

**Far EasTone Telecommunications Co., Ltd.  
and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 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, 2017 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, 2017 and 2016, 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, 2017 and 2016. Hence, we did not prepare a separate set of consolidated financial statements of affiliates for the year ended December 31, 2017.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By

---

February 23, 2018

## **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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 are as follows:

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

As of December 31, 2017, the consolidated balances of property, plant and equipment and intangible assets account for 77% of the Group's total assets and are material for the consolidated financial statements as a whole. Economic trends, market competition, and technology development influence the operation of the Group and management's evaluation of and judgment on the expected economic benefits and recoverable amounts of the cash-generating units to which the assets belong, which in turn is used for the evaluation of such assets' 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, refer to Note 5 to the accompanying consolidated financial statements. For other related disclosures, refer to Note 14 and Note 16.

By conducting 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 which are 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 analyses used in the asset impairment assessments, including the appropriateness of the classification of each cash-generating unit, the cash flow forecasts and the discount rates used.

#### Recognition of Mobile Telecommunications Service Revenue

Mobile telecommunications service revenue is the main source of the Group's revenue, and it accounts for 69% of the Group's total revenue for the year ended December 31, 2017. The calculation of mobile telecommunications service revenue relies heavily on automated systems and includes complicated and huge amounts of data transmission. In order to meet market demands and remain competitive, the Group often launches different combinations of products and services which make the calculations of revenue more complex and directly affect the accuracy and timing of revenue recognition. Therefore, the recognition of mobile telecommunications service revenue is considered as a key audit matter.

For the accounting policies related to mobile telecommunications service revenue, refer to Note 4 to the accompanying consolidated financial statements.

By conducting tests of controls, we obtained an understanding of the Group's recognition of mobile telecommunications service revenue and of the design and implementation of related controls. We also engaged IT specialists to perform corresponding audit procedures which are 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 compared whether there is any difference between the reports generated from the accounting system and the billing system.
2. For the unbilled amounts, we recalculated 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 Telecommunications Co., Ltd. as of and for the years ended December 31, 2017 and 2016 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, 2017 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 23, 2018

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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 34)	\$ 8,347,304	6	\$ 10,258,743	8
Financial asset at fair value through profit or loss - current (Notes 4 and 34)	595,200	-	-	-
Available-for-sale financial assets - current (Notes 4 and 34)	-	-	598,132	-
Derivative financial assets for hedging - current (Notes 4, 7 and 34)	1,700	-	2,073	-
Debt investments with no active market - current (Notes 4, 9 and 34)	658,765	1	910,396	1
Notes receivable, net (Notes 4 and 10)	70,321	-	64,361	-
Accounts receivable, net (Notes 4 and 10)	7,706,352	6	7,445,520	6
Accounts receivable - related parties (Notes 4, 10 and 34)	251,910	-	205,425	-
Inventories (Notes 4 and 11)	4,776,547	4	2,488,365	2
Prepaid expenses	859,512	1	1,190,030	1
Other financial assets - current (Notes 4, 34 and 35)	2,856,693	2	3,079,280	2
Other current assets (Note 34)	159,849	-	315,063	-
Total current assets	26,284,153	20	26,557,388	20
NONCURRENT ASSETS				
Financial assets carried at cost (Notes 4 and 8)	263,308	-	218,308	-
Investments accounted for using the equity method (Notes 4, 13 and 34)	1,205,015	1	1,025,081	1
Property, plant and equipment, net (Notes 4, 14 and 34)	46,233,707	35	49,849,572	37
Investment properties (Notes 4 and 15)	1,082,453	1	1,041,406	1
Concessions, net (Notes 1, 4 and 16)	41,820,510	31	38,383,531	29
Goodwill (Notes 4 and 16)	10,808,901	8	10,808,901	8
Other intangible assets (Notes 4 and 16)	3,479,960	3	3,266,025	2
Deferred income tax assets (Notes 4 and 26)	759,909	-	943,784	1
Other noncurrent assets (Notes 4, 10, 17, 22, 34 and 35)	768,439	1	713,326	1
Total noncurrent assets	106,422,202	80	106,249,934	80
TOTAL	\$ 132,706,355	100	\$ 132,807,322	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 18)	\$ 864,000	1	\$ 2,800,000	2
Short-term bills payable (Notes 4 and 18)	299,681	-	3,149,171	2
Derivative financial liabilities for hedging - current (Notes 4, 7 and 34)	-	-	47,767	-
Notes payable	45,637	-	15,425	-
Accounts payable (Note 34)	6,515,052	5	4,126,464	3
Other payables (Note 20)	7,531,030	6	8,795,001	7
Current tax liabilities (Note 4)	2,033,857	1	2,157,366	2
Provisions - current (Notes 4 and 21)	227,536	-	219,922	-
Unearned revenue (Note 4)	2,806,802	2	2,447,193	2
Current portion of long-term borrowings (Notes 4, 18 and 19)	8,998,533	7	6,197,478	5
Guarantee deposits received - current	246,344	-	257,597	-
Other current liabilities (Note 34)	823,502	1	767,320	-
Total current liabilities	30,391,974	23	30,980,704	23
NONCURRENT LIABILITIES				
Bonds payable (Notes 4 and 19)	20,373,820	15	12,190,103	9
Long-term borrowings (Notes 4 and 18)	7,600,000	6	14,048,345	11
Provisions - noncurrent (Notes 4 and 21)	887,441	1	859,586	1
Deferred income tax liabilities (Notes 4 and 26)	1,730,452	1	1,595,238	1
Deferred revenue - noncurrent (Note 20)	185,766	-	193,188	-
Net defined benefit liabilities - noncurrent (Notes 4 and 22)	728,162	1	764,232	1
Guarantee deposits received - noncurrent	296,738	-	310,364	-
Other noncurrent liabilities (Notes 4 and 13)	65,789	-	142,961	-
Total noncurrent liabilities	31,868,168	24	30,104,017	23
Total liabilities	62,260,142	47	61,084,721	46
EQUITY ATTRIBUTABLE TO OWNERS OF FAR EASTONE				
Capital stock				
Common stock	32,585,008	25	32,585,008	24
Capital surplus	8,143,345	6	10,166,874	8
Retained earnings				
Legal reserve	17,405,561	13	16,270,878	12
Special reserve	783,467	1	769,907	1
Unappropriated earnings	10,822,899	8	11,346,830	8
Total retained earnings	29,011,927	22	28,387,615	21
Other equity	18,132	-	(133,479)	-
Total equity attributable to owners of Far EasTone	69,758,412	53	71,006,018	53
NONCONTROLLING INTERESTS	687,801	-	716,583	1
Total equity	70,446,213	53	71,722,601	54
TOTAL	\$ 132,706,355	100	\$ 132,807,322	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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 24 and 34)	\$ 92,069,681	100	\$ 94,344,266	100
OPERATING COSTS (Notes 4, 11, 25 and 34)	<u>56,306,762</u>	<u>61</u>	<u>56,193,147</u>	<u>60</u>
GROSS PROFIT	<u>35,762,919</u>	<u>39</u>	<u>38,151,119</u>	<u>40</u>
OPERATING EXPENSES (Notes 4, 25 and 34)				
Marketing	15,663,463	17	17,274,374	18
General and administrative	<u>5,883,158</u>	<u>7</u>	<u>5,852,395</u>	<u>6</u>
Total operating expenses	<u>21,546,621</u>	<u>24</u>	<u>23,126,769</u>	<u>24</u>
OPERATING INCOME	<u>14,216,298</u>	<u>15</u>	<u>15,024,350</u>	<u>16</u>
NONOPERATING INCOME AND EXPENSES				
Other income (Notes 4, 25 and 34)	98,094	-	93,536	-
Other gains and losses (Notes 4, 7, 15, 16 and 34)	145,680	-	275,644	-
Financial costs (Notes 4, 25 and 34)	(461,784)	-	(441,781)	-
Share of the loss of associates (Note 4)	(79,524)	-	(164,917)	-
Loss on disposal of property, plant, equipment and intangible assets (Note 4)	(756,192)	(1)	(683,934)	(1)
Impairment loss recognized on property, plant and equipment (Notes 4 and 14)	<u>-</u>	<u>-</u>	<u>(313,563)</u>	<u>-</u>
Total nonoperating income and expenses	<u>(1,053,726)</u>	<u>(1)</u>	<u>(1,235,015)</u>	<u>(1)</u>
INCOME BEFORE INCOME TAX	13,162,572	14	13,789,335	15
INCOME TAX (Notes 4 and 26)	<u>2,308,929</u>	<u>2</u>	<u>2,378,660</u>	<u>3</u>
NET INCOME	<u>10,853,643</u>	<u>12</u>	<u>11,410,675</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 4)	<u>19,430</u>	<u>-</u>	<u>(35,245)</u>	<u>-</u>
	<u>19,430</u>	<u>-</u>	<u>(35,245)</u>	<u>-</u>

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 23)	\$ (491)	-	\$ 5,590	-
Unrealized gains (losses) on available-for-sale financial assets (Notes 4 and 23)	45,872	-	(60,497)	-
Cash flow hedges (Notes 4, 7 and 23)	24,698	-	(17,269)	-
Share of other comprehensive income of associates accounted for using the equity method (Note 4)	<u>81,589</u>	<u>-</u>	<u>65,243</u>	<u>-</u>
	<u>151,668</u>	<u>-</u>	<u>(6,933)</u>	<u>-</u>
Total other comprehensive income, net of income tax	<u>171,098</u>	<u>-</u>	<u>(42,178)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 11,024,741</u>	<u>12</u>	<u>\$ 11,368,497</u>	<u>12</u>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of Far EasTone	\$ 10,856,682	12	\$ 11,391,303	12
Noncontrolling interests	<u>(3,039)</u>	<u>-</u>	<u>19,372</u>	<u>-</u>
	<u>\$ 10,853,643</u>	<u>12</u>	<u>\$ 11,410,675</u>	<u>12</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of Far EasTone	\$ 11,027,319	12	\$ 11,347,860	12
Noncontrolling interests	<u>(2,578)</u>	<u>-</u>	<u>20,637</u>	<u>-</u>
	<u>\$ 11,024,741</u>	<u>12</u>	<u>\$ 11,368,497</u>	<u>12</u>
EARNINGS PER SHARE, NEW TAIWAN DOLLARS (Note 27)				
Basic	<u>\$ 3.33</u>		<u>\$ 3.50</u>	
Diluted	<u>\$ 3.33</u>		<u>\$ 3.49</u>	

