b)	165	2,473
Net decrease due to capital increase or capital reduction	c)	(362)	(5,426)
Reissued within authorized units	d)	24,804	372,067
GDRs transferred to common stock		(33,897)	(508,461)
Outstanding GDRs issued		710	10,653

a) On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EasTone's request to sell to foreign investors 150,000 thousand shares of Far EasTone's common stock in the form of 10,000 thousand units of GDRs. One GDR unit represents 15 shares of Far EasTone's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US$13.219 per unit.

b) On July 20, 2004, the SFB approved Far EasTone's request to issue new common stock in the form of GDRs amounting to US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 2016, there had been 165 thousand units of GDRs issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common shares.

c) In 2003, Far EasTone issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represented 4,448 thousand common shares. Furthermore, in 2008, Far EasTone canceled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represented 9,874 thousand common shares.

d) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2016, Far EasTone had reissued 24,804 thousand units of GDRs representing 372,067 thousand common shares.

The owners of GDRs have the same rights as holders of common stock, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the depositary agreements and the relevant ROC laws and regulations:

a) Exercise voting rights;

b) Convert the GDRs into common stocks; and

c) Receive dividends and exercise preemptive rights or other rights and interests.

b. Capital surplus

	December 31	
	2016	2015
May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1)		
Share issuance in excess of par value	$ 1,684,493	$ 3,561,389
From business combination	8,482,381	8,482,381
May be used to offset a deficit only (2)		
Arising from changes in percentage of ownership interest in subsidiaries	-	14,388
	$ 10,166,874	$ 12,058,158

1) Such capital surplus may be used to offset a deficit; in addition, when Far EasTone has no deficit, such capital surplus may be distributed as cash dividends or may be transferred to share capital once a year within a certain percentage of Far EasTone's capital surplus.

2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary, with these changes treated as equity transactions instead of actual disposal or acquisition of ownership interests, or from changes in capital surplus of subsidiaries.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 16, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' and directors' compensation.

Under the dividend policy as set forth in the amended Articles, where Far EasTone made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses in previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by Far EasTone's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to Note 26,d. on employee benefit expense.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures or plans to improve financial structure.

Legal reserve may be used to offset a deficit. If Far EasTone has no deficit and the legal reserve exceeds 25% of Far EasTone's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", Far EasTone should appropriate or reverse to a special reserve.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by Far EasTone.

The appropriations of earnings of 2015 and 2014 have been approved in the stockholders' meeting on June 16, 2016 and June 18, 2015, respectively, were as follows:

	Appropriation of Earnings For the Years Ended December 31		Dividends Per Share (NT$) For the Years Ended December 31	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ 1,143,672	$ 1,148,415		
Special reserve	(54,573)	68,731		
Cash dividends	10,342,482	10,319,672	$3.174	$3.167

In addition to distributing cash dividends at NT$3.174 and NT$3.167 per share from the unappropriated earnings, Far EasTone's stockholders also approved to distribute cash of $1,876,896 thousand and $1,899,706 thousand, respectively, from the above-mentioned additional paid-in capital - share issuance in excess of par value at NT$0.576 and NT$0.583 per share, respectively, with Far EasTone's stockholders to receive NT$3.75 per share in 2015 and 2014, respectively.

The appropriation of earnings for 2016 was proposed by Far EasTone's board of directors on February 15, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 1,134,683	
Special reserve	13,560	
Cash dividends	10,195,849	$3.129

In addition to distributing cash dividends at NT$3.129 per share from the unappropriated earnings, Far EasTone's board of directors approved the cash distribution of $2,023,529 thousand from the additional paid-in capital - share issuance in excess of par value and from business combination at NT$0.621 per share. Thus, Far EasTone's stockholders will receive NT$3.75 per share in 2017.

The appropriation of earnings for 2016 are subject to the resolution of the stockholders' meeting to be held on June 23, 2017.

d. Special reserve

	For the Years Ended December 31	
	2016	**2015**
Beginning balance	$ 824,480	$ 755,749
Appropriation in respect of		
(Reverse) application of the fair value method to investment properties	(40,688)	36,666
Debit to other equity items	(13,885)	32,065
Ending balance	$ 769,907	$ 824,480

e. Other equity items

Other equity items for the years ended December 31, 2016 and 2015 are summarized as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Unrealized Gains (Losses) on Cash Flow Hedges	Total
For the year ended December 31, 2016				
Beginning balance	$ 829	$ 14,625	$ (140,666)	$ (125,212)
Recorded as adjustments to stockholders' equity	4,256	(53,263)	(51,788)	(100,795)
Recorded as profit or loss	-	(7,234)	34,519	27,285
Share of other comprehensive income of associates	(447)	-	65,690	65,243
Ending balance	$ 4,638	$ (45,872)	$ (92,245)	$ (133,479)
For the year ended December 31, 2015				
Beginning balance	$ 2,156	$ 99,084	$ (240,337)	$ (139,097)
Recorded as adjustments to stockholders' equity	(1,329)	40,362	(17,955)	21,078
Recorded as profit or loss	(4)	(124,821)	39,653	(85,172)
Share of other comprehensive income of associates	6	-	77,973	77,979
Ending balance	$ 829	$ 14,625	$ (140,666)	$ (125,212)

f. Non-controlling interests

	For the Years Ended December 31	
	2016	2015
Beginning balance	$ 752,531	$ 805,351
Attributable to non-controlling interests		
Share of profit	19,372	48,556
Exchange differences on translating foreign operations	1,334	(42)
Actuarial (losses) gains	(69)	38
Subsidiaries' cash dividends	(83,507)	(85,107)
Remittance of cash due to capital reduction and the liquidation of subsidiary	(15)	(16,265)
Equity transaction	26,937	-
Ending balance	$ 716,583	$ 752,531

25. REVENUE

	For the Years Ended December 31	
	2016	2015
Sales of inventories	$ 22,063,340	$ 23,777,863
Telecommunications service revenue	67,315,200	69,722,129
Other	4,965,726	3,793,226
	$ 94,344,266	$ 97,293,218

26. CONSOLIDATED NET INCOME

Consolidated net income included some items as follows:

a. Other income

	For the Years Ended December 31	
	2016	2015
Interest revenue	$ 43,085	$ 68,457
Rent revenue	42,336	46,714
Government grant	6,104	7,279
Dividend revenue	2,011	2,581
	$ 93,536	$ 125,031

b. Depreciation and amortization

	For the Years Ended December 31	
	2016	2015
Property, plant and equipment	$ 9,444,179	$ 8,538,292
Intangible asset	791,724	840,547
	$ 10,235,903	$ 9,378,839
Depreciation expense categorized by function		
Operating costs	$ 8,292,382	$ 7,461,078
Operating expenses	1,151,797	1,077,214
	$ 9,444,179	$ 8,538,292
Amortization expense categorized by function		
Operating costs	$ 320,580	$ 316,462
Marketing expense	97,285	94,428
General and administrative expenses	373,859	429,657
	$ 791,724	$ 840,547

c. Finance costs

	For the Years Ended December 31	
	2016	2015
Interest on financial liabilities measured of amortized cost	$ 286,450	$ 286,872
Interest expense on bank loans and commercial paper	125,810	74,530
Unwinding of discounts on provisions	16,508	17,043
Levied interest on income tax reexamination	5,510	60,002
Other finance costs	7,503	4,120
	$ 441,781	$ 442,567

d. Employee benefit expense

1) Employee's compensation and remuneration to directors and supervisors for 2016 and 2015

	For the Years Ended December 31	
	2016	2015
Retirement benefit		
Defined contribution plans	$ 285,242	$ 325,072
Defined benefit plans (Note 23)	26,326	27,314
	311,568	352,386
Other employee benefits		
Salary	5,883,673	5,921,376
Insurance	523,896	524,691
Other	353,907	334,281
	6,761,476	6,780,348
	$ 7,073,044	$ 7,132,734
Categorized by function		
Operating costs	$ 1,278,553	$ 1,176,683
Operating expenses	5,794,491	5,956,051
	$ 7,073,044	$ 7,132,734

In compliance with the Company Act as amended in May 2015 and the amended Articles resolved by the stockholder's meeting in June 2016, the amendments stipulate distribution of employees' compensation and remuneration to directors at the rates of 1% to 2% and no higher than 1%, respectively, of net profit before income tax, employees' compensation and remuneration to directors. For the years ended December 31, 2016 and 2015, the employees' compensation and the remuneration to directors represented 2% and 0.72%, respectively, of the net profit before income tax.

The accrued employees' compensation and remuneration to directors for the years ended December 31, 2016 and 2015 were as follows:

	For the Years Ended December 31	
	2016	2015
Employees' compensation	$ 262,208	$ 283,550
Remuneration to directors	$ 94,395	$ 102,078

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the amounts of the employees' compensation and the remuneration to directors and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on employees' compensation and remuneration to directors resolved by Far EasTone's board of directors during 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration to directors and supervisors for 2014

The bonuses to employees and remuneration to directors and supervisors for 2014 which has been approved in the shareholders' meetings on June 18, 2015 was as follow:

	For the Year Ended December 31, 2014	
	Cash	**Share**
Bonus to employees	$ 205,340	$ -
Remuneration to directors and supervisors	102,670	-

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the Far EasTone's shareholders' meeting on June 18, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration to directors and supervisors resolved by the shareholders in their meeting in 2015 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Years Ended December 31	
	2016	**2015**
Current tax	$ 2,403,330	$ 2,046,097
Deferred tax	(24,670)	357,518
Income tax expense recognized in profit or loss	$ 2,378,660	$ 2,403,615

The reconciliation of accounting profit and income tax expense is as follows:

	For the Years Ended December 31	
	2016	2015
Profit before tax	$ 13,789,335	$ 13,937,866
Income tax expense computed at statutory tax rate	$ 2,761,225	$ 2,930,062
Add (deduct) tax effects		
Equity-method investment	(592,898)	(487,256)
Other	206,609	(104,396)
Prior year's adjustment	3,708	61,493
10% tax on unappropriated earnings	16	3,712
Income tax expense	$ 2,378,660	$ 2,403,615

The applicable tax rate used above is the corporate tax rate of 17%, payable by the group entities in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Income tax expense recognized in other comprehensive income

	For the Years Ended December 31	
	2016	2015
Deferred tax		
Current year		
Unrealized gains and losses on available-for-sale financial assets	$ 10,955	$ 992
Fair value changes of hedging instruments for cash flow hedges	4,973	1,547
Remeasurement on defined benefit plan	7,109	12,067
Income tax recognized in other comprehensive income	$ 23,037	$ 14,606

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Allowance for doubtful accounts	$ 296,681	$ 35,355	$ -	$ 332,036
Property, plant and equipment	56,888	51,891	-	108,779

(Continued)

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Defined benefit obligation	$ 123,077	$ (1,654)	$ 7,109	$ 128,532
Others	291,698	66,811	15,928	374,437
	$ 768,344	$ 152,403	$ 23,037	$ 943,784

(Concluded)

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Amortization of goodwill	$ 1,344,702	$ 134,473	$ -	$ 1,479,175
Investment properties	120,157	(6,370)	-	113,787
Others	2,646	(370)	-	2,276
	$ 1,467,505	$ 127,733	$ -	$ 1,595,238

For the year ended December 31, 2015

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Allowance for doubtful accounts	$ 369,652	$ (72,971)	$ -	$ 296,681
Property, plant and equipment	259,526	(202,638)	-	56,888
Defined benefit obligation	112,457	(1,467)	12,087	123,077
Others	233,767	55,392	2,539	291,698
	$ 975,402	$ (221,684)	$ 14,626	$ 768,344

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Amortization of goodwill	$ 1,210,232	$ 134,470	$ -	$ 1,344,702
Investment properties	119,054	1,103	-	120,157
Others	2,365	261	20	2,646
	$ 1,331,651	$ 135,834	$ 20	$ 1,467,505

d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2016	2015
Loss carryforwards		
Expire in 2016	$ 198,008	$ 204,777
Expire in 2017	442,412	441,769
Expire in 2018	425,001	425,001
Expire in 2019	426,054	430,709
Expire in 2020	265,710	407,861
Expire in 2021	287,873	295,090
Expire in 2022	170,191	171,391
Expire in 2023	97,006	97,006
Expire in 2024	155,474	155,474
Expire in 2025	329,310	336,885
Expire in 2026	279,159	-
	3,076,198	2,965,963
Unrealized gains or losses on property, plant and equipment	462,507	537,112
Investment gains or losses	978,582	980,136
Others	43,416	403,168
	$ 4,560,703	$ 4,886,379

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised:

Unused Amount	**Expiry Year**
$ 198,008	2016
442,412	2017
425,001	2018
426,054	2019
265,710	2020
287,873	2021
170,191	2022
97,006	2023
155,474	2024
338,403	2025
288,389	2026
$ 3,094,521	

f. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings		
Generated in and after 1998	$ 11,346,830	$ 11,436,725
Balance of imputation credit account (ICA)		
Far EasTone	$ 1,394,481	$ 2,197,359

	For the Years Ended December 31	
	2016 (Expected)	2015
Creditable ratio for distribution of earnings	18.30%	20.48%

g. Income tax assessments

Income tax returns through 2014 of Far EasTone had been assessed by the tax authorities.

Income tax returns through 2010 of KG Telecom (dissolved due to the merger with Far EasTone on January 1, 2010) had been assessed by the tax authorities. However, Far EasTone disagreed with the tax authorities' assessment of its 2000 and 2004 returns and thus filed appeals for the reexamination of these returns. Nevertheless, Far EasTone accrued the related tax.

Income tax return through 2013 of Q-ware Com. had been assessed and cleared by the tax authorities. Income tax return through 2014 of ARCOA, NCIC, DataExpress, Omusic, KGEx.com, Linkwell, Hiiir, Yuan Cing, Simple InfoComm, New Diligent and Home Master had been assessed and cleared by the tax authorities. However, NCIC disagreed with the tax authorities' assessment of its 2014 return and thus filed the appeal for reexamination. Nevertheless, NCIC accrued the related tax. Income tax return through 2015 of ISSDU has been assessed and cleared by the tax authorities.

28. EARNINGS PER SHARE

The earnings and weighted average number of common stock used in the calculation of earnings per share were as follows:

Net Income for the Year

	For the Years Ended December 31	
	2016	2015
Net income attributable to Far EasTone	$ 11,391,303	$ 11,485,695
Effect of dilutive potential common stock:		
Employees' compensation	-	-
Earnings used in the calculation of diluted earnings per share	$ 11,391,303	$ 11,485,695

Weighted Average Number of Common Shares Used

(In Thousand Share)

	For the Years Ended December 31	
	2016	2015
Weighted average number of common shares used in the calculation of basic earnings per share	3,258,501	3,258,501
Effect of dilutive potential common stock:		
Employees' compensation	4,150	5,652
Weighted average number of common shares used in the calculation of diluted earnings per share	3,262,651	3,264,153

If Far EasTone offered to settle the compensation or bonuses paid to employees in cash or shares, Far EasTone assumed the entire amount of the compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the effect was dilutive. Such dilutive effect of the potential shares was included in the calculation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

29. EQUITY TRANSACTION WITH NON-CONTROLLING INTERESTS

The Group acquired 11.48% of FENCIT in October 2016, which increased its continuing interest from 79.04% to 90.52%.

The above transaction was accounted for as an equity transaction since the Group did not lose control over these subsidiaries.

	FENCIT
For the year ended December 31, 2016	
Cash consideration paid	$ 197,550
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(170,613)
Difference arising from equity transaction	$ 26,937
Line items adjusted for equity transaction	
Capital surplus - difference between consideration and carrying amounts adjusted arising from changes in percentage of ownership of the subsidiary	$ (14,388)
Unappropriated earnings	(12,549)
	$ (26,937)

30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of buildings, cell sites and office space with lease terms of between 1 and 15 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2016	2015
Not later than 1 year	$ 3,223,541	$ 3,450,618
Later than 1 year and not later than 5 years	5,163,828	6,341,281
Later than 5 years	108,070	133,347
	$ 8,495,439	$ 9,925,246

The lease payments recognized as expenses were as follows:

	For the Years Ended December 31	
	2016	2015
Minimum lease payment	$ 3,828,729	$ 4,007,399

b. The Group as lessor

Operating leases relate to the investment property owned by the Group with lease terms. Please refer to Note 16 of the consolidated financial statements.

31. CAPITAL MANAGEMENT

The Group is required to maintain sufficient capital to meet the minimum paid-in capital requirements for the telecommunication company, and to finance the upgrade of its telecommunications network. Thus, the Group's capital management focuses on its operating plan to ensure good profitability and financial structure and to meet the demand for working capital, capital expenditures, debt repayment and dividends for the next 12 months.

32. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

1) Except as detailed in the following table, the Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Refundable deposits	$ 674,144	$ 671,743	$ 669,557	$ 667,659
Financial liabilities				
Bonds payable	18,387,581	18,585,857	19,980,348	20,057,401

2) Fair value hierarchy

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Refundable deposits	$ -	$ -	$ 671,743	$ 671,743
Financial liabilities				
Bonds payable	$ 18,585,857	$ -	$ -	$ 18,585,857

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Refundable deposits	$ -	$ -	$ 667,659	$ 667,659
Financial liabilities				
Bonds payable	$ 20,057,401	$ -	$ -	$ 20,057,401

The fair value of the financial assets included in the Level 3 category above have been determined in accordance with discounted cash flow approach based on average discount rate of commercial papers.

b. Fair value of financial instruments that are measured at fair value on a recurring basis.