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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of Far EasTone										
	Retained Earnings					Other Equity					
	Capital Stock (Note 23)	Capital Surplus (Notes 4, 23 and 29)	Legal Reserve (Note 23)	Special Reserve (Note 23)	Unappropriated Earnings (Notes 4, 23 and 28)	Exchange Differences on Translating Foreign Operations (Notes 4 and 23)	Unrealized Gains (Losses) on Available-for-sale Financial Assets (Notes 4 and 23)	Cash Flow Hedges (Notes 4 and 23)	Total	Noncontrolling Interests (Notes 4 and 23)	Total Equity
BALANCE AT JANUARY 1, 2016	\$ 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 (loss) 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
Appropriation of the 2016 earnings											
Legal reserve	-	-	1,134,683	-	(1,134,683)	-	-	-	-	-	-
Special reserve	-	-	-	13,560	(13,560)	-	-	-	-	-	-
Cash dividends - NT\$3.129 per share	-	-	-	-	(10,195,849)	-	-	-	(10,195,849)	-	(10,195,849)
Cash dividends from capital surplus - NT\$0.621 per share	-	(2,023,529)	-	-	-	-	-	-	(2,023,529)	-	(2,023,529)
Adjustments to share of changes in equities of associates	-	-	-	-	(5,182)	-	-	-	(5,182)	-	(5,182)
Cash capital reduction by subsidiaries	-	-	-	-	-	-	-	-	-	(15)	(15)
Difference between the price for acquisition or disposal of subsidiaries and carrying amount	-	-	-	-	(144)	-	-	-	(144)	4,726	4,582
Changes in percentage of ownership interests of subsidiaries	-	-	-	-	(50,221)	-	-	-	(50,221)	31,313	(18,908)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(62,228)	(62,228)
Net income for the year ended December 31, 2017	-	-	-	-	10,856,682	-	-	-	10,856,682	(3,039)	10,853,643
Other comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	19,026	(516)	45,872	106,255	170,637	461	171,098
BALANCE AT DECEMBER 31, 2017	\$ 32,585,008	\$ 8,143,345	\$ 17,405,561	\$ 783,467	\$ 10,822,899	\$ 4,122	\$ -	\$ 14,010	\$ 69,758,412	\$ 687,801	\$ 70,446,213

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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 13,162,572	\$ 13,789,335
Adjustments for:		
Depreciation	10,032,639	9,444,179
Amortization	841,357	791,724
Amortization of concessions	3,078,021	2,581,338
Allowance for doubtful accounts	486,145	421,688
Net loss on financial assets at fair value through profit or loss	3,400	-
Financial costs	461,784	441,781
Interest income	(61,789)	(43,085)
Dividend income	(2,056)	(2,011)
Share of the loss of associates	79,524	164,917
Loss on disposal of property, plant, equipment and intangible assets	756,192	683,934
Transfer of property, plant and equipment to expenses	132	-
Gain on disposal of financial assets	(52,270)	(265)
Reversal of write-down of inventories	(22,329)	(31,779)
Impairment loss on nonfinancial assets	-	313,563
Loss on change in fair value of investment properties	24,677	18,653
Deferred gain on derivative assets for hedging	37,362	11,438
Net changes in operating assets and liabilities		
Financial assets held for trading	(598,600)	-
Derivative financial assets for hedging	(1,700)	-
Notes receivable	(5,960)	(3,741)
Accounts receivable	(768,188)	(1,071,514)
Accounts receivable - related parties	(46,485)	18,759
Inventories	(2,260,164)	2,048,609
Prepaid expenses	334,684	70,798
Other current assets	187,571	(14,082)
Notes payable	30,212	1,931
Accounts payable	2,111,440	(400,494)
Other payables	(860,579)	(158,732)
Provisions	(42,177)	(9,808)
Unearned revenue	339,596	2,220
Other current liabilities	19,678	357,268
Net defined benefit liabilities	(12,055)	(10,272)
Cash generated from operations	27,252,634	29,416,352
Interest received	57,860	50,094
Dividends received	2,056	2,011
Interest paid	(337,893)	(421,965)
Income taxes paid	(2,125,391)	(1,971,801)
Net cash generated from operating activities	24,849,266	27,074,691

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds of the disposal of available-for-sale financial assets	\$ 651,425	\$ 190,134
Disposal of debt investments with no active market	251,631	611,656
Acquisition of financial assets carried at cost	(45,000)	-
Proceeds of the disposal of financial assets carried at cost	945	-
Acquisition of investments accounted for using the equity method	(274,497)	(30,000)
Acquisition of property, plant and equipment	(7,732,052)	(8,906,250)
Proceeds of the disposal of property, plant and equipment	76,351	38,081
Increase in refundable deposits	(304,648)	(316,693)
Decrease in refundable deposits	281,198	312,106
Acquisition of intangible assets	(7,538,693)	(9,147,729)
Cash received through mergers	236,615	-
Decrease (increase) in other financial assets	<u>238,587</u>	<u>(297,880)</u>
Net cash used in investing activities	<u>(14,158,138)</u>	<u>(17,546,575)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in short-term borrowings	(1,936,000)	2,293,029
(Decrease) increase in short-term bills payable	(2,849,490)	2,819,463
Proceeds from issuance of bond payables	14,675,877	-
Repayments of bonds payable	(6,200,000)	(1,600,000)
Proceeds of long-term borrowings	8,900,057	1,699,831
Repayment of long-term borrowings	(12,848,402)	(8,141,487)
Increase in guarantee deposits received	98,865	114,190
Decrease in guarantee deposits received	(135,010)	(131,836)
Decrease in deferred revenue	(7,422)	(21,179)
Cash dividends paid	(12,281,606)	(12,302,885)
Net changes in noncontrolling interests	<u>(18,924)</u>	<u>(15)</u>
Net cash used in financing activities	<u>(12,602,055)</u>	<u>(15,270,889)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<u>(512)</u>	<u>6,749</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,911,439)	(5,736,024)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>10,258,743</u>	<u>15,994,767</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<u>\$ 8,347,304</u>	<u>\$ 10,258,743</u>

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

(Concluded)

# **FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

#### **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 stock 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 stock ceased to be traded on the TPEx and became listed on the ROC Taiwan Stock Exchange (the 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, 2017 and 2016, Far Eastern New Century Corporation (Far Eastern New Century) and its affiliates directly and indirectly owned 38.28% of Far EasTone's stock. 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. The license of GSM900 for the northern region of Taiwan expired in June 2017 and 2G wireless communications services were terminated on June 30, 2017.

The DGT also issued to Far EasTone a type II license 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 starting from January 2003.

Through the completion of a 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 starting from 2005.

On October 30, 2013, Far EasTone bid for two 4G (fourth-generation wireless communications services) wireless communications licenses, GSM700 and GSM1800, with validity through December 31, 2030. Far EasTone bid for a 4G wireless communications license, GSM2600, on December 7, 2015, with validity through December 31, 2033. Far EasTone also bid for a 4G wireless communications license, GSM 2100, with a final bid price of \$6,515,000 thousand, which was paid in December 2017.

The consolidated financial statements of Far EasTone and its subsidiaries, collectively referred to as the Group, 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 23, 2018.

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

- a. Initial application of the 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) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Group’s accounting policies:

#### 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 and issued into effect by the FSC. 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 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.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 34 for related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2018

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	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
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018

(Continued)

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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

(Concluded)

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 amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

#### 1) IFRS 9 “Financial Instruments” and related amendments

##### Classification, measurement and impairment 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 income 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 the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest income 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 the 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 Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Unlisted stock measured at cost will be measured at fair value instead, and will be designated as fair value through other comprehensive income.
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding but the objective of the Group's business model is not to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments 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 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.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	<b>Carrying Amount</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount</b>
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Current assets</u>			
Derivative financial assets for hedging - current	\$ 1,700	\$ (1,700)	\$ -
Financial assets for hedging - current	-	1,700	1,700
Financial assets measured at amortized cost - current	-	658,765	658,765
Debt investments with no active market - current	658,765	(658,765)	-
<u>Noncurrent assets</u>			
Financial assets measured at cost - noncurrent	263,308	(263,308)	-
Financial assets at fair value through other comprehensive income - noncurrent	-	251,575	251,575
Total effect on assets	132,706,355	(11,733)	132,694,622
<u>Equity</u>			
Other equity	-	(11,733)	(11,733)
Total effect on equity	70,446,213	(11,733)	70,434,480

#### 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 the hedging cost of 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.

The assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9.

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

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

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.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer combined output).

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.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Group expects to recover those costs. Such an 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. Currently, related costs are recognized as expenses immediately.

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. Currently, 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 another party, which gives the Group the ability to direct that party to provide the service to the customer on its behalf.
- c) A good or service from another party that it then combines with the other goods or services in providing a 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.

Currently, the Group determines whether it is a principal or an agent based on its exposure to the significant risks and rewards of the goods or services.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Currently, the receivable and the deferred revenue are recognized or the deferred revenue is reduced when revenue is recognized for the contract under IAS 18.

The Group elects to recognize the cumulative effect of retrospectively applying IFRS 15 in the retained earnings on January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Group will not apply the requirements in IFRS 15 individually to each of the modifications, and will identify the performance obligations and determine and allocate transaction prices in a manner that reflects the aggregate effect of all modifications that occurred before December 31, 2017.

In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	<b>Carrying Amount</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount</b>
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Current assets</u>			
Contract assets - current	\$ -	\$ 4,006,717	\$ 4,006,717
<u>Noncurrent assets</u>			
Contract assets - noncurrent	-	1,997,827	1,997,827
Costs to obtain contracts - noncurrent	-	1,566,190	1,566,190
Total effect on assets	132,706,355	7,570,734	140,277,089

(Continued)

	<b>Carrying Amount</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount</b>
<u>Current liabilities</u>			
Contract liabilities - current	\$ -	\$ 2,655,346	\$ 2,655,346
Current tax liabilities	2,033,857	1,597,549	3,631,406
Unearned revenue	2,806,802	(2,806,802)	-
Total effect on liabilities	62,260,142	1,446,093	63,706,235
<u>Equity</u>			
Retained earnings	29,011,927	6,124,641	35,136,568
Total effect on equity	70,446,213	6,124,641	76,570,854 (Concluded)

The anticipated impact of the initial application of IFRS 9 and 15 for application starting from 2018 is summarized as below:

	<b>Carrying Amount</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount</b>
<u>Impact on assets, liabilities and equity</u>			
<u>December 31, 2017</u>			
<u>Current assets</u>			
Derivative financial assets for hedging - current	\$ 1,700	\$ (1,700)	\$ -
Financial assets for hedging - current	-	1,700	1,700
Financial assets measured at amortized cost - current	-	658,765	658,765
Debt investments with no active market - current	658,765	(658,765)	-
Contract assets - current	-	4,006,717	4,006,717
<u>Noncurrent assets</u>			
Financial assets measured at cost - noncurrent	263,308	(263,308)	-
Financial assets at fair value through other comprehensive income - noncurrent	-	251,575	251,575
Contract assets - noncurrent	-	1,997,827	1,997,827
Costs to obtain contracts - noncurrent	-	1,566,190	1,566,190
Total effect on assets	132,706,355	7,559,001	140,265,356 (Continued)

	<b>Carrying Amount</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount</b>
<u>Current liabilities</u>			
Contract liabilities - current	\$ -	\$ 2,655,346	\$ 2,655,346
Current tax liabilities	2,033,857	1,597,549	3,631,406
Unearned revenue	2,806,802	(2,806,802)	-
Total effect on liabilities	62,260,142	1,446,093	63,706,235
<u>Equity</u>			
Retained earnings	29,011,927	6,124,641	35,136,568
Other equity	-	(11,733)	(11,733)
Total effect on equity	70,446,213	6,112,908	76,559,121
			(Concluded)

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.

- c. New IFRSs in issue by IASB but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Employee Benefits"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The amendments to IAS 19 are applied to any plan amendment curtailment or settlement occurring on or after January 1, 2019.

## 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the 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, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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 12, Schedule H and Schedule I 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 stock 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 stock 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's 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 and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, 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 this as 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: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

##### a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 33.

##### b) 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, 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 Far EasTone'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.

c) 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 equivalents include time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and 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 a financial asset 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 foreign exchange rate risks, including forward exchange contracts and foreign exchange 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 fair value hedges or cash flow hedges.