1) Fair value hierarchy

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Overseas funds	$ -	$ 598,132	$ -	$ 598,132
Hedging derivative financial assets				
Forward exchange contracts	$ -	$ -	$ 2,073	$ 2,073
Hedging derivative financial liabilities				
Forward exchange contracts	$ -	$ -	$ 40,229	$ 40,229
Foreign exchange swap contracts	-	-	7,538	7,538
	$ -	$ -	$ 47,767	$ 47,767

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale financial assets				
Overseas funds	$ -	$ 665,295	$ -	$ 665,295
Hedging derivative financial assets				
Forward exchange contracts	$ -	$ -	$ 3,790	$ 3,790
Foreign exchange swap contracts	-	-	2,225	2,225
	$ -	$ -	$ 6,015	$ 6,015

(Continued)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Hedging derivative financial liabilities				
Forward exchange contracts	$ -	$ -	$ 3,916	$ 3,916
Cross-currency swap contracts	-	-	1,775	1,775
Foreign exchange swap contracts	-	-	5,325	5,325
	$ -	$ -	$ 11,016	$ 11,016

(Concluded)

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

2) Reconciliation of Level 3 fair value measurements of financial assets

	For the Years Ended December 31	
	2016	2015
Hedging derivative financial instruments		
Beginning balance	$ (5,001)	$ (14,950)
Recognized in profit or loss (other gains and losses)	41,589	40,608
Recognized in other comprehensive income	(82,282)	(30,659)
Ending balance	$ (45,694)	$ (5,001)

3) Valuation techniques and inputs used for Level 2 fair value measurement

Financial Instrument	Valuation Techniques and Inputs
Overseas funds	Valuation is based on the fair values of a portfolio of funds, calculated through each subfund by fair value net of the management and operating expenses for the subfund.

4) Valuation techniques and inputs used for Level 3 fair value measurement

Financial Instrument	Valuation Techniques and Inputs
Forward exchange contracts	Cash flow is discounted. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period, and contract forward rates are discounted at a rate that reflects the credit risk of various counterparties.
Cross-currency swap contracts and foreign exchange swap contracts	Cash flow is discounted. Future cash flows are estimated based on observable spot exchange rates at the end of the reporting period and contract rates, discounted at a 0% rate; the counterparties’ high credit ratings and short contract terms indicate a low credit risk of counterparties.

c. Financial instruments

	December 31	
	2016	**2015**
<u>Financial assets</u>		
Derivative financial assets for hedging	$ 2,073	$ 6,015
Loans and receivables (Note 1)	22,840,573	28,371,916
Available-for-sale financial assets (Note 2)	816,440	883,603
<u>Financial liabilities</u>		
Derivative financial liabilities for hedging	47,767	11,016
Measured at amortized cost (Note 3)	52,132,400	56,339,800

Note 1: The balances included the carrying amount of cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable (including related parties), other receivables (including related parties), refundable deposits, other financial assets, and loans and receivables measured at amortized cost.

Note 2: The balance included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included the carrying amount of short-term borrowings, short-term bills payable, notes payable, accounts payable (including related parties), other payables (including related parties), long-term borrowings (including current portion), financial lease payables, bonds payable (including current portion) and guarantee deposits received, which were measured at amortized cost.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payable, bonds payable and borrowings. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include currency risk, interest rate risk, credit risk and liquidity risk. In order to reduce financial risk, the Group is committed to identify, assess and avoid the uncertainty of market and reduce the market changes against the Group's financial performance potential downside effects.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles managing on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The compliance with policies and exposure limits are reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function is reviewed by the Group's board of directors in accordance with related rules and internal control system. The Group should implement the overall financial management objective as well as observe the levels of delegated authority and ensure that those with delegated authority carry out their duties.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note (a) below) and interest rates (see Note (b) below). The Group manages the risk of changes in the foreign currency exchange through cross-currency swap contracts, foreign exchange swap contracts and forward exchange contracts.

a) Foreign currency risk

The Group undertakes transactions and expected future purchase denominated in foreign currencies; consequently, the exposures to exchange rate fluctuations arise. Exchange rate exposures are managed through cross-currency swap contracts, foreign exchange swap contracts and forward exchange contracts.

Foreign-currency sensitivity analysis

The Group was mainly exposed to U.S. dollars and Euro.

The following table details the Group's sensitivity to a 5% increase and decrease in the New Taiwan dollar (NTD) against the U.S. dollar and EUR. The 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel, and it represents management's basis for assessing the reasonable possible changes in foreign exchange rates for reasonableness. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items, for which their translation at period end is adjusted for a 5% change in foreign currency rates. The positive number shown in the currency impact table below indicates an increase in profit or equity where the NTD strengthened 5% against the U.S. dollar and EUR. For a 5% weakening of the NTD against U.S. dollar and EUR, shown by the negative amount below, there was a decrease in profit or equity.

	Impact For the Years Ended December 31	
	2016	**2015**
Profit or loss		
USD	$ (19,253)	$ (21,916)
EUR	$ 11,485	$ 8,403

b) Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow loans at both fixed and floating interest rates. To manage this risk, the Group maintains an appropriate mix of fixed and floating rate borrowings.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2016	**2015**
Fair value risk		
Financial assets	$ 12,856,252	$ 15,375,288
Financial liabilities	35,660,914	34,023,498
Cash flow risk		
Financial assets	2,025,100	5,556,646
Financial liabilities	3,398,283	7,990,001

Sensitivity analysis

The sensitivity analysis described below was based on the Group's exposure to interest rates for financial assets and financial liabilities at the end of the reporting period. An increase or decrease of 25 basis points is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. For the financial assets and financial liabilities with fixed interest rate, their fair value will change as the market interest rates change. For the financial assets and financial liabilities with floating interest rate, their effective interest rates will change as the market interest rates change.

Had interest rates been 25 basis points higher/lower and all other variables been held constant, the income before income tax for the years ended December 31, 2016 and 2015 would have decreased by $3,433 thousand and $6,083 thousand, respectively, mainly affected by bank deposits and borrowings with floating interest rates.

c) Other price risks

The Group is exposed to equity price risks involving beneficial certificates. The Group managed the risk by holding a portfolio of investments with different risk. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should need arise.

Sensitivity analysis

The following sensitivity analysis was based on the exposure to equity price risks at the end of the reporting period.

Had equity prices been 5% higher/lower, the fair value of available-for-sale financial assets as of December 31, 2016 and 2015 would have increased/decreased by $29,907 thousand and $33,265 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations, resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

a) The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets; and

b) The amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group has a policy of dealing only with creditworthy counterparties. The credit line of those counterparties were granted through credit analysis and investigation based on the information supplied by independent rating agencies. The counterparties transaction type, financial position and collateral are also taken into consideration. All credit lines have expiration dates and are subject to reexamination before any granting of extensions.

The Group did transaction with a large number of unrelated customers, and, thus, no concentration of credit risk was observed.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. The Group's unutilized overdraft and bank loan facilities amounted to $36,269,977 thousand and $36,260,900 thousand, respectively.

The table below summarizes the maturity profile of the Group's financial liabilities based on undiscounted contractual payments but did not include the financial liabilities with carrying amounts that approximated contractual cash flows:

	Carry Value	Contractual Cash Flows	Within 1 Year	1-5 Years	More than 5 Years
December 31, 2016					
Short-term borrowings	$ 2,800,000	$ 2,804,058	$ 2,804,058	$ -	$ -
Short-term bills payable	3,149,171	3,150,000	3,150,000	-	-
Long-term borrowings	14,048,345	14,266,585	108,370	14,158,215	-
Bonds payable	18,387,581	18,958,220	6,460,900	12,497,320	-
	$ 38,385,097	$ 39,178,863	$ 12,523,328	$ 26,655,535	$ -
December 31, 2015					
Short-term borrowings	$ 506,971	$ 511,499	$ 511,499	$ -	$ -
Short-term bills payable	329,708	330,000	330,000	-	-
Long-term borrowings	20,490,001	20,803,785	27,875	20,775,910	-
Bonds payable	19,980,348	20,837,840	1,879,620	18,958,220	-
	$ 41,307,028	$ 42,483,124	$ 2,748,994	$ 39,734,130	$ -

33. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between Far EasTone and its subsidiaries, which are related parties of Far EasTone, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Operating revenue

	For the Years Ended December 31	
	2016	2015
Far Eastern New Century	$ 57,849	$ 37,347
Subsidiaries of Far Eastern New Century	336,421	228,053
Other related parties	231,101	221,217
	$ 625,371	$ 486,617

Operating revenue from related parties include revenue from sales of inventories, telecommunication service, leased circuit, storage service and customer service, of which the terms and conditions conformed to normal business practice.

b. Operating costs and expenses

	For the Years Ended December 31	
	2016	2015
Cost of telecommunications service		
Subsidiaries of Far Eastern New Century	$ 3,974	$ 3,889
Other related parties	728	3,321
	$ 4,702	$ 7,210
Rental (included in operating cost)		
Far Eastern New Century	$ 1,720	$ 1,549
Subsidiaries of Far Eastern New Century	8,794	7,370
Other related parties	22,369	18,614
	$ 32,883	$ 27,533
Rental (included in operating expense)		
Far Eastern New Century	$ 2,867	$ 2,849
Subsidiaries of Far Eastern New Century	60,022	60,826
Other related parties	102,927	105,911
	$ 165,816	$ 169,586
Marketing expense		
Subsidiaries of Far Eastern New Century	$ 61,248	$ 54,362
Other related parties	15,177	24,671
	$ 76,425	$ 79,033
Service fee		
Far Eastern New Century	$ 595	$ 571
Subsidiaries of Far Eastern New Century	133,952	124,404
Other related parties	175	32,335
	$ 134,722	$ 157,310
Other expense		
Far Eastern New Century	$ 130,307	$ 103,426
Subsidiaries of Far Eastern New Century	20,671	1,417
Other related parties	12,087	4,757
	$ 163,065	$ 109,600

The above companies provided telecommunication related services to the Group. The terms and conditions conformed to normal business practice.

All the terms and conditions of above rental contract conformed to normal business practice.

c. Property transactions

	For the Years Ended December 31	
	2016	2015
Acquisition of equity-method investments		
Associates	$ 30,000	$ -
Subsidiaries of Far Eastern New Century	-	106,000
	$ 30,000	$ 106,000
Acquisition of property, plant and equipment		
Subsidiaries of Far Eastern New Century	$ 2,900	$ 9,595
Other related parties	-	67
	$ 2,900	$ 9,662
Acquisition of available-for-sale financial assets		
Other related parties	$ -	$ 653,400
Disposal of available-for-sale financial assets		
Other related parties	$ -	$ 687,033

The fund transaction between the Group and Opas Fund Segregated Portfolio Company ("Opas Company") was carrying out investment to acquisition and disposal the overseas fund including Opas Fund Segregated Portfolio Tranche "A", "B", "C", "D", through the trading platform of Opas Company. The decisions on overseas mutual funds with different tranches were made by the investment committee which is formed with the Group and other investors. During the year ended December 31, 2015, the Group acquired funds with carrying amounts of $653,400 thousand, and the Group disposed of funds with carrying amounts of $603,900 thousand. The disposal proceed was $687,033 thousand, and the gains on fund disposal was $83,133 thousand.

The Group subscribed for Alliance Digital Technology Co., Ltd. and Ding Ding Integrated Marketing Service Co., Ltd.'s new common shares issued for cash amounting to $30,000 thousand and $106,000 thousand in December 2016 and May 2015, respectively. After the subscription, the Group's ownership of the companies increased to 14.4% and maintained 20%, respectively.

d. Bank deposits, debt investments with no active market and other financial assets

	December 31	
	2016	2015
Other related parties	$ 4,109,041	$ 4,862,453

The Group had bank deposits in Far Eastern International Bank (FEIB). These deposits included the proceeds of Far EasTone's sale of prepaid cards and NCIC's sale of international calling cards, which were consigned to FEIB as trust fund and included in other financial assets - current.

e. Hedging derivative financial liabilities - current

	December 31	
	2016	2015
Other related parties	$ 7,538	$ 3,100

NCIC entered into foreign exchange swap contracts with FEIB to hedge against cash flow fluctuation on its foreign currency-denominated assets. The notional amounts were both US$20,000 thousand as of December 31, 2016 and 2015, respectively. Related expenses were treated as finance cost.

f. Receivables and payables - related parties

	December 31	
	2016	**2015**
Accounts receivable - related parties		
Far Eastern New Century	$ 1,157	$ 4,638
Subsidiaries of Far Eastern New Century	54,197	39,208
Other related parties	150,071	180,338
	$ 205,425	$ 224,184
Other receivables - related parties (included in other current assets)		
Subsidiaries of Far Eastern New Century	$ 2,651	$ 4,279
Other related parties	4,244	196,796
	$ 6,895	$ 201,075
Accounts payable - related parties (included in accounts payable)		
Subsidiaries of Far Eastern New Century	$ 687	$ 1,512
Other related parties	943	-
	$ 1,630	$ 1,512
Other payables - related parties (included in other current liabilities)		
Far Eastern New Century	$ 32,456	$ 33,149
Subsidiaries of Far Eastern New Century	96,780	79,507
Other related parties	7,077	12,469
	$ 136,313	$ 125,125

g. Refundable deposits

	December 31	
	2016	**2015**
Refundable deposits		
Subsidiaries of Far Eastern New Century	$ 75,916	$ 79,285
Other related parties	1,491	1,632
	$ 77,407	$ 80,917

h. Others

	For the Years Ended December 31	
	2016	2015
Interest revenue		
Subsidiaries of Far Eastern New Century	$ 22	$ 25
Other related parties	25,251	49,811
	$ 25,273	$ 49,836
Rental revenue		
Subsidiaries of Far Eastern New Century	$ 1,164	$ 5,656
Other related parties	326	1,955
	$ 1,490	$ 7,611
Finance costs		
Other related parties	$ 4,915	$ 1,472

All the terms and conditions of the above rental contracts conformed to normal business practice.

i. Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended December 31, 2016 and 2015 were as follows:

	For the Years Ended December 31	
	2016	2015
Short-term benefits	$ 333,018	$ 338,937
Post-employment benefits	3,521	3,680
	$ 336,539	$ 342,617

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

34. ASSETS PLEDGED OR MORTGAGED

Assets pledged or mortgaged, i.e., used as collaterals for the purchase of inventory, for transactions with financial institutions, litigation, and undertaking government projects, were as follows:

	December 31	
	2016	2015
Other financial assets - current	$ 1,759,889	$ 1,310,966
Other financial assets - noncurrent	21,209	25,140
	$ 1,781,098	$ 1,336,106

35. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 and 2015 were as follows:

a.

	December 31	
	2016	2015
Acquisition of property, plant and equipment under contracts	$ 5,762,054	$ 6,668,933
Less: Payments for acquisition of property, plant and equipment	1,666,888	1,716,273
	$ 4,095,166	$ 4,952,660
Acquisition of cellular phone equipment under contracts	$ 14,299,303	$ 13,372,760
Less: Payments for acquisition of cellular phone equipment	7,803,864	8,264,134
	$ 6,495,439	$ 5,108,626

b. The Group provided a $100,000 thousand bank guarantee for its purchases as of December 31, 2016 and 2015, respectively.

c. In May 2015, Far EasTone applied to the Taipei District Court for a temporary injunction order against Taiwan Mobile Co., Ltd. (TWM) for TWM's violation of the agreement between Far EasTone and TWM and prohibited TWM from using the C1 spectrum till TWM escheats the C4 spectrum to NCC. On July 1, 2015, the Taipei District Court approved the issuance of a preliminary injunction.

On April 28, 2016, the Taipei District Court ruled on the other application for a temporary injunction order that TWM has to return the C4 spectrum to NCC and is prohibited from any use of the spectrum.

As of February 15, 2017, Far EasTone has lodged $1,200,000 thousand in negotiable certificates of deposit as security for the execution of the provisional injunction order ruling while TWM provided a counter-security of $1,474,119 thousand to waive the provisional injunction order ruling.

On July 28, 2015, Far EasTone filed a civil litigation against TWM, asking TWM to escheat the C4 spectrum immediately and declared that TWM should refrain from using the C1 spectrum even before escheating the C4 spectrum. At the same time, Far EasTone demanded a compensation of $1,005,800 thousand from TWM.

The Taipei District Court pronounced the judgement on May 23, 2016 that TWM has to return the C4 spectrum immediately and is prohibited from any use of the spectrum. Far EasTone lodged $321,000 thousand in negotiable certificates of deposit as security for the provisional execution of the judgment. However, the provisional execution was waived after TWM provided a counter-security of $961,913 thousand. Both Far EasTone and TWM appealed against the judgment in terms of their unfavorable parts.

36. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

To enter the cable television market and strengthen the domain of digital convergence, Far EasTone planned to enter into a strategic alliance with Morgan Stanley Private Equity Asia IV, LLC ("MSPE Asia") and seek opportunities to cooperate with China Network Systems Group ("CNS Group") by acquiring corporate bonds in the future. For this alliance, on July 30, 2015, the board of directors of Far EasTone resolved to enter into a cooperation agreement with the subsidiaries to be individually established by North Haven Private Equity Asia IV Holdings Limited ("NHPEA"), which is managed by MSPE Asia, to regulate future rights and obligations between Far EasTone and MSPE Asia. Under the cooperation agreement, Far EasTone may subscribe for the corporate bonds to be issued by the subsidiaries to be directly/indirectly owned by NHPEA and to be established in the ROC in order to provide certain technology and advisory services as well as to explore other potential opportunities for collaboration as allowed under ROC laws and regulations. Far EasTone's total subscription of the subsidiaries' corporate bonds should not exceed $17,120,000 thousand.

If Far EasTone cannot acquire the permission from the government authorities, then the original shareholders of CNS Group or its related parties could become Far EasTone's strategic cooperative partners under certain conditions. For this cooperative partnership, the board of directors of Far EasTone resolved to sign a contract with the above subsidiaries, and Evergreen Jade Sdn. Bhd. and Goodwill Tower Sdn. Bhd., both of whom are shareholders of CNS Group, to regulate the rights and obligations of each party. However, Far EasTone received a notice of termination of all relevant contracts as the original shareholders of CNS Group and MSPE Asia are in the process of withdrawing the application for the CNS transaction with relevant competent authorities. Thus, the subsidiaries owned by NHPEA will not issue the aforementioned corporate bonds, and Far EasTone suspends the plan from subscribing the bonds. All related contracts signed by Far EasTone are ineffective accordingly.

37. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

(In Thousands, Except Exchange Rate)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,853	32.25	$ 737,007
EUR	151	33.90	5,133
Nonmonetary items			
USD	18,547	32.25	598,132
Financial liabilities			
Monetary items			
USD	10,913	32.25	351,952
EUR	6,927	33.90	234,828

	December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 30,045	32.825	$ 986,222
EUR	72	35.88	2,566
Nonmonetary items			
USD	20,268	32.825	665,295
Financial liabilities			
Monetary items			
USD	16,692	32.825	547,909
EUR	4,756	35.88	170,629

The Group is mainly exposed to the U.S. dollar and Euro. The following information is aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency. The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Years Ended December 31			
	2016		2015	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	$ 26,892	1 (NTD:NTD)	$ 13,704
RMB	4.849 (RMB:NTD)	2,883	5.033 (RMB:NTD)	1,383
		$ 29,775		$ 15,087

38. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: Schedule A

2) Endorsement/guarantee provided: Schedule B

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Schedule C

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: None

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule D

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule E

9) Trading in derivative transactions: Note 8

10) Significant transactions between Far EasTone and its subsidiaries and among subsidiaries: Schedule F

11) Information on investees: Schedule G

b. Investment in Mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Schedule H

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses: Schedule F

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

f) Other transactions that have material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

39. SEGMENT INFORMATION

a. Products and services from which reportable segments derive revenues:

The information provided to the Group's chief operating decision maker in order to allocate resources to the segments and assess their performance focuses on the type of goods or services delivered or provided. As required by IFRS 8 "Operating Segments," the Group defined its operating segments as follows:

1) Mobile service business: Providing mobile telecommunications services;

2) Fixed-line service business: Providing international direct dial, local network, long-distance network and broadband access services; and

3) Sales business: Selling cellular phones, computers and accessories;

Segment operating income represented the profit generated by each operating segment, which included specifically attributable segment revenue, interest revenue, other revenue, equity in investees' net losses, interest expense, other expense and general and administrative expense. The profits were the measure reported to the chief operating decision maker to allocate resources to the segments and assess their performance. However, the measure of segment assets was not provided to the chief operating decision maker.

The Group's revenues and operating results analyzed by the operating segments were as follows:

	For the Year Ended December 31, 2016				
	Mobile Service Business	Fixed-line Service Business	Sales Business	Adjustment and Elimination	Consolidation
Revenues generated from external customers	$ 62,638,316	$ 8,960,074	$ 22,745,876	$ -	$ 94,344,266
Revenues generated from within the Group (Note)	762,269	3,878,489	24,985	(4,665,743)	-
Total revenues	$ 63,400,585	$ 12,838,563	$ 22,770,861	$ (4,665,743)	$ 94,344,266
Segment operating income	$ 10,552,546	$ 3,145,736	$ 2,190,300	$ (2,099,247)	$ 13,789,335

	For the Year Ended December 31, 2015				
	Mobile Service Business	Fixed-line Service Business	Sales Business	Adjustment and Elimination	Consolidation
Revenues generated from external customers	$ 63,388,089	$ 9,691,115	$ 24,214,014	$ -	$ 97,293,218
Revenues generated from within the Group (Note)	936,704	3,949,868	9,719	(4,896,291)	-
Total revenues	$ 64,324,793	$ 13,640,983	$ 24,223,733	$ (4,896,291)	$ 97,293,218
Segment operating income	$ 11,302,175	$ 3,032,012	$ 2,617,048	$ (3,013,369)	$ 13,937,866

Note: Represents sales between segments.

b. Geographical information

The Group has no revenue-generating unit that operates outside the ROC.

c. Information on major customers

There was no customer accounting for at least 10% of the Group's total operating revenue in 2016 and 2015.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes A and B)	Aggregate Financing Limits (Notes A and B)
													Item	Value		
0	Far EasTone Telecommunications Co., Ltd.	Q-ware Communications Co., Ltd.	Other receivables - related parties	Yes	$ 250,000	$ -	$ -	1.45%-1.53%	Short-term financing	$ -	For business operations	$ -	-	$ -	$ 7,100,602	$ 35,503,009
1	New Century InfoComm Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	4,500,000	4,200,000	-	0.83%-1%	Short-term financing	-	For business operations	-	-	-	4,809,105	12,022,763
		Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	4,000,000	4,000,000	-	0.83%-1%	Transaction	4,287,402	-	-	-	-	4,287,402	12,022,763
		Q-ware Communications Co., Ltd.	Other receivables - related parties	Yes	250,000	250,000	190,000	1.33%-1.43%	Short-term financing	-	For business operations	-	-	-	4,809,105	12,022,763

Note A: The maximum total financing provided amount should not exceed 50% of Far EasTone's net worth of most current audited or reviewed financial statements; while the amount of financing provided to short-term financing should not exceed 10% of Far EasTone's net worth of the most current audited or reviewed financial statements.

Note B: Where New Century InfoComm Co., Ltd. ("NCIC") provides loans for business transactions and short-term financing needs, the amount of loans is limited to 50% of NCIC's net worth. A) For business transactions: The individual loan amount should not exceed the amount of business transaction amount between two parties. The business transaction amount referred to the estimated amount of the year of loan contract signing or the prior year's actual transaction amount. B) For short-term financing needs, the individual loan amount should not exceed 20% of NCIC's net worth.

SCHEDULE B

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Amount Given on Behalf of Each Party (Note)	Maximum Amounts Endorsed/ Guaranteed During the Year	Outstanding Endorsement/ Guarantee at the End of the Year	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statement (%)	Aggregate Endorsement/ Guarantee Limit (Note)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship										
0	Far EasTone Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Subsidiary	$ 35,503,009	$ 45,000	$ -	$ -	$ -	-	$ 71,006,018	Yes	-	-

Note: The maximum total endorsement/guarantee amount was equal to Far EasTone's net worth, while the limit of endorsement/guarantee amount for each counterparty should not exceed 50% of Far EasTone's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note	Highest Shares/Units Held During the Year
				Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value		
Far EasTone Telecommunications Co., Ltd.	Stock								
	App Works Fund II Co., Ltd.	-	Financial assets carried at cost - noncurrent	15,000,000	$ 150,000	11.11	$ -	B	15,000,000
ARCOA Communication Co., Ltd.	Stock								
	THI consultants	-	Financial assets carried at cost - noncurrent	1,213,594	12,190	18.32	-	B	1,213,594
	Web Point Co., Ltd.	-	Financial assets carried at cost - noncurrent	160,627	1,618	0.63	-	B	160,627
New Century InfoComm Tech Co., Ltd.	Stock								
	Kaohsiung Rapid Transit Corporation	-	Financial assets carried at cost - noncurrent	8,858,191	50,000	3.18	-	B	8,858,191
	Bank Pro E-service Technology Co., Ltd.	-	Financial assets carried at cost - noncurrent	450,000	4,500	3.33	-	B	450,000
	Overseas funds								
	Opas Fund Segregated Portfolio Tranche A	Other related party	Available-for-sale financial assets - current	14,561.612	447,991	-	447,991	A	14,561.612
	Opas Fund Segregated Portfolio Tranche C	Other related party	Available-for-sale financial assets - current	4,133.591	150,141	-	150,141	A	4,133.591

Note A: The market values of open-end mutual funds were calculated at their net asset values as of December 31, 2016.