### **a. Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when the hedging instrument no longer meets the criteria for hedge accounting.

### **b. 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 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 rereasurement) 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 liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. 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 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 liabilities are settled or the assets are 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 taxes for the year

Current and deferred taxes 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 taxes 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 each 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, 2017 and 2016, the realizability of the deferred tax assets (liabilities) 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 of receivables, the Group takes into consideration the estimation of future cash flows of such receivables. The amount of the impairment loss is measured as the difference between each of these asset's carrying amounts and the present values of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at each 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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 18,029	\$ 45,668
Checking and demand deposits	6,701,223	1,317,818
Cash equivalents		
Commercial paper purchased under resell agreements	1,544,093	8,864,085
Certificates of deposits	<u>83,959</u>	<u>31,172</u>
	<u>\$ 8,347,304</u>	<u>\$ 10,258,743</u>

## 7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Financial assets - current</u>		
Fair value hedges - foreign exchange swap contracts	\$ 1,700	\$ -
Cash flow hedges - forward exchange contracts	<u>-</u>	<u>2,073</u>
	<u>\$ 1,700</u>	<u>\$ 2,073</u>
<u>Financial liabilities - current</u>		
Cash flow hedges - forward exchange contracts	\$ -	\$ 40,229
Cash flow hedges - foreign exchange swap contracts	<u>-</u>	<u>7,538</u>
	<u>\$ -</u>	<u>\$ 47,767</u>

### a. Fair value hedges

The Group used foreign exchange swap contracts to manage its exposure to the exchange gains or losses of identified foreign currency-denominated assets. The foreign exchange swap contracts were negotiated in accordance with the hedged item, and management believes that the former contracts are highly effective hedging instruments. The outstanding contracts of the Group at the end of the reporting period were as follows:

	<b>Currency</b>	<b>Maturity Date/Period</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2017</u>			
Foreign exchange swap contracts	US\$ to NT\$	2018.02.26	US\$ 10,000

The foreign exchange swap contracts were 100% effective in hedging the exposure to foreign currency exchange rate fluctuations. The gains related to foreign exchange swap contracts were \$1,700 thousand for the year ended December 31, 2017. The losses related to the hedged items due to the fluctuations of foreign currency exchange rates were \$1,700 thousand for the year ended December 31, 2017.

### b. Cash flow hedges

The Group used forward exchange contracts and foreign exchange 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:

	<b>Currency</b>	<b>Maturity Date/Period</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2016</u>			
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

The Group invested in overseas mutual funds and used the foreign exchange swap contracts to hedge against adverse cash flow fluctuations, and the foreign exchange agreements were designated as cash flow hedges. 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 hedges.

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:

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Other gains and losses	<u>\$ 19,325</u>	<u>\$ (41,589)</u>

## 8. FINANCIAL ASSETS CARRIED AT COST

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Noncurrent</u>		
Domestic unlisted common stock	<u>\$ 263,308</u>	<u>\$ 218,308</u>
<u>Distinguish from the type of measure</u>		
Available-for-sale	<u>\$ 263,308</u>	<u>\$ 218,308</u>

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.

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current</u>		
Certificates of deposits with original maturities of more than 3 months	<u>\$ 658,765</u>	<u>\$ 910,396</u>

## 10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Notes receivable</u>		
Notes receivable	\$ 70,321	\$ 64,361
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 70,321</u>	<u>\$ 64,361</u>
<u>Accounts receivable (including other noncurrent assets and related parties)</u>		
Accounts receivable	\$ 8,965,990	\$ 8,550,522
Less: Allowance for doubtful accounts	(952,244)	(899,577)
Less: Unrealized interest income	<u>(3,373)</u>	<u>-</u>
	<u>\$ 8,010,373</u>	<u>\$ 7,650,945</u>

### 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not overdue	\$ 7,353,888	\$ 7,091,325
Overdue		
0-60 days	414,342	381,567
61 days or more	<u>242,143</u>	<u>178,053</u>
	<u>\$ 8,010,373</u>	<u>\$ 7,650,945</u>

The above aging schedule was based on the past due days from the end of credit terms.

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:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2017	\$ 1,554	\$ 898,023	\$ 899,577
Add: Acquisition	-	151	151
Add: Accounts recovered during the period	-	233,931	233,931
Add: Impairment losses/bad debts (reverse)	(957)	487,102	486,145
Less: Amounts written off during the period as uncollectible	<u>(597)</u>	<u>(666,963)</u>	<u>(667,560)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 952,244</u>	<u>\$ 952,244</u>
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	<u>(5,906)</u>	<u>(783,921)</u>	<u>(789,827)</u>
Balance at December 31, 2016	<u>\$ 1,554</u>	<u>\$ 898,023</u>	<u>\$ 899,577</u>

At the end of the reporting period, accounts receivable from sales with payment by installments of the Group were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Gross amounts of accounts receivable	\$ 64,068	\$ -
Unrealized interest income	<u>(3,373)</u>	<u>-</u>
	<u>\$ 60,695</u>	<u>\$ -</u>

Accounts receivable expected to be recovered over one year are classified as noncurrent assets. The above accounts receivable are expected to be recovered before 2024.

### **Sale of Overdue Accounts Receivable**

Under agreements on sales of accounts receivable signed during the years ended December 31, 2017 and 2016, the Group sold to asset management companies the overdue accounts receivable that had been written off. Thus, as of December 31, 2017 and 2016, the Group was not under the risk of uncollectible receivables.

Related information as of December 31, 2017 and 2016 is as follows:

<b>Counterparties</b>	<b>Amounts of Accounts Receivable Sold</b>	<b>Proceeds of the Sale of Accounts Receivable</b>
<u>For the year ended December 31, 2017</u>		
E-Hao Management Consultant Co., Ltd.	<u>\$ 1,499,625</u>	<u>\$ 97,143</u>
<u>For the year ended December 31, 2016</u>		
E-Hao Management Consultant Co., Ltd.	<u>\$ 1,226,233</u>	<u>\$ 67,735</u>

## 11. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cellular phone equipment and accessories	\$ 4,180,175	\$ 2,020,733
Others	<u>596,372</u>	<u>467,632</u>
	<u>\$ 4,776,547</u>	<u>\$ 2,488,365</u>

Costs of inventories sold were \$27,442,907 thousand and \$27,713,680 thousand for the years ended December 31, 2017 and 2016, respectively.

The reversal of inventory write-downs amounting to \$22,329 thousand and \$31,779 thousand were included in the cost of sales for the years ended December 31, 2017 and 2016, respectively.

## 12. 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 (%)		Note
			December 31		
			2017	2016	
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	
	YSDT (former name was Hiiir Inc.)	Electronic information providing services	86.41	89.54	
	Yuan Cing	Call center services	100.00	100.00	
	FEIS	Investment	100.00	100.00	
	Omusic	Electronic information providing services	50.00	50.00	
FEIS	Q-ware com.	Type II telecommunications services	81.46	81.46	
	FETI	Computer software, data processing and network information providing services	41.67	41.67	
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	

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Percentage of Ownership (%)		Note
			December 31		
			2017	2016	
New Diligent	Simple InfoComm	Electronic information providing services	-	-	Dissolved on December 19, 2015 and liquidated on April 6, 2016
	YSDT (former name was Hiiir Inc.)	Electronic information providing services	2.40	-	
	FEND	Investment	100.00	100.00	
	Sino Lead	Telecommunications services	100.00	100.00	
	New Diligent Hong Kong	Investment	100.00	-	
FEND	FETI	Computer software, data processing and network information providing services	58.33	58.33	
	FENCIT	Electronic information providing services	89.56	89.56	Dissolved on February 9, 2018 with the approval of the local government
FETI	FENCIT	Electronic information providing services	0.96	0.96	Dissolved on February 9, 2018 with the approval of the local government
DU (Cayman)	DUIT	Design, research, installment and maintenance of computer software and 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, 2017 and 2016 had been audited, except for those of immaterial subsidiaries, including FETI and FENCIT for the year ended December 31, 2017 and FENCIT for the year ended December 31, 2016. 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.

### 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

#### Investments in Associates

	December 31	
	2017	2016
Material associate		
Far Eastern Electronic Toll Collection Co., Ltd.	\$ 816,685	\$ 685,125
Associates that are not individually material	<u>388,330</u>	<u>249,706</u>
	1,205,015	934,831
Credit balance on carrying values of investments accounted for using equity method reclassified to other liabilities	<u>-</u>	<u>90,250</u>
	<u>\$ 1,205,015</u>	<u>\$ 1,025,081</u>

#### a. Material associates

Company	Nature of Activities	Principle Place of Business	Proportion of Ownership and the Voting Rights	
			December 31	
			2017	2016
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.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current assets	\$ 665,666	\$ 624,831
Noncurrent assets	6,223,855	7,057,459
Current liabilities	(1,121,929)	(1,263,956)
Noncurrent liabilities	<u>(3,692,708)</u>	<u>(4,678,843)</u>
Equity	<u>\$ 2,074,884</u>	<u>\$ 1,739,491</u>
Proportion of the Group's ownership	39.42%	39.42%
Carrying amount	<u>\$ 816,685</u>	<u>\$ 685,125</u>
	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating revenue	<u>\$ 2,044,747</u>	<u>\$ 1,990,204</u>
Net profit (loss) for the year	\$ 128,058	\$ (30,408)
Other comprehensive income	<u>207,335</u>	<u>166,916</u>
Total comprehensive income for the year	<u>\$ 335,393</u>	<u>\$ 136,508</u>

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 the 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

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
The Group's share of:		
Net loss for the year	\$ (129,525)	\$ (152,504)
Other comprehensive income	<u>32</u>	<u>(447)</u>
Total comprehensive income for the year	<u>\$ (129,493)</u>	<u>\$ (152,951)</u>