Note B: The fair values of financial assets carried at cost are not disclosed because they cannot be reliably measured.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
Far EasTone Telecommunications Co., Ltd.	ARCOA Communication Co., Ltd.	Subsidiary	Operating revenue	$ (196,692)	-	Based on agreement	$ -	-	Accounts receivable	$ 146,184	2
			Cost of telecommunications services, marketing expenses and cost of sales	14,185,110	23	Based on agreement	-	-	Accounts payable and other payables	(1,061,313)	(10)
	New Century InfoComm Tech Co., Ltd.	Subsidiary	Operating revenue	(586,034)	(1)	Based on agreement	-	-	Accounts receivable	770	-
			Cost of telecommunications services	3,701,368	8	Based on agreement	-	-	Accounts payable and other payables (Note A)	(834,092)	(8)
	KGEx. com. Co., Ltd.	Subsidiary	Operating revenue	(131,035)	-	Based on agreement	-	-	Accounts receivable	19,137	-
	DataExpress Infotech Co., Ltd.	Subsidiary of ARCOA Communication Co., Ltd.	Operating revenue	(219,776)	-	Based on agreement	-	-	Accounts receivable	41,714	-
	Omusic Co., Ltd.	Subsidiary	Cost of telecommunications services	224,634	-	Based on agreement	-	-	Accounts payable	(37,431)	-
	Far Eastern Electronic Commerce Co., Ltd.	Same ultimate parent company	Operating revenue	(122,248)	-	Based on agreement	-	-	Accounts receivable	19,515	-
	Far Cheng Human Resource Consultant Corp.	Same ultimate parent company	Service fee	106,585	1	Based on agreement	-	-	Other payables	(9,492)	-
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(3,701,368)	(29)	Based on agreement	-	-	Accounts receivable (Note B)	834,092	49
			Cost of telecommunications services	586,034	7	Based on agreement	-	-	Accounts payable	(770)	-
	KGEx. com. Co., Ltd.	Same parent company	Cost of telecommunications services	149,976	2	Based on agreement	-	-	Accounts payable and other payables	(25,425)	(2)
	Sino Lead Enterprise Limited	Subsidiary	Cost of telecommunications services	110,692	1	Based on agreement	-	-	Accounts payable	(21,709)	(3)
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(14,185,110)	(78)	Based on agreement	-	-	Accounts receivable	1,061,313	75
			Cost of telecommunications services and cost of sales	196,692	1	Based on agreement	-	-	Accounts payable	(146,184)	(12)
	Home Master Technology Ltd.	Subsidiary of DataExpress Infotech Co., Ltd.	Operating revenue	(107,529)	(1)	Based on agreement	-	-	Accounts receivable	54	-
KGEx. com. Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating cost	131,035	27	Based on agreement	-	-	Accounts payable	(19,137)	(36)
	New Century InfoComm Tech Co., Ltd.	Same parent company	Operating revenue	(149,976)	(26)	Based on agreement	-	-	Accounts receivable	25,425	30
Omusic Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(224,634)	(98)	Based on agreement	-	-	Accounts receivable	37,431	97
Sino Lead Enterprise Limited	New Century InfoComm Tech Co., Ltd.	Parent company	Operating revenue	(110,692)	(100)	Based on agreement	-	-	Accounts receivable	21,709	72
DataExpress Infotech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Cost of sales	219,776	7	Based on agreement	-	-	Accounts payable	(41,714)	(11)
	Linkwell Tech. Ltd.	Subsidiary	Cost of sales	127,063	4	Based on agreement	-	-	Accounts payable	(5,733)	(1)
	Home Master Technology Ltd.	Subsidiary	Operating revenue	(137,417)	(4)	Based on agreement	-	-	Accounts receivable	98,056	27
Linkwell Tech. Ltd.	DataExpress Infotech Co., Ltd.	Parent company	Operating revenue	(127,063)	(13)	Based on agreement	-	-	Accounts receivable	5,733	21
Home Master Technology Ltd.	ARCOA Communication Co., Ltd.	Parent company	Cost of sales	107,529	23	Based on agreement	-	-	Accounts payable	(54)	-
	DataExpress Infotech Co., Ltd.	Parent company	Operating cost	137,417	30	Based on agreement	-	-	Accounts payable	(98,056)	(87)

Note A: All interconnect revenues, costs and collection of international direct dial revenue between Far EasTone and NCIC were settled at net amounts and were included in accounts payable - related parties.

Note B: Including the receivables collected by Far EasTone for NCIC.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
Far EasTone Telecommunications Co., Ltd.	ARCOA Communication Co., Ltd.	Subsidiary	$ 150,827	12.10	$ -	-	$ 105,670	$ -
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	918,936	(Note A)	-	-	707,189	-
	Q-ware Communications Co., Ltd.	Same parent company	191,871	(Note B)	-	-	638	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,061,313	12.65	-	-	1,061,313	-

Note A: The turnover rate was unavailable as the receivables from related parties were due to the collection of telecommunications bills by Far EasTone for NCIC.

Note B: The turnover rate was unavailable as the receivables from related parties were mainly due to financing provided for Q-ware by NCIC.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details: Financial Statement Account	Amount (Note D)	Payment Terms	% to Consolidated Assets/Revenue (Note C)
0	Far EasTone Telecommunications Co., Ltd.	New Century InfoComm Tech Co., Ltd.	1	Accounts receivable - related parties	$ 770	Note E	-
				Other receivables - related parties	20,001	Note E	-
				Refundable deposits	3,517	Note E	-
				Accounts payable - related parties	59,258	Note E	-
				Other payables - related parties	859,678	Note E	1
				Unearned revenue	3,467	Note E	-
				Sales of inventories	23	Note E	-
				Telecommunications service revenue	586,011	Note E	1
				Cost of telecommunications services	3,701,368	Note E	4
				Operating expense	73,261	Note E	-
				Nonoperating income and gains	84,401	Note E	-
				Interest expense	64,469	Note E	-
				Loss on disposal of property, plant and equipment	878	Note E	-
		ARCOA Communication Co., Ltd.	1	Accounts receivable - related parties	146,184	Note E	-
				Other receivables - related parties	4,643	Note E	-
				Accounts payable - related parties	1,015,627	Note E	1
				Other payables - related parties	45,686	Note E	-
				Guarantee deposits received	268	Note E	-
				Unearned revenue	75,788	Note E	-
				Sales of inventories	193,075	Note E	-
				Telecommunications service revenue	3,617	Note E	-
				Cost of sales	13,541,219	Note E	14
				Cost of telecommunications services	102,917	Note E	-
				Operating expense	551,672	Note E	1
				Nonoperating income and gains	1,193	Note E	-
		KGEx.com Co., Ltd.	1	Accounts receivable - related parties	19,137	Note E	-
				Other receivables - related parties	6	Note E	-
				Lease receivables	2,691	Note E	-
				Refundable deposits	898	Note E	-
				Other payables - related parties	13,802	Note E	-
				Unearned revenue	42	Note E	-
				Telecommunications service revenue	131,035	Note E	-
				Cost of telecommunications services	22,416	Note E	-
				Operating expense	48,257	Note E	-
				Nonoperating income and gains	1,371	Note E	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details: Financial Statement Account	Amount (Note D)	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		Yuan Cing Co., Ltd.	1	Other receivables - related parties	$ 2,942	Note E	-
				Other payables - related parties	3,153	Note E	-
				Nonoperating income and gains	140	Note E	-
		Q-ware Communications Co., Ltd.	1	Accounts receivable - related parties	26,506	Note E	-
				Other receivables - related parties	5,104	Note E	-
				Accounts payable - related parties	3,437	Note E	-
				Telecommunications service revenue	8,436	Note E	-
				Cost of telecommunications services	41,143	Note E	-
				Nonoperating income and gains	2,457	Note E	-
		DataExpress Infotech Co., Ltd.	1	Accounts receivable - related parties	41,714	Note E	-
				Other receivables - related parties	1,881	Note E	-
				Accounts payable - related parties	2,500	Note E	-
				Other payables - related parties	2,477	Note E	-
				Sales of inventories	219,079	Note E	-
				Telecommunications service revenue	697	Note E	-
				Cost of sales	13,409	Note E	-
				Cost of telecommunications services	18,710	Note E	-
				Operating expense	13,174	Note E	-
				Nonoperating income and gains	324	Note E	-
		Omusic Co., Ltd.	1	Accounts receivable - related parties	447	Note E	-
				Accounts payable - related parties	37,431	Note E	-
				Telecommunications service revenue	537	Note E	-
				Cost of telecommunications services	224,634	Note E	-
				Nonoperating income and gains	40	Note E	-
		Linkwell Tech. Ltd.	1	Accounts receivable - related parties	2,739	Note E	-
				Other payables - related parties	802	Note E	-
				Sales of inventories	50,284	Note E	-
				Telecommunications service revenue	202	Note E	-
				Operating expense	4,844	Note E	-
		Home Master Technology Ltd.	1	Accounts receivable - related parties	4	Note E	-
				Other payables - related parties	701	Note E	-
				Telecommunications service revenue	64	Note E	-
				Operating expense	2,336	Note E	-
		New Diligent Hong Kong Company Ltd.	1	Other receivables - related parties	34	Note E	-
		Information Security Services Digital United Inc.	1	Accounts receivable - related parties	74	Note E	-
				Other receivables - related parties	265	Note E	-
				Accounts payable - related parties	2,207	Note E	-
				Other payables - related parties	3,692	Note E	-
				Telecommunications service revenue	945	Note E	-
				Sales of inventories	14	Note E	-
				Cost of telecommunications services	4,253	Note E	-
				Operating expense	7,983	Note E	-
				Nonoperating income and gains	52	Note E	-
		Far Eastern Tech-info Ltd. (Shanghai)	1	Other receivables - related parties	677	Note E	-
		Far Eastern New Century Information Technology (Beijing) Limited	1	Other receivables - related parties	32,311	Note E	-
		Hiiir Inc.	1	Accounts receivable - related parties	11,757	Note E	-
				Other receivables - related parties	5,140	Note E	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details: Financial Statement Account	Amount (Note D)	Payment Terms	% to Consolidated Assets/Revenue (Note C)
				Accounts payable - related parties	$ 4,176	Note E	-
				Other payables - related parties	9,318	Note E	-
				Sales of inventories	82,408	Note E	-
				Telecommunications service revenue	2,983	Note E	-
				Operating expense	37,164	Note E	-
				Nonoperating income and gains	280	Note E	-
		Digital United Information Technologies (Shanghai) Co., Ltd.	1	Other receivables - related parties	1,126	Note E	-
		Sino Lead Enterprise Limited	1	Other payables - related parties	7,803	Note E	-
1	New Century InfoComm Tech Co., Ltd.	ARCOA Communication Co., Ltd.	3	Accounts payable - related parties	171	Note E	-
				Other payables - related parties	912	Note E	-
				Telecommunications service revenue	974	Note E	-
				Cost of sales	192	Note E	-
				Cost of telecommunications services	621	Note E	-
				Operating expense	1,525	Note E	-
		KGEx.com Co., Ltd.	3	Accounts receivable - related parties	1,787	Note E	-
				Accounts payable - related parties	20,227	Note E	-
				Other payables - related parties	5,198	Note E	-
				Telecommunications service revenue	31,415	Note E	-
				Cost of telecommunications services	149,976	Note E	-
				Operating expense	13,476	Note E	-
		Q-ware Communications Co., Ltd.	3	Accounts receivable - related parties	1,157	Note E	-
				Other receivables - related parties	190,714	Note E	-
				Guarantee deposits received	720	Note E	-
				Accounts payable - related parties	2,048	Note E	-
				Other payables - related parties	3	Note E	-
				Telecommunications service revenue	27,365	Note E	-
				Cost of sales	522	Note E	-
				Cost of telecommunications services	7,432	Note E	-
				Operating expense	147	Note E	-
				Nonoperating income and gains	6,578	Note E	-
		Omusic Co., Ltd.	3	Unearned revenue	16	Note E	-
				Telecommunications service revenue	35	Note E	-
				Nonoperating income and gains	23	Note E	-
		Sino Lead Enterprise Limited	3	Refundable deposits	1,264	Note E	-
				Accounts payable - related parties	21,709	Note E	-
				Other payables - related parties	589	Note E	-
				Cost of telecommunications services	110,692	Note E	-
		Yuan Cing Co., Ltd.	3	Accounts receivable - related parties	19	Note E	-
				Accounts payable - related parties	1,543	Note E	-
				Cost of telecommunications services	6,727	Note E	-
		Information Security Services Digital United Inc.	3	Accounts receivable - related parties	158	Note E	-
				Other receivables - related parties	1,268	Note E	-
				Guarantee deposits received	990	Note E	-
				Accounts payable - related parties	9,027	Note E	-
				Other payables - related parties	610	Note E	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount (Note D)	Payment Terms	% to Consolidated Assets/Revenue (Note C)
				Unearned revenue	$ 33	Note E	-
				Telecommunications service revenue	1,634	Note E	-
				Cost of sales	917	Note E	-
				Other operating costs	18,976	Note E	-
				Operating expense	1,230	Note E	-
				Nonoperating income and gains	5,453	Note E	-
		Digital United Information Technologies (Shanghai) Co., Ltd.	3	Accounts receivable - related parties	510	Note E	-
				Telecommunications service revenue	1,061	Note E	-
				Operating expense	1,061	Note E	-
		Hiiir Inc.	3	Accounts receivable - related parties	315	Note E	-
				Other receivables - related parties	304	Note E	-
				Unearned revenue	48	Note E	-
				Telecommunications service revenue	2,461	Note E	-
				Nonoperating income and gains	8,520	Note E	-
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties	108	Note E	-
				Other receivables - related parties	337	Note E	-
				Guarantee deposits received	588	Note E	-
				Sales of inventories	220	Note E	-
				Telecommunications service revenue	1,484	Note E	-
				Cost of sales	191	Note E	-
				Nonoperating income and gains	2,732	Note E	-
		Linkwell Tech. Ltd.	3	Accounts receivable - related parties	14	Note E	-
				Telecommunications service revenue	267	Note E	-
		Home Master Technology Ltd.	3	Accounts receivable - related parties	8	Note E	-
				Telecommunications service revenue	125	Note E	-
2	ARCOA Communication Co., Ltd.	KGEx.com Co., Ltd.	3	Other payables - related parties	207	Note E	-
				Operating expense	1,341	Note E	-
		Yuan Cing Co., Ltd.	3	Other payables - related parties	433	Note E	-
				Operating expense	1,686	Note E	-
		Hiiir Inc.	3	Accounts receivable - related parties	8,371	Note E	-
				Sales of inventories	9,169	Note E	-
				Telecommunications service revenue	3	Note E	-
				Operating expense	11,500	Note E	-
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties	1,418	Note E	-
				Other receivables - related parties	865	Note E	-
				Accounts payable - related parties	909	Note E	-
				Sales of inventories	98	Note E	-
				Other operating revenue	3,285	Note E	-
				Other operating costs	915	Note E	-
				Nonoperating income and gains	874	Note E	-
		Linkwell Tech. Ltd.	3	Accounts receivable - related parties	264	Note E	-
				Unearned revenue	3,385	Note E	-
				Sales of inventories	42,481	Note E	-
				Other operating revenue	682	Note E	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount (Note D)	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		Home Master Technology Ltd.	3	Accounts receivable - related parties	$ 54	Note E	-
				Unearned revenue	13,775	Note E	-
				Sales of inventories	107,456	Note E	-
				Other operating revenue	73	Note E	-
3	KGEx.com Co., Ltd.	Q-ware Communications Co., Ltd.	3	Accounts receivable - related parties	13	Note E	-
				Telecommunications service revenue	144	Note E	-
4	Yuan Cing Co., Ltd.	Hiiir Inc.	3	Accounts receivable - related parties	1,661	Note E	-
				Other operating revenue	9,588	Note E	-
5	DataExpress Infotech Co., Ltd.	Linkwell Tech. Ltd.	3	Accounts receivable - related parties	3,334	Note E	-
				Other receivables - related parties	6,009	Note E	-
				Accounts payable - related parties	5,733	Note E	-
				Other payables - related parties	2,569	Note E	-
				Sales of inventories	53,055	Note E	-
				Cost of sales	127,063	Note E	-
				Nonoperating income and gains	8,520	Note E	-
		Home Master Technology Ltd.	3	Accounts receivable - related parties	98,056	Note E	-
				Other receivables - related parties	1,340	Note E	-
				Accounts payable - related parties	75	Note E	-
				Other payables - related parties	777	Note E	-
				Sales of inventories	137,417	Note E	-
				Cost of sales	3,099	Note E	-
				Nonoperating income and gains	2,640	Note E	-
		Hiiir Inc.	3	Sales of inventories	4,014	Note E	-
				Other operating revenue	5	Note E	-
		Omusic Co., Ltd.	3	Other payables - related parties	5	Note E	-
				Sales of inventories	60	Note E	-
				Other operating revenue	8	Note E	-
6	Linkwell Tech. Ltd.	Home Master Technology Ltd.	3	Accounts receivable - related parties	481	Note E	-
				Other receivables - related parties	1,007	Note E	-
				Accounts payable - related parties	43	Note E	-
				Other payables - related parties	279	Note E	-
				Sales of inventories	5,235	Note E	-
				Cost of sales	4,482	Note E	-
		Omusic Co., Ltd.	3	Other payables - related parties	14	Note E	-
				Other operating revenue	6	Note E	-
7	Home Master Technology Ltd.	Omusic Co., Ltd.	3	Other payables - related parties	1	Note E	-
				Other operating revenue	2	Note E	-
8	Digital United Information Technologies (Shanghai) Co., Ltd.	Far Eastern New Century Information Technology (Beijing) Limited	3	Accounts receivable - related parties	8,311	Note E	-
				Other operating revenue	7,838	Note E	-

(Continued)

Note A: Parties to the intercompany transactions are identified and numbered as follows:

1. "0" for Far EasTone Telecommunications Co., Ltd. ("Far EasTone")
2. "1" onward for subsidiaries are numbered from

Note B: The flow of related-party transactions is as follows:

1. From the parent company to its subsidiary
2. From a subsidiary to its parent company
3. Between subsidiaries

Note C: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2016; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2016.