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	Buildings	Operating Equipment	Computer Equipment	Office Equipment	Leasehold Improvements	Miscellaneous Equipment	Construction-in-progress	Total
<u>Cost</u>									
Balance at January 1, 2017	\$ 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
Additions	-	2,204	64,620	13,180	2,460	16,786	18,481	7,162,166	7,279,897
Disposals	(3,500)	(20,831)	(47,991,698)	(1,409,551)	(19,320)	(120,291)	(309,486)	(24,470)	(49,899,147)
Acquisitions through business combinations	-	-	64,133	9,357	691	22,218	-	-	96,399
Effect of foreign currency exchange difference	-	-	(1)	(45)	(6)	(7)	-	-	(59)
Adjustments and reclassification	(65,724)	48,335	5,328,148	1,010,530	15,568	90,415	139,704	(6,627,080)	(60,104)
Balance at December 31, 2017	<u>\$ 5,250,776</u>	<u>\$ 7,910,971</u>	<u>\$ 85,211,653</u>	<u>\$ 14,628,610</u>	<u>\$ 1,230,249</u>	<u>\$ 4,645,579</u>	<u>\$ 1,405,201</u>	<u>\$ 2,623,257</u>	<u>\$ 122,906,296</u>
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2017	\$ (96,557)	\$ (3,677,699)	\$ (93,153,282)	\$ (12,648,310)	\$ (1,208,474)	\$ (3,562,134)	\$ (1,293,282)	-	\$ (115,639,738)
Depreciation expense	-	(246,270)	(7,990,753)	(1,254,423)	(34,021)	(380,498)	(126,674)	-	(10,032,639)
Acquisitions through business combinations	-	-	(35,316)	(3,826)	(248)	(4,507)	-	-	(43,897)
Disposals	663	18,792	47,236,584	1,407,383	18,668	83,294	283,918	-	49,049,302
Effect of foreign currency exchange difference	-	-	2	59	11	7	-	-	79
Adjustments and reclassification	-	-	(5,697)	(57)	-	-	58	-	(5,696)
Balance at December 31, 2017	<u>\$ (95,894)</u>	<u>\$ (3,905,177)</u>	<u>\$ (53,948,462)</u>	<u>\$ (12,499,174)</u>	<u>\$ (1,224,064)</u>	<u>\$ (3,863,838)</u>	<u>\$ (1,135,980)</u>	<u>\$ -</u>	<u>\$ (76,672,589)</u>
Carrying amount at December 31, 2017	<u>\$ 5,154,882</u>	<u>\$ 4,005,794</u>	<u>\$ 31,263,191</u>	<u>\$ 2,129,436</u>	<u>\$ 6,185</u>	<u>\$ 781,741</u>	<u>\$ 269,221</u>	<u>\$ 2,623,257</u>	<u>\$ 46,233,707</u>
<u>Cost</u>									
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	<u>\$ 5,320,000</u>	<u>\$ 7,881,263</u>	<u>\$ 127,746,451</u>	<u>\$ 15,005,139</u>	<u>\$ 1,230,856</u>	<u>\$ 4,636,458</u>	<u>\$ 1,556,502</u>	<u>\$ 2,112,641</u>	<u>\$ 165,489,310</u>
<u>Accumulated depreciation and impairment</u>									
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	<u>\$ (96,557)</u>	<u>\$ (3,677,699)</u>	<u>\$ (93,153,282)</u>	<u>\$ (12,648,310)</u>	<u>\$ (1,208,474)</u>	<u>\$ (3,562,134)</u>	<u>\$ (1,293,282)</u>	<u>\$ -</u>	<u>\$ (115,639,738)</u>
Carrying amount at December 31, 2016	<u>\$ 5,223,443</u>	<u>\$ 4,203,564</u>	<u>\$ 34,593,169</u>	<u>\$ 2,356,829</u>	<u>\$ 22,382</u>	<u>\$ 1,074,324</u>	<u>\$ 263,220</u>	<u>\$ 2,112,641</u>	<u>\$ 49,849,572</u>

The 2G license expired 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:

Buildings	
Main buildings	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

## 15. INVESTMENT PROPERTIES

	<b>Completed Investment Properties</b>
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	<u>(18,653)</u>
Balance at December 31, 2016	<u>\$ 1,041,406</u>
Balance at January 1, 2017	\$ 1,041,406
Reclassified from property, plant and equipment	65,724
Loss on change in fair value of investment properties	<u>(24,677)</u>
Balance at December 31, 2017	<u>\$ 1,082,453</u>

The lease terms of investments properties were 1-6 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
No later than 1 year	\$ 24,745	\$ 20,480
Later than 1 year and not later than 5 years	64,141	41,189
Later than 5 years	<u>1,486</u>	<u>-</u>
	<u>\$ 90,372</u>	<u>\$ 61,669</u>

The fair value of investment properties measured at fair value on a recurring basis were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Independent valuation	<u>\$ 1,082,453</u>	<u>\$ 1,041,406</u>

The fair value of the investment properties as of December 31, 2017 and 2016 was based on the valuations carried out on January 2, 2018 and January 17, 2017, 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.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Expected future cash inflows	\$ 1,756,230	\$ 1,685,023
Expected future cash outflows	<u>(52,861)</u>	<u>(48,936)</u>
Expected future cash inflows, net	<u>\$ 1,703,369</u>	<u>\$ 1,636,087</u>
Discount rate	2.00%-2.235%	1.845%-2.33%

The market rentals in the area where the investment property is located were between \$1 thousand and \$18 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, 2017 and 2016 were \$25,518 thousand and \$25,255 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 is 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%.

## 16. INTANGIBLE ASSETS

	Concessions	Goodwill	Computer Software	Other Intangible Assets	Total
<u>Cost</u>					
Balance at January 1, 2017	\$ 50,614,000	\$ 10,883,789	\$ 16,304,182	\$ 1,180,722	\$ 78,982,693
Additions	6,515,000	-	1,023,693	-	7,538,693
Disposals	-	-	(193,864)	(303,601)	(497,465)
Acquisitions through business combinations	-	-	39,616	-	39,616
Adjustments and reclassification	-	-	-	(5,753)	(5,753)
Balance at December 31, 2017	<u>\$ 57,129,000</u>	<u>\$ 10,883,789</u>	<u>\$ 17,173,627</u>	<u>\$ 871,368</u>	<u>\$ 86,057,784</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2017	\$(12,230,469)	\$ (74,888)	\$(13,438,409)	\$ (780,470)	\$(26,524,236)
Amortization	(3,078,021)	-	(788,317)	(53,040)	(3,919,378)
Disposals	-	-	193,801	303,601	497,402
Acquisitions through business combinations	-	-	(7,898)	-	(7,898)
Adjustments and reclassification	-	-	-	5,697	5,697
Balance at December 31, 2017	<u>\$(15,308,490)</u>	<u>\$ (74,888)</u>	<u>\$(14,040,823)</u>	<u>\$ (524,212)</u>	<u>\$(29,948,413)</u>
Carrying amount at December 31, 2017	<u>\$ 41,820,510</u>	<u>\$ 10,808,901</u>	<u>\$ 3,132,804</u>	<u>\$ 347,156</u>	<u>\$ 56,109,371</u>
<u>Cost</u>					
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)
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	<u>\$ 50,614,000</u>	<u>\$ 10,883,789</u>	<u>\$ 16,304,182</u>	<u>\$ 1,180,722</u>	<u>\$ 78,982,693</u>
<u>Accumulated amortization and impairment</u>					
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	<u>\$(12,230,469)</u>	<u>\$ (74,888)</u>	<u>\$(13,438,409)</u>	<u>\$ (780,470)</u>	<u>\$(26,524,236)</u>
Carrying amount at December 31, 2016	<u>\$ 38,383,531</u>	<u>\$ 10,808,901</u>	<u>\$ 2,865,773</u>	<u>\$ 400,252</u>	<u>\$ 52,458,457</u>



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, 2017 and 2016, the carrying values of the tangible and intangible assets used by the Group were \$102,343,078 thousand and \$102,308,029 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, 2017 and 2016: Mobile telecommunications service business - 7.17% and 5.83%, respectively; telecommunications equipment business - 7.20% and 6.75%, respectively; integrated network business - 7.13% and 5.99%, Wifly business - 6.96% and 5.83%, 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, refer to Note 14 to the consolidated financial statements. For the year ended December 31, 2017, there was no indication of impairment loss.

## 17. OTHER NONCURRENT ASSETS

	December 31	
	2017	2016
Refundable deposits	\$ 699,385	\$ 674,144
Others	<u>69,054</u>	<u>39,182</u>
	<u>\$ 768,439</u>	<u>\$ 713,326</u>

## 18. BORROWINGS

### a. Short-term borrowings

	December 31	
	2017	2016
<u>Unsecured bank loans</u>		
Credit loans	<u>\$ 864,000</u>	<u>\$ 2,800,000</u>
Credit loans interest rate	0.76%-1.80%	0.70%-1.80%

### b. Short-term bills payable

	December 31	
	2017	2016
Commercial paper payables	\$ 300,000	\$ 3,150,000
Less: Unamortized discount	<u>319</u>	<u>829</u>
	<u>\$ 299,681</u>	<u>\$ 3,149,171</u>
Interest rate	1.15%-1.17%	0.858%-1.50%

### c. Long-term borrowings

	December 31	
	2017	2016
<u>Unsecured bank loans</u>		
Credit loans	\$ 10,100,000	\$ 12,150,000
Long-term commercial paper payables	-	1,900,000
Less: Unamortized discount on commercial paper	-	1,655
Less: Current portion	<u>2,500,000</u>	<u>-</u>
Long-term borrowings	<u>\$ 7,600,000</u>	<u>\$ 14,048,345</u>

- 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 2019. The interest rates were 0.72%-1.13% and 0.74%-1.13% as of December 31, 2017 and 2016, respectively.

- 2) The long-term commercial paper payables are treated revolving credit facilities under contracts. The interest rates were 0.993%-1.0447% as of December 31, 2016. The last repayment date is in December 2018. The long-term commercial paper payables had been repaid in advance in 2017.

## 19. BONDS PAYABLE

	December 31	
	2017	2016
4th unsecured domestic bonds	\$ 4,996,723	\$ 4,995,406
5th unsecured domestic bonds	3,998,855	4,997,042
6th unsecured domestic bonds	3,198,205	8,395,133
2016 1st unsecured domestic bonds	5,193,271	-
2017 1st unsecured domestic bonds	4,493,701	-
2017 2nd unsecured domestic bonds	1,996,612	-
2017 3rd unsecured domestic bonds	<u>2,994,986</u>	<u>-</u>
	26,872,353	18,387,581
Less: Current portion	<u>6,498,533</u>	<u>6,197,478</u>
	<u>\$ 20,373,820</u>	<u>\$ 12,190,103</u>

On January 5, 2017, Far EasTone issued the first five-year unsecured domestic bonds of 2016, 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 full at maturity.

On April 26, 2017, Far EasTone issued the five-year unsecured domestic bonds of 2017, with an aggregate principal amount of \$4,500,000 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 full at maturity.

On September 4, 2017, Far EasTone issued the seven-year unsecured domestic bonds of 2017, with an aggregate principal amount of \$2,000,000 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 full at maturity.

On December 20, 2017, Far EasTone issued the 3rd unsecured domestic bonds of 2017, with an aggregate principal amount of \$3,000,000 thousand and a par value of \$10,000 thousand. The bond included five-and-half-year bonds and seven-year bonds, both with principal amounts of \$1,500,000 thousand and each with coupon interest rates of 0.95% and 1.09%, respectively, with the simple interest due annually. Repayment will be made in full at maturity.

Far EasTone repaid \$1,000,000 thousand of the 5th unsecured domestic bonds and \$5,200,000 thousand of 6th unsecured domestic bonds due in 2017. Far EasTone repaid \$1,600,000 thousand of the 6th unsecured domestic bonds due in 2016.

## 20. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current</u>		
Other payables		
Commission	\$ 2,008,639	\$ 2,440,718
Salary and bonus	1,313,784	1,336,932
Acquisition of properties	991,207	1,534,809
Employees' compensation and remuneration of directors	368,299	376,011
Other	<u>2,849,101</u>	<u>3,106,531</u>
	<u>\$ 7,531,030</u>	<u>\$ 8,795,001</u>
<u>Noncurrent</u>		
Deferred revenue		
Cable and lease line service fees	<u>\$ 185,766</u>	<u>\$ 193,188</u>

## 21. PROVISIONS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current</u>		
Dismantling obligation	\$ 134,571	\$ 115,985
Product warranty	<u>92,965</u>	<u>103,937</u>
	<u>\$ 227,536</u>	<u>\$ 219,922</u>
<u>Noncurrent</u>		
Dismantling obligation	<u>\$ 887,441</u>	<u>\$ 859,586</u>
	<b>Dismantling Obligation</b>	<b>Product Warranty</b>
Balance at January 1, 2016	\$ 926,125	\$ 88,526
Additional provisions recognized	74,665	60,847
Reductions arising from payments	<u>(25,219)</u>	<u>(45,436)</u>
Balance at December 31, 2016	<u>\$ 975,571</u>	<u>\$ 103,937</u>
Balance at January 1, 2017	\$ 975,571	\$ 103,937
Additional provisions recognized	77,646	40,805
Reductions arising from payments	<u>(31,205)</u>	<u>(51,777)</u>
Balance at December 31, 2017	<u>\$ 1,022,012</u>	<u>\$ 92,965</u>

## 22. 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 \$322,089 thousand and \$285,242 thousand for the years ended December 31, 2017 and 2016, 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 1,730,869	\$ 1,756,885
Fair value of plan assets	<u>(1,019,650)</u>	<u>(1,010,626)</u>
	<u>\$ 711,219</u>	<u>\$ 746,259</u>
Net defined benefit liabilities	\$ 728,162	\$ 764,232
Net defined benefit assets	<u>(16,943)</u>	<u>(17,973)</u>
	<u>\$ 711,219</u>	<u>\$ 746,259</u>

Movements in net defined benefit liabilities (assets) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2016	<u>\$ 1,709,046</u>	<u>\$ (994,867)</u>	<u>\$ 714,179</u>
Service cost			
Current service cost	12,362	-	12,362
Net interest expense (income)	<u>33,962</u>	<u>(19,998)</u>	<u>13,964</u>
Recognized in profit or loss	<u>46,324</u>	<u>(19,998)</u>	<u>26,326</u>
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	<u>26,180</u>	<u>-</u>	<u>26,180</u>
Recognized in other comprehensive income	<u>29,403</u>	<u>12,951</u>	<u>42,354</u>
Contributions from the employer	-	(36,600)	(36,600)
Benefits paid	<u>(27,888)</u>	<u>27,888</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 1,756,885</u>	<u>\$ (1,010,626)</u>	<u>\$ 746,259</u>
Balance at January 1, 2017	<u>\$ 1,756,885</u>	<u>\$ (1,010,626)</u>	<u>\$ 746,259</u>
Service cost			
Current service cost	10,995	-	10,995
Prior service cost	2,459	-	2,459
Net interest expense (income)	<u>26,216</u>	<u>(15,294)</u>	<u>10,922</u>
Recognized in profit or loss	<u>39,670</u>	<u>(15,294)</u>	<u>24,376</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	5,455	5,455
Actuarial (gain) loss - changes in demographic assumptions	1,592	-	1,592
Actuarial (gain) loss - changes in financial assumptions	(160)	-	(160)
Actuarial (gain) loss - experience adjustments	<u>(30,401)</u>	<u>-</u>	<u>(30,401)</u>
Recognized in other comprehensive income	<u>(28,969)</u>	<u>5,455</u>	<u>(23,514)</u>
Contributions from the employer	-	(35,902)	(35,902)
Benefits paid	<u>(36,717)</u>	<u>36,717</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 1,730,869</u>	<u>\$ (1,019,650)</u>	<u>\$ 711,219</u>

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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rates	1.50%-1.625%	1.25%-1.50%
Expected rates of salary increase	1.75%-2.75%	1.75%-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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rates		
0.25% increase	<u>\$ (56,180)</u>	<u>\$ (59,876)</u>
0.25% decrease	<u>\$ 58,586</u>	<u>\$ 62,552</u>
Expected rates of salary increase		
0.25% increase	<u>\$ 58,272</u>	<u>\$ 62,219</u>
0.25% decrease	<u>\$ (56,158)</u>	<u>\$ (59,857)</u>

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.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
The expected contributions to the plan for the next year	<u>\$ 36,330</u>	<u>\$ 36,156</u>
The average duration of the defined benefit obligation	13.4-15.6 years	14.1-16.7 years

## 23. EQUITY

### a. Capital stock

#### 1) Common stock

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Stock authorized (in thousands)	<u>4,200,000</u>	<u>4,200,000</u>
Capital authorized	<u>\$ 42,000,000</u>	<u>\$ 42,000,000</u>
Issued and fully paid stock (in thousands)	<u>3,258,501</u>	<u>3,258,501</u>
Issued capital	<u>\$ 32,585,008</u>	<u>\$ 32,585,008</u>

Issued common stock, 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, 2017 were as follows:

		<b>GDRs (In Thousand Units)</b>	<b>Equivalent Common Stock (In Thousand Shares)</b>
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)	24,809	372,128
GDRs transferred to common stock		<u>(34,193)</u>	<u>(512,892)</u>
Outstanding GDRs issued		<u>419</u>	<u>6,283</u>

- 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, 2017, there had been 165 thousand units of GDRs issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common stock.
- 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 stock. 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 stock.
- 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, 2017, Far EasTone had reissued 24,809 thousand units of GDRs representing 372,128 thousand common stock.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
May be used to offset a deficit, distributed as cash dividends or transferred to share capital*		
Share issuance in excess of par value	\$ -	\$ 1,684,493
From business combination	<u>8,143,345</u>	<u>8,482,381</u>
	<u>\$ 8,143,345</u>	<u>\$ 10,166,874</u>

\* 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.

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 stockholders and do not include employees. The stockholders held their regular meeting on June 16, 2016 and, in that meeting, had resolved amendments to Far EasTone'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 stockholders' meeting for distribution of dividends and bonus to stockholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Note 25.e. on employees' compensation and remuneration of directors.

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 2016 and 2015 have been approved in the stockholders' meeting on June 23, 2017 and June 16, 2016, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Years Ended December 31</b>		<b>For the Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 1,134,683	\$ 1,143,672		
Special reserve	13,560	(54,573)		
Cash dividends	10,195,849	10,342,482	\$3.129	\$3.174

In addition to distributing cash dividends at NT\$3.129 and NT\$3.174 per share from the unappropriated earnings, Far EasTone's stockholders also approved to distribute cash of \$2,023,529 thousand and \$1,876,896 thousand, respectively, from the above-mentioned additional paid-in capital - share issuance in excess of par value and from business combinations at NT\$0.621 and NT\$0.576 per share, respectively. Therefore, Far EasTone's stockholders received NT\$3.75 per share in 2017 and 2016, respectively.

The appropriation of earnings for 2017 was proposed by Far EasTone's board of directors on February 23, 2018. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 1,082,290	
Reverse special reserve	(157,139)	
Cash dividends	9,896,067	\$3.037

In addition to distributing cash dividends at NT\$3.037 per share from the unappropriated earnings, Far EasTone's board of directors approved the cash distribution of \$2,323,311 thousand from the additional paid-in capital - from business combinations at NT\$0.713 per share. Thus, Far EasTone's stockholders will receive NT\$3.75 per share in 2018.

The appropriation of earnings for 2017 are subject to the resolution of the stockholders' meeting to be held on June 14, 2018.

d. Special reserve

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 769,907	\$ 824,480
Appropriation (reverse) in respect of		
Application of the fair value method to investment properties	5,293	(40,688)
Debit to other equity items	<u>8,267</u>	<u>(13,885)</u>
Ending balance	<u>\$ 783,467</u>	<u>\$ 769,907</u>

e. Other equity items

Other equity items for the years ended December 31, 2017 and 2016 are summarized as follows:

	<b>Exchange Differences on Translating Foreign Operations</b>	<b>Unrealized Gains (Losses) on Available- for-sale Financial Assets</b>	<b>Unrealized Gains (Losses) on Cash Flow Hedges</b>	<b>Total</b>
<u>For the year ended December 31, 2017</u>				
Beginning balance	\$ 4,638	\$ (45,872)	\$ (92,245)	\$ (133,479)
Recorded as adjustments to stockholders' equity	(548)	44,233	40,738	84,423
Recorded as profit or loss		1,639	(16,040)	(14,401)
Share of other comprehensive income of associates	<u>32</u>	<u>-</u>	<u>81,557</u>	<u>81,589</u>
Ending balance	<u>\$ 4,122</u>	<u>\$ -</u>	<u>\$ 14,010</u>	<u>\$ 18,132</u>
<u>For the year ended December 31, 2016</u>				
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	<u>(447)</u>	<u>-</u>	<u>65,690</u>	<u>65,243</u>
Ending balance	<u>\$ 4,638</u>	<u>\$ (45,872)</u>	<u>\$ (92,245)</u>	<u>\$ (133,479)</u>

f. Non-controlling interests

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 716,583	\$ 752,531
Attributable to non-controlling interests		
Share of profit	(3,039)	19,372
Exchange differences on translating foreign operations	57	1,334
Actuarial (losses) gains	404	(69)
Subsidiaries' cash dividends	(62,228)	(83,507)
Remittance of cash due to capital reduction of subsidiary	(15)	(15)
Equity transaction	<u>36,039</u>	<u>26,937</u>
Ending balance	<u>\$ 687,801</u>	<u>\$ 716,583</u>

## 24. REVENUE

	For the Years Ended December 31	
	2017	2016
Sales of inventories	\$ 23,002,603	\$ 22,063,340
Telecommunications service revenue	63,590,599	67,315,200
Others	<u>5,476,479</u>	<u>4,965,726</u>
	<u>\$ 92,069,681</u>	<u>\$ 94,344,266</u>

## 25. CONSOLIDATED NET INCOME

Consolidated net income included some items as follows:

a. Other income

	For the Years Ended December 31	
	2017	2016
Interest income	\$ 61,789	\$ 43,085
Rental income	33,403	42,336
Government grants	846	6,104
Dividend revenue	<u>2,056</u>	<u>2,011</u>
	<u>\$ 98,094</u>	<u>\$ 93,536</u>

b. Depreciation and amortization

	For the Years Ended December 31	
	2017	2016
Property, plant and equipment	\$ 10,032,639	\$ 9,444,179
Intangible assets	<u>841,357</u>	<u>791,724</u>
	<u>\$ 10,873,996</u>	<u>\$ 10,235,903</u>
Depreciation expense categorized by function		
Operating costs	\$ 8,792,782	\$ 8,292,382
Operating expenses	<u>1,239,857</u>	<u>1,151,797</u>
	<u>\$ 10,032,639</u>	<u>\$ 9,444,179</u>
Amortization expense categorized by function		
Operating costs	\$ 290,191	\$ 320,580
Marketing expense	120,967	97,285
General and administrative expenses	<u>430,199</u>	<u>373,859</u>
	<u>\$ 841,357</u>	<u>\$ 791,724</u>

c. Finance costs

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest on financial liabilities measured of amortized cost	\$ 370,033	\$ 286,450
Interest expense on bank loans and commercial paper	55,890	125,810
Other finance costs	<u>35,861</u>	<u>29,521</u>
	<u>\$ 461,784</u>	<u>\$ 441,781</u>

d. Employee benefits expense

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Retirement benefits		
Defined contribution plans	\$ 322,089	\$ 285,242
Defined benefit plans (Note 22)	<u>24,376</u>	<u>26,326</u>
	<u>346,465</u>	<u>311,568</u>
Other employee benefits		
Salary	6,174,811	5,883,673
Insurance	551,315	523,896
Other	<u>357,721</u>	<u>353,907</u>
	<u>7,083,847</u>	<u>6,761,476</u>
	<u>\$ 7,430,312</u>	<u>\$ 7,073,044</u>
Categorized by function		
Operating costs	\$ 1,239,220	\$ 1,278,553
Operating expenses	<u>6,191,092</u>	<u>5,794,491</u>
	<u>\$ 7,430,312</u>	<u>\$ 7,073,044</u>

e. Employees' compensation and remuneration of directors

Far EasTone decides the distribution of employees' compensation and remuneration of directors at the rates of 1% to 2% and no higher than 1%, respectively, of net profit before income tax, employees' compensation and remuneration of directors. For the years ended December 31, 2017 and 2016, the employees' compensation and the remuneration of directors represented 2% and 0.72%, respectively, of the foregoing basis.