Note D: The information shown in the schedule is equivalent to the eliminated material intercompany transactions.

Note E: Payment terms varied depending on the related agreements.

(Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of December 31, 2016			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note	Highest Shares Units Held During the Year
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership (%)	Carrying Amount				
Far EasTone Telecommunication Co., Ltd.	New Century InfoComm Tech Co., Ltd.	Taiwan	Type I, II telecommunications services	$ 22,249,283	$ 22,249,283	2,100,000,000	100.00	$ 26,829,827	$ 2,201,146	$ 2,370,521	A and B	2,100,000,000
	ARCOA Communication Co., Ltd.	Taiwan	Sales of communications products and office equipment	1,305,802	1,305,802	82,762,221	61.63	1,299,781	163,563	100,339	A and B	82,762,221
	KGEx. com. Co., Ltd.	Taiwan	Type II telecommunications services	2,440,457	2,540,442	78,895,760	99.99	870,542	73,240	73,229	A and B	88,894,286
	Hiiir Inc.	Taiwan	Electronic information providing services	537,260	537,260	53,726,000	89.54	(109,380)	(258,936)	(233,211)	A and B	53,726,000
	Yuan Cing Co., Ltd.	Taiwan	Call center services	-	101,371	2,000,000	100.00	30,846	10,846	10,846	A, B and H	19,349,995
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	(49,568)	(1,236)	(1,236)	A and B	1,200
	Omusic Co., Ltd.	Taiwan	Electronic information providing services	25,000	25,000	2,500,000	50.00	8,146	8,442	4,221	A and B	2,500,000
	Q-ware Communication Co., Ltd.	Taiwan	Type II telecommunications services	832,038	832,038	33,982,812	81.46	(76,817)	(17,064)	(13,902)	A and B	33,982,812
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic information providing services and electronic toll collection service	2,542,396	2,542,396	118,250,967	39.42	685,125	(30,408)	(12,412)	B and C	254,239,581
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	139,500	139,500	10,408,200	15.00	51,542	(38,172)	(5,815)	B and C	10,408,200
	Alliance Digital Technology Co., Ltd.	Taiwan	Electronic information providing services	60,000	30,000	6,000,000	14.40	33,869	(75,570)	(10,248)	C and D	6,000,000
	Yuan Hsin Digital Payment Co., Ltd.	Taiwan	Other financing and supporting services	450,000	450,000	32,658,426	30.00	237,364	(297,401)	(89,094)	C and D	45,000,000
	Far Eastern Electronic Commerce Co., Ltd.	Taiwan	Electronic information providing services	80,893	80,893	6,691,000	14.85	(66,483)	(221,248)	(33,451)	B and C	6,691,000
ARCOA Communication Co., Ltd.	DataExpress Infotech Co., Ltd.	Taiwan	Sale of communications products	141,750	141,750	12,866,353	70.00	180,328	24,929	-	B and E	12,866,353
New Century InfoComm Tech Co., Ltd.	New Diligent Co., Ltd.	Taiwan	Investments	1,060,000	800,000	106,000,000	100.00	632,467	(169,673)	-	B and E	106,000,000
	Information Security Service Digital United Inc.	Taiwan	Security and monitoring service via internet	148,777	148,777	10,249,047	100.00	108,990	6,829	-	B and E	10,249,047
	Digital United (Cayman) Ltd.	Cayman Islands	Investments	132,406	132,406	4,320,000	100.00	32,131	1,554	-	B and E	4,320,000
	Far Eastern Electronic Commerce Co., Ltd.	Taiwan	Electronic information providing services	28,922	28,922	2,392,000	5.31	(23,767)	(221,248)	-	B and C	2,392,000
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	46,500	46,500	3,469,400	5.00	17,181	(38,172)	-	B and C	3,469,400
New Diligent Co., Ltd.	Sino Lead Enterprise Limited	Hong Kong	Telecommunication services	125	125	-	100.00	148	49	-	B and E	-
	Far Eastern New Diligent Company Ltd.	British Virgin Islands	Investments	330,598	133,048	-	100.00	52,008	(174,364)	-	B and E	-
	New Diligent Hong Kong Co., Ltd.	Hong Kong	Investments	-	-	-	-	-	-	-	E and G	-
DataExpress Infotech Co., Ltd.	Linkwell Tech. Ltd.	Taiwan	Sale of communications products	10,000	10,000	-	100.00	39,601	(3,813)	-	B and E	-
	Home Master Technology Ltd.	Taiwan	Sale of communications products	10,000	10,000	-	100.00	(8,416)	761	-	B and E	-

Note A: Subsidiary.

Note B: The calculation was based on audited financial statements as of December 31, 2016.

Note C: Equity-method investee of Far EasTone.

Note D: The calculation was based on unaudited financial statements as of December 31, 2016.

Note E: Subsidiary of New Century InfoComm Tech Co., Ltd., New Diligent Co., Ltd., ARCOA Communication Co., Ltd. or DataExpress Infotech Co., Ltd.

Note F: Investments in mainland China are shown on Schedule H.

Note G. New Diligent Hong Kong Co., Ltd. was established on December 4, 2014. The investment amount had not been remitted to the investee as of December 31, 2016.

Note H. Yuan Cing Co., Ltd. reduced capital and remitted cash which exceeded the original investment amount. Thus, the investment amount as of December 31, 2016 is $0.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note A)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outflow	Inflow						
Digital United Information Technologies (Shanghai) Ltd.	Research and design of computer system	$ 99,975 (US$ 3,100,000)	2	$ 99,975 (US$ 3,100,000)	$ -	$ -	$ 99,975 (US$ 3,100,000)	$ 859	100.00	$ 859	$ 11,296 (RMB 2,447,000)	$ -
Far Eastern New Century Information Technology (Beijing) Limited (Note G)	Electronic information providing services	370,875 (US$ 11,500,000)	2	129,000 (US$ 4,000,000)	203,175 (US$ 6,300,000)	-	332,175 (US$ 10,300,000)	(200,764)	90.52 (Note B)	(176,364) (Note B)	73,124 (RMB 15,838,000) (Note B)	-
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and provision of network information	193,500 (US$ 6,000,000)	2	205,491 (Note F)	-	-	205,491 (Note F)	(2,528)	100.00 (Note C)	(2,528) (Note C)	99,949 (RMB 21,648,000) (Note C)	-
New Diligence Corporation (Shanghai) (Note E)	Consulting services, supporting services, and wholesale of machinery and equipment	-	1	36,346 (US$ 1,127,000)	-	-	36,346 (US$ 1,127,000)	-	-	-	-	-

Company Name	Accumulated Investment in Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment (Note D)
Far EasTone Telecommunications Co., Ltd.	$ 92,616	$ 92,616	$ 43,033,561
New Century InfoComm Tech Co., Ltd.	99,975 (US$ 3,100,000)	99,975 (US$ 3,100,000)	14,427,315
New Diligent Co., Ltd.	481,396 (US$14,927,000)	481,396 (US$14,927,000)	379,480

Note A: Investment type as follows:

1. Far EasTone made the investment directly.
2. Far EasTone made the investment through a company registered in a third region. The companies registered in a third region are Far Eastern Info Service (Holding) Ltd., Digital United (Cayman) Ltd. and Far Eastern New Diligent Company Ltd., respectively.
3. Other.

Note B: Including Far Eastern New Diligent Company Ltd. 89.56% of ownership and Far Eastern Tech-Info Ltd. (Shanghai) 0.96% of ownership.

Note C: Including Far Eastern New Diligent Company Ltd. 58.33% of ownership and Far Eastern Info Service (Holding) Ltd. 41.67% of ownership.

Note D: Based on the limit, which is 60% of the investor company’s net worth or the Group’s net worth, which is higher, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA.

Note E: On June 27, 2012, New Diligence Corporation (Shanghai) had been remitted back to Taiwan US$73,000 the investment registered in the Investment Commission of the MOEA and wrote off this same amount.

Note F: Including US$3,500,000.

Note G: The calculation was based on unaudited financial statements as of December 31, 2016.