The accrued employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation	<u>\$ 261,539</u>	<u>\$ 262,208</u>
Remuneration of directors	<u>\$ 94,154</u>	<u>\$ 94,395</u>

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 of directors resolved by the board of directors and the respective amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

Information on employees' compensation and remuneration of directors resolved by Far EastOne's board of directors during 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 26. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of tax expense (income) were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax	\$ 2,609,480	\$ 2,403,330
Deferred tax	<u>(300,551)</u>	<u>(24,670)</u>
Income tax expense recognized in profit or loss	<u>\$ 2,308,929</u>	<u>\$ 2,378,660</u>

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

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit before tax	<u>\$ 13,162,572</u>	<u>\$ 13,789,335</u>
Income tax expense computed at statutory tax rate	\$ 2,578,036	\$ 2,761,225
Add (deduct) tax effects		
Equity-method investments	(254,578)	(592,898)
Others	(35,916)	206,609
Prior year's adjustments	21,387	3,708
10% tax on unappropriated earnings	<u>-</u>	<u>16</u>
Income tax expense	<u>\$ 2,308,929</u>	<u>\$ 2,378,660</u>

The applicable tax rate used above is the corporate tax rate of 17%, payable by the group entities in the 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.

In February 2018, it was announced by the President of the ROC that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax expense recognized in other comprehensive income

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Deferred tax</u>		
Current year		
Unrealized gains and losses on available-for-sale financial assets	\$ (9,396)	\$ 10,955
Fair value changes of hedging instruments for cash flow hedges	(5,058)	4,973
Remeasurement on defined benefit plan	<u>(4,084)</u>	<u>7,109</u>
Income tax recognized in other comprehensive income	<u>\$ (18,538)</u>	<u>\$ 23,037</u>

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, 2017

<b>Deferred Tax Assets</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
Allowance for doubtful accounts	\$ 332,036	\$ (2,421)	\$ -	\$ 329,615
Property, plant and equipment	108,779	(57,743)	-	51,036
Defined benefit obligation	128,532	(2,293)	(4,084)	122,155
Others	<u>374,437</u>	<u>(102,880)</u>	<u>(14,454)</u>	<u>257,103</u>
	<u>\$ 943,784</u>	<u>\$ (165,337)</u>	<u>\$ (18,538)</u>	<u>\$ 759,909</u>

<b>Deferred Tax Liabilities</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
Amortization of goodwill	\$ 1,479,175	\$ 134,470	\$ -	\$ 1,613,645
Investment properties	113,787	209	-	113,996
Others	<u>2,276</u>	<u>535</u>	<u>-</u>	<u>2,811</u>
	<u>\$ 1,595,238</u>	<u>\$ 135,214</u>	<u>\$ -</u>	<u>\$ 1,730,452</u>

For the year ended December 31, 2016

<b>Deferred Tax Assets</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
Allowance for doubtful accounts	\$ 296,681	\$ 35,355	\$ -	\$ 332,036
Property, plant and equipment	56,888	51,891	-	108,779
Defined benefit obligation	123,077	(1,654)	7,109	128,532
Others	<u>291,698</u>	<u>66,811</u>	<u>15,928</u>	<u>374,437</u>
	<u>\$ 768,344</u>	<u>\$ 152,403</u>	<u>\$ 23,037</u>	<u>\$ 943,784</u>

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Loss carryforwards		
Expire in 2016	\$ -	\$ 198,008
Expire in 2017	377,075	442,412
Expire in 2018	420,979	425,001
Expire in 2019	419,619	426,054
Expire in 2020	265,710	265,710
Expire in 2021	287,873	287,873
Expire in 2022	166,680	170,191
Expire in 2023	97,005	97,006
Expire in 2024	155,474	155,474
Expire in 2025	329,310	329,310
Expire in 2026	266,266	279,159
Expire in 2027	<u>383,671</u>	<u>-</u>
	3,169,662	3,076,198
Unrealized gains or losses on property, plant and equipment	504,859	462,507
Investment gains or losses	1,004,824	978,582
Others	<u>59,984</u>	<u>43,416</u>
	<u>\$ 4,739,329</u>	<u>\$ 4,560,703</u>



e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

Unused Amount	Expiry Year
\$ 377,075	2017
420,979	2018
419,619	2019
265,710	2020
287,873	2021
166,680	2022
97,005	2023
155,474	2024
338,403	2025
275,496	2026
<u>383,671</u>	2027
<u>\$ 3,187,985</u>	

f. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated in and after 1998	<u>\$ 10,822,899</u>	<u>\$ 11,346,830</u>
Balance of imputation credit accounts (ICA)		
Far EasTone	<u>\$ 1,137,336</u>	<u>\$ 1,394,481</u>
	For the Years Ended	
	December 31	
	2017 (Expected)	2016
Creditable ratio for distribution of earnings	Note	17.37%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

g. Income tax assessments

Income tax returns through 2015 of Far EasTone have 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) have been assessed by the tax authorities. However, Far EasTone disagreed with the filed appeals' decisions of its 2000 and 2004 returns and thus filed administrative litigation for the reexamination of these returns. Nevertheless, Far EasTone accrued the related tax.

Income tax returns through 2014 of ARCOA and NCIC have been assessed and cleared by the tax authorities. However, NCIC disagreed with the tax authorities' assessment of its 2013 and 2014 return and thus applied for administrative remedies. Nevertheless, NCIC accrued the related tax. Income tax returns through 2015 of Q-ware Com., ISSDU, DataExpress, Omusic, KGEx.com, Linkwell, Yuanshi, Yuan Cing, New Diligent, Home Master and Simple Infocomm have been assessed and cleared by the tax authorities.

## 27. 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	
	2017	2016
Net income attributable to Far EasTone	\$ 10,856,682	\$ 11,391,303
Effect of dilutive potential common stock:		
Employees' compensation	<u>-</u>	<u>-</u>
Earnings used in the calculation of diluted earnings per share	<u>\$ 10,856,682</u>	<u>\$ 11,391,303</u>

### Weighted Average Number of Common Stock Used

	(In Thousand Share)	
	For the Years Ended December 31	
	2017	2016
Weighted average number of common stock used in the calculation of basic earnings per share	3,258,501	3,258,501
Effect of dilutive potential common stock:		
Employees' compensation	<u>4,014</u>	<u>4,150</u>
Weighted average number of common stock used in the calculation of diluted earnings per share	<u>3,262,515</u>	<u>3,262,651</u>

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

## 28. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Far Eastern Electronic Commerce Co., Ltd. (FEEC)	Electronic information providing services	August 1, 2017	100	<u>\$ 5,778</u>

To fully integrate both parties' e-Commerce businesses and resources, and enhance the competitiveness in the industry, the Group acquired FEEC on August 1, 2017.

b. Considerations transferred

Hiiir issued 9,167,468 common stock with a par value of NT\$10 as the consideration for the acquisition of FEEC. The fair value amounting to 5,778 thousand of the common stock issued was determined using the ratio of Hiiir's and FEEC's book value of equity at the date of acquisition.

After the merger, Hiiir is the surviving company and was renamed as Yuanshi Digital Technology Co., Ltd. (YSDT), while FEEC was dissolved.

c. Assets acquired and liabilities assumed at the date of acquisition

	<b>FEEC</b>
Current assets	\$ 296,771
Noncurrent assets	93,982
Current liabilities	(373,180)
Noncurrent liabilities	<u>(11,795)</u>
	<u>\$ 5,778</u>

d. Noncontrolling interests

FEEC's noncontrolling interest, which became the noncontrolling interest of YSDT after the share exchange through the merger between YSDT and FEEC, was measured by reference to the fair value of the noncontrolling interest at the acquisition date and amounted to \$4,582 thousand. Since YSDT and FEEC were both under the control of the ultimate parent company, the fair value was determined using YSDT's book value of equity at the acquisition date.

e. Impact of acquisitions on the results of the Group

The revenue and net loss of FEEC since the acquisition date included in the consolidated statements of comprehensive income were \$679,049 thousand and \$92,547 thousand, respectively.

Had the business combination been in effect at the beginning of the annual reporting period, the Group's pro forma consolidated statements of comprehensive income were as follow:.

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating revenue	\$ 93,360,652	\$ 96,360,458
Operating costs	57,513,049	58,078,203
Operating expenses	<u>21,769,221</u>	<u>23,488,520</u>
Operating income	14,078,382	14,793,735
Nonoperating income and expenses	(1,024,681)	(1,184,068)
Income tax	<u>2,308,929</u>	<u>2,378,660</u>
Net income	10,744,772	11,231,007
Other comprehensive income	<u>171,098</u>	<u>(42,178)</u>
Total comprehensive income	<u>\$ 10,915,870</u>	<u>\$ 11,188,829</u>

(Continued)

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Earnings per share		
Basic	<u>\$3.30</u>	<u>\$3.44</u>
Diluted	<u>\$3.30</u>	<u>\$3.44</u>
		(Concluded)

This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2016, nor is it intended to be a projection of future results.

## 29. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

The Group subscribed for new common stock issued by FENCIT in October 2016 and increased its interest from 79.04% to 90.52%.

The Group subscribed for new common stock issued by Hiiir in June 2017 and increased its interest from 89.54% to 93.28%.

The Group acquired 2.11% of Hiiir's common stock in July 2017 and increased its interest from 93.28% to 95.39%.

The above transactions were accounted for as equity transactions since the Group did not lose control over these subsidiaries.

	<b>FENCIT</b>	<b>Hiiir</b>
Cash consideration paid	\$ 197,550	\$ 368,909
The proportionate share of the carrying amount of the net assets of subsidiaries transferred from noncontrolling interests	<u>(170,613)</u>	<u>(318,688)</u>
Difference arising from equity transactions	<u>\$ 26,937</u>	<u>\$ 50,221</u>
<u>Line items adjusted for equity transactions</u>		
Capital surplus - difference between the price for acquisition or disposal of subsidiaries and carrying amount	\$ (14,388)	\$ -
Unappropriated earnings	<u>(12,549)</u>	<u>(50,221)</u>
	<u>\$ (26,937)</u>	<u>\$ (50,221)</u>

## 30. NONCASH TRANSACTIONS

### Noncash Transactions Arising from Investing and Financing Activities

YSdT issued common stock with an aggregate fair value of \$5,778 thousand to acquire FEEC on August 1, 2017 (refer to Note 28).

### 31. 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-year market rental reviews.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not later than 1 year	\$ 3,179,189	\$ 3,223,541
Later than 1 year and not later than 5 years	5,246,511	5,163,828
Later than 5 years	<u>36,457</u>	<u>108,070</u>
	<u>\$ 8,462,157</u>	<u>\$ 8,495,439</u>

The lease payments recognized as expenses were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Minimum lease payments	<u>\$ 3,856,350</u>	<u>\$ 3,828,729</u>

b. The Group as lessor

Operating leases relate to the investment properties owned by the Group with lease terms. Refer to Note 15 of these consolidated financial statements.

### 32. 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.

### 33. 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			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Refundable deposits	\$ 712,567	\$ 711,260	\$ 674,144	\$ 671,743
<u>Financial liabilities</u>				
Bonds payable	26,872,353	27,105,492	18,387,581	18,585,857

2) Fair value hierarchy

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Refundable deposits	\$ -	\$ -	\$ 711,260	\$ 711,260
<u>Financial liabilities</u>				
Bonds payable	\$ 27,105,492	\$ -	\$ -	\$ 27,105,492
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Refundable deposits	\$ -	\$ -	\$ 671,743	\$ 671,743
<u>Financial liabilities</u>				
Bonds payable	\$ 18,585,857	\$ -	\$ -	\$ 18,585,857

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, 2017			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at fair value through profit or loss</u>				
Overseas funds	\$ -	\$ 595,200	\$ -	\$ 595,200
<u>Derivative financial assets for hedging</u>				
Fair value hedges - foreign exchange swap contracts	\$ -	\$ -	\$ 1,700	\$ 1,700
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
<u>Available-for-sale financial assets</u>				
Overseas funds	\$ -	\$ 598,132	\$ -	\$ 598,132
<u>Derivative financial assets for hedging</u>				
Cash flow hedges - forward exchange contracts	\$ -	\$ -	\$ 2,073	\$ 2,073
<u>Derivative financial liabilities for hedging</u>				
Cash flow hedges - forward exchange contracts	\$ -	\$ -	\$ 40,229	\$ 40,229
Cash flow hedges - foreign exchange swap contracts	-	-	7,538	7,538
	\$ -	\$ -	\$ 47,767	\$ 47,767

There were no transfers between Levels 1 and 2 for the years ended December 31, 2017 and 2016.

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

	For the Years Ended December 31	
	2017	2016
<u>Hedging derivative financial instruments</u>		
Beginning balance	\$ (45,694)	\$ (5,001)
Recognized in profit or loss (other gains and losses)	(17,625)	41,589
Recognized in other comprehensive income	65,019	(82,282)
Ending balance	\$ 1,700	\$ (45,694)

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

<b>Financial Instrument</b>	<b>Valuation Techniques and Inputs</b>
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

<b>Financial Instrument</b>	<b>Valuation Techniques and Inputs</b>
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.
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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b><u>Financial assets</u></b>		
Derivative financial assets for hedging	\$ 1,700	\$ 2,073
Loans and receivables (Note 1)	20,684,670	22,840,573
Financial assets at fair value through profit or loss	595,200	-
Available-for-sale financial assets (Note 2)	263,308	816,440

**Financial liabilities**

Derivative financial liabilities for hedging	-	47,767
Measured at amortized cost (Note 3)	53,014,548	52,132,400

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 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 foreign exchange swap contracts and forward exchange contracts.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar and the 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.

	<b>Impact</b>	
	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit or loss		
USD	\$ (21,348)	\$ (19,253)
EUR	\$ (138)	\$ 11,485

b) Interest rate risk

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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value risk		
Financial assets	\$ 5,252,519	\$ 12,856,252
Financial liabilities	36,794,604	35,660,914
Cash flow risk		
Financial assets	7,269,264	2,025,100
Financial liabilities	2,000,000	3,398,283

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, 2017 and 2016 would have increased (decreased) by \$13,173 thousand and \$(3,433) 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 equity investments in 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 financial assets at fair value through profit or loss and available-for-sale financial assets as of December 31, 2017 and 2016 would have increased/decreased by \$29,760 thousand and \$29,907 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 the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

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 \$27,156,792 thousand and \$36,269,977 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:

	<b>Book Value</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>1-5 Years</b>	<b>More than 5 Years</b>
<u>December 31, 2017</u>					
Short-term borrowings	\$ 864,000	\$ 866,963	\$ 866,963	\$ -	\$ -
Short-term bills payable	299,681	300,000	300,000	-	-
Long-term borrowings	10,100,000	10,246,970	2,587,455	7,659,515	-
Bonds payable	<u>26,872,353</u>	<u>28,121,395</u>	<u>6,847,750</u>	<u>16,187,020</u>	<u>5,086,625</u>
	<u>\$ 38,136,034</u>	<u>\$ 39,535,328</u>	<u>\$ 10,602,168</u>	<u>\$ 23,846,535</u>	<u>\$ 5,086,625</u>
<u>December 31, 2016</u>					
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	<u>18,387,581</u>	<u>18,958,220</u>	<u>6,460,900</u>	<u>12,497,320</u>	<u>-</u>
	<u>\$ 38,385,097</u>	<u>\$ 39,178,863</u>	<u>\$ 12,523,328</u>	<u>\$ 26,655,535</u>	<u>\$ -</u>

### 34. 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. The Group's related parties and their relationships

<b>Related Party</b>	<b>Relationship with the Group</b>
Far Eastern New Century Corporation	Ultimate parent company
Far Eastern Electronic Toll Collection Co., Ltd.	Subsidiaries of FENC
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Subsidiaries of FENC
Far Eastern Electronic Commerce Co., Ltd. (FEEC)	Subsidiaries of FENC (dissolved after merging with YSDT on August 1, 2017)
Far Eastern International Leasing Corp.	Other related parties (equity-method investee of subsidiary of FENC)
Telecommunication and Transportation Foundation	Other related parties (Far EasTone's donation is over one third of the foundation's fund)
Far Eastern Apparel Co., Ltd.	Subsidiaries of FENC
Far Cheng Human Resources Consultant Corp. (FCHRC)	Subsidiaries of FENC
Far Eastern Resource Development Co., Ltd. (FERD)	Subsidiaries of FENC
Pacific Sogo Department Stores Co., Ltd. (SOGO)	Other related parties (same chairman as parent company's)
Far Eastern Big City Shopping Malls Co., Ltd.	Subsidiary of SOGO
Far Eastern Citysuper Co., Ltd.	Other related parties (same chairman as parent company's)

(Continued)

<b>Related Party</b>	<b>Relationship with the Group</b>
Ya Tung Department Store Co., Ltd.	Other related parties (same chairman as parent company's)
Fu Dar Transportation Corporation	Other related parties (same chairman as parent company's)
Fu-Ming Transportation Co., Ltd.	Other related parties (same chairman as parent company's)
YDT Technology International Co., Ltd.	Subsidiaries of FENC
Nan Hwa Cement Corporation	Other related parties (same chairman as parent company's)
Ya Tung Ready Mixed Concrete Co., Ltd.	Other related parties (same chairman as parent company's)
Oriental Securities Corporation Ltd.	Other related parties (equity-method investee of ultimate parent company)
Yuan Ding Co., Ltd. (Yuan Ding)	Subsidiaries of FENC
Far Eastern Department Stores Co., Ltd. (Far Eastern Department Stores)	Other related parties (same chairman as Far EasTone's)
Asia Cement Co., Ltd.	Other related parties (same chairman as Far EasTone's)
Oriental Union Chemical Corporation	Other related parties (same chairman as Far EasTone's)
Far Eastern Geant Company Ltd.	Other related parties (same chairman as Far EasTone's)
Far Eastern Hospital	Other related parties (same chairman as Far EasTone's)
Oriental Institute of Technology	Other related parties (same chairman as Far EasTone's)
Far Eastern Plaza Hotel	Subsidiaries of FENC
Yuan-Ze University	Other related parties (same chairman as Far EasTone's)
U-Ming Marine Transport Corporation	Other related parties (same chairman as Far EasTone's)
Chiahui Power Corporation	Other related parties (same chairman as Far EasTone's)
Far Eastern Medical Foundation	Other related parties (same chairman as Far EasTone's)
Far Eastern International Bank (FEIB)	Other related parties (Far EasTone's chairman is FEIB's vice chairman)
Far Eastern Construction Co., Ltd.	Subsidiaries of FENC
Fu Kwok Garment Manufacturing Co., Ltd.	Subsidiaries of FENC
Oriental Petrochemical (Taiwan) Co., Ltd.	Subsidiaries of FENC
Air Liquide Far Eastern Co., Ltd.	Other related parties (equity-method investee of ultimate parent company)
Far Eastern General Contractor Inc.	Subsidiaries of FENC
Oriental Resources Development Limited	Subsidiaries of FENC
Far Eastern Fibertech Co., Ltd.	Subsidiaries of FENC
Far Eastern Realty Management Co., Ltd.	Subsidiaries of FENC
Ding & Ding Management Consultant Co., Ltd.	Other related parties (equity-method investee of ultimate parent company)
Yuan Hsin Digital Payment Co., Ltd. (YSDP)	Subsidiaries of FENC
Alliance Digital Technology Co., Ltd.	Associate

(Continued)

<b>Related Party</b>	<b>Relationship with the Group</b>
Far Eastern Memorial Foundation	Other related parties (same chairman as Far EasTone's)
OPAS Fund Segregated Portfolio Company	Other related parties (substantive related party)
Far Eastern Polyclinic of Far Eastern Medical Foundation	Other related parties (same chairman as Far EasTone's)
	(Concluded)

b. Operating revenue

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Far Eastern New Century	\$ 69,491	\$ 57,849
Subsidiaries of Far Eastern New Century	322,914	336,421
Other related parties	<u>241,793</u>	<u>231,101</u>
	<u>\$ 634,198</u>	<u>\$ 625,371</u>

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

c. Operating costs and expenses

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Costs of telecommunications services		
Subsidiaries of Far Eastern New Century	\$ 42,834	\$ 3,974
Other related parties	<u>12,924</u>	<u>728</u>
	<u>\$ 55,758</u>	<u>\$ 4,702</u>
Rental (included in operating costs)		
Far Eastern New Century	\$ 1,534	\$ 1,720
Subsidiaries of Far Eastern New Century	9,079	8,794
Other related parties	<u>21,482</u>	<u>22,369</u>
	<u>\$ 32,095</u>	<u>\$ 32,883</u>
Rental (included in operating expenses)		
Far Eastern New Century	\$ 2,935	\$ 2,867
Subsidiaries of Far Eastern New Century	64,752	60,022
Other related parties	<u>101,499</u>	<u>102,927</u>
	<u>\$ 169,186</u>	<u>\$ 165,816</u>

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Marketing expenses		
Subsidiaries of Far Eastern New Century	\$ 47,178	\$ 61,248
Other related parties	<u>16,723</u>	<u>15,177</u>
	<u>\$ 63,901</u>	<u>\$ 76,425</u>
Service fees		
Far Eastern New Century	\$ 583	\$ 595
Subsidiaries of Far Eastern New Century		
FCHRC	145,389	133,952
Other related parties	<u>166</u>	<u>175</u>
	<u>\$ 146,138</u>	<u>\$ 134,722</u>
Other expenses		
Far Eastern New Century	\$ 116,144	\$ 130,307
Subsidiaries of Far Eastern New Century	20,218	20,671
Other related parties	<u>24,490</u>	<u>12,087</u>
	<u>\$ 160,852</u>	<u>\$ 163,065</u>

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.

d. Property transactions

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Acquisition of securities		
Subsidiaries of Far Eastern New Century		
FEEC	\$ 124,497	\$ -
YHDP	150,000	-
Others	<u>3,804</u>	<u>-</u>
	<u>278,301</u>	<u>-</u>
Other related parties	20,667	-
Associates	<u>-</u>	<u>30,000</u>
	<u>\$ 298,968</u>	<u>\$ 30,000</u>
Acquisition of property, plant and equipment		
Subsidiaries of Far Eastern New Century		
FERD	\$ 1,037,394	\$ -
Others	<u>5,753</u>	<u>2,900</u>
	<u>\$ 1,043,147</u>	<u>\$ 2,900</u>

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Acquisition of financial assets at fair value through profit or loss		
Other related parties - Opas Fund	<u>\$ 598,600</u>	<u>\$ -</u>
Disposal of available-for-sale financial assets		
Other related parties - Opas Fund	<u>\$ 704,725</u>	<u>\$ -</u>

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”, 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, 2017, the Group acquired funds with carrying amounts of \$598,600 thousand, and the Group disposed of funds with carrying amounts of \$653,400 thousand. The disposal proceeds were \$704,725 thousand, and the gains on fund disposal was \$51,325 thousand.

The Group subscribed for Far Eastern Electronic Commerce Co., Ltd. (FEEC)’s new common stock issued for cash amounting to \$124,497 thousand and \$30,000 thousand in April 2017 and December 2016, respectively. After the subscription, the Group’s ownership of the company increased to 20.69% and maintained 14.4%, respectively.

The Group acquired FEEC’s common stock with a consideration of \$4,471 thousand on August 1, 2017 from subsidiaries of FENC (including DDIM and Yuan Ding) and other related parties (including SOGO and Far Eastern Department Stores).

With the need in expansion of space for network equipment, the board of directors of NCIC (Far EasTone’s 100% owned subsidiary) resolved on May 4, 2017, that NCIC will purchase partial land from FERD, which is located in Taipei Far Eastern Telecom park, to build a new integrated building utilized as an office and internet data center. The aforesaid acquisition price amounting to \$1,749,577 thousand was determined through the price negotiation based on the appraisal reports issued by independent qualified professional appraisers. The down payment amounting to \$1,037,394 thousand was paid in 2017.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties		
FEIB	<u>\$ 8,628,732</u>	<u>\$ 4,109,041</u>

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.



f. Hedging derivative financial assets (liabilities) - current

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Other related parties		
FEIB	\$ <u>1,700</u>	\$ <u>(7,538)</u>

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 US\$10,000 thousand and US\$20,000 thousand as of December 31, 2017 and 2016, respectively. Related expenses were treated as finance costs.

g. Receivables and payables - related parties

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Accounts receivable - related parties		
Far Eastern New Century	\$ 4,600	\$ 1,157
Subsidiaries of Far Eastern New Century	37,290	54,197
Other related parties	<u>210,020</u>	<u>150,071</u>
	<u>\$ 251,910</u>	<u>\$ 205,425</u>
Other receivables - related parties (included in other current assets)		
Subsidiaries of Far Eastern New Century	\$ 5,376	\$ 2,651
Other related parties	<u>18,525</u>	<u>4,244</u>
	<u>\$ 23,901</u>	<u>\$ 6,895</u>
Accounts payable - related parties (included in accounts payable)		
Subsidiaries of Far Eastern New Century	\$ 1,156	\$ 687
Other related parties	<u>5,160</u>	<u>943</u>
	<u>\$ 6,316</u>	<u>\$ 1,630</u>
Other payables - related parties (included in other current liabilities)		
Far Eastern New Century	\$ 33,712	\$ 32,456
Subsidiaries of Far Eastern New Century	84,887	96,780
Other related parties	<u>9,626</u>	<u>7,077</u>
	<u>\$ 128,225</u>	<u>\$ 136,313</u>

h. Refundable deposits

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Refundable deposits		
Subsidiaries of Far Eastern New Century	\$ 74,360	\$ 75,916
Other related parties	<u>1,466</u>	<u>1,491</u>
	<u>\$ 75,826</u>	<u>\$ 77,407</u>

i. Others

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income		
Subsidiaries of Far Eastern New Century	\$ 35	\$ 22
Other related parties		
FEIB	29,978	25,245
Others	<u>9</u>	<u>6</u>
	<u>29,987</u>	<u>25,251</u>
	<u>\$ 30,022</u>	<u>\$ 25,273</u>
Rental income		
Subsidiaries of Far Eastern New Century	\$ 284	\$ 1,164
Other related parties	<u>-</u>	<u>326</u>
	<u>\$ 284</u>	<u>\$ 1,490</u>
Finance costs		
Subsidiaries of Far Eastern New Century	\$ 9	\$ -
Other related parties	<u>8,403</u>	<u>4,915</u>
	<u>\$ 8,412</u>	<u>\$ 4,915</u>

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

j. Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the years ended December 31, 2017 and 2016 were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 342,434	\$ 333,018
Post-employment benefits	<u>4,345</u>	<u>3,521</u>
	<u>\$ 346,779</u>	<u>\$ 336,539</u>

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

### 35. 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Other financial assets - current	\$ 1,764,065	\$ 1,759,889
Other noncurrent assets	<u>2,300</u>	<u>21,209</u>
	<u>\$ 1,766,365</u>	<u>\$ 1,781,098</u>

### 36. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group as of December 31, 2017 and 2016 were as follows:

a.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Acquisition of property, plant and equipment under contracts	\$ 7,841,219	\$ 5,762,054
Less: Payments for acquisition of property, plant and equipment	<u>2,809,176</u>	<u>1,666,888</u>
	<u>\$ 5,032,043</u>	<u>\$ 4,095,166</u>
Acquisition of inventories under contracts	\$ 14,004,339	\$ 14,299,303
Less: Payments for acquisition of inventories	<u>5,233,512</u>	<u>7,803,864</u>
	<u>\$ 8,770,827</u>	<u>\$ 6,495,439</u>

b. The Group provided a \$100,000 thousand bank guarantee for its purchases as of December 31, 2017 and 2016, respectively.

### 37. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In order to fulfill the needs for long-term working capital or repay its borrowings, Far EasTone's board of directors resolved to issue domestic unsecured corporate bonds not exceeding \$5,000,000 thousand on February 23, 2018. The chairman or his appointed deputy is authorized to decide on all matters pertaining to the issuance of bonds or the requirements of government authorities and to amend or to improve the plan.

### 38. 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, 2017			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 24,531	29.76	\$ 730,041
EUR	119	35.57	4,250
Nonmonetary items			
USD	20,000	29.76	595,200
<u>Financial liabilities</u>			
Monetary items			
USD	10,184	29.76	303,089
EUR	42	35.57	1,499
December 31, 2016			
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,853	32.25	\$ 737,007
EUR	151	33.90	5,133
Nonmonetary items			
USD	18,547	32.25	598,132
<u>Financial liabilities</u>			
Monetary items			
USD	10,913	32.25	351,952
EUR	6,927	33.90	234,828

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				
Foreign Currencies	2017		2016	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	\$ (9,870)	1 (NTD:NTD)	\$ 26,892
RMB	4.507 (RMB:NTD)	<u>(1,758)</u>	4.849 (RMB:NTD)	<u>2,883</u>
		<u>\$ (11,628)</u>		<u>\$ 29,775</u>

### 39. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: Schedule A
- 2) Endorsement/guarantee provided: None
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Schedule B
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Schedule C
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: Schedule D
- 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 E
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule F
- 9) Trading in derivative transactions: Note 7
- 10) Significant transactions between Far EasTone and its subsidiaries and among subsidiaries: Schedule G
- 11) Information on investees: Schedule H

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 I
- 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 G
  - 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.

#### 40. 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 income, other revenue, equity in investees' net losses, interest expenses, other expense and general and administrative expenses. 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:

<b>For the Year Ended December 31, 2017</b>					
	<b>Mobile Service Business</b>	<b>Fixed-line Service Business</b>	<b>Sales Business</b>	<b>Adjustment and Elimination</b>	<b>Consolidation</b>
Revenues generated from external customers	\$ 60,011,969	\$ 8,160,163	\$ 23,897,549	\$ -	\$ 92,069,681
Revenues generated from within the Group (Note)	<u>600,636</u>	<u>2,918,194</u>	<u>36,748</u>	<u>(3,555,578)</u>	<u>-</u>
Total revenues	<u>\$ 60,612,605</u>	<u>\$ 11,078,357</u>	<u>\$ 23,934,297</u>	<u>\$ (3,555,578)</u>	<u>\$ 92,069,681</u>
Segment operating income	<u>\$ 11,103,055</u>	<u>\$ 2,115,093</u>	<u>\$ 1,801,635</u>	<u>\$ (1,857,211)</u>	<u>\$ 13,162,572</u>
<b>For the Year Ended December 31, 2016</b>					
	<b>Mobile Service Business</b>	<b>Fixed-line Service Business</b>	<b>Sales Business</b>	<b>Adjustment and Elimination</b>	<b>Consolidation</b>
Revenues generated from external customers	\$ 62,638,316	\$ 8,960,074	\$ 22,745,876	\$ -	\$ 94,344,266
Revenues generated from within the Group (Note)	<u>762,269</u>	<u>3,878,489</u>	<u>24,985</u>	<u>(4,665,743)</u>	<u>-</u>
Total revenues	<u>\$ 63,400,585</u>	<u>\$ 12,838,563</u>	<u>\$ 22,770,861</u>	<u>\$ (4,665,743)</u>	<u>\$ 94,344,266</u>
Segment operating income	<u>\$ 10,552,546</u>	<u>\$ 3,145,736</u>	<u>\$ 2,190,300</u>	<u>\$ (2,099,247)</u>	<u>\$ 13,789,335</u>

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 2017 and 2016.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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	\$ 250,000	\$ 130,000	1.48%-1.61%	Short-term financing	\$ -	For business operations	\$ -	-	\$ -	\$ 6,975,841	\$ 34,879,206
1	New Century InfoComm Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	7,500,000	7,500,000	300,000	0.83%	Short-term financing	-	For business operations	-	-	-	8,406,793	12,009,704
		Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	4,000,000	2,500,000	2,500,000	0.83%	Transaction	3,227,729	-	-	-	-	3,227,729	12,009,704
		Q-ware Communications Co., Ltd.	Other receivables - related parties	Yes	250,000	-	-	1.33%	Short-term financing	-	For business operations	-	-	-	8,406,793	12,009,704

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 35% of NCIC’s net worth.



**FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD  
DECEMBER 31, 2017  
(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, 2017				Note	Highest Shares/Units Held During the Year
				Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value		
Far EasTone Telecommunications Co., Ltd.	<u>Stock</u>								
	App Works Fund II Co., Ltd.	-	Financial assets carried at cost - noncurrent	15,000,000	\$ 150,000	11.11	\$ -	B	15,000,000
	CDIB Capital Innovation Accelerator Limited	-	Financial assets carried at cost - noncurrent	4,500,000	45,000	12.00	-	B	4,500,000
ARCOA Communication Co., Ltd.	<u>Stock</u>								
	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.	<u>Stock</u>								
	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
	<u>Overseas funds</u>								
	Opas Fund Segregated Portfolio Tranche A	Other related party	Financial asset at fair value through profit or loss - current	13,491.781	446,400	-	446,400	A	14,561.612
	Opas Fund Segregated Portfolio Tranche B	Other related party	Financial asset at fair value through profit or loss - current	5,000.000	148,800	-	148,800	A	5,000.000

Note A: The market values of open-end mutual funds were calculated at their net asset values as of December 31, 2017.

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

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition (Note 2)		Disposal (Note 2)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
Far EasTone Telecommunications Co., Ltd.	<u>Stock</u> Yuanshi Digital Technology Co., Ltd. (formerly Hiiiir Inc.)	Investments accounted for using the equity method	Capital injection	Subsidiary	53,726,000	\$ (109,380) (Note 1)	34,890,875	\$ 348,909	-	\$ -	\$ -	\$ -	90,014,424 (Note 3)	\$ (115,145) (Note 3)
New Century InfoComm Tech Co., Ltd.	<u>Overseas funds</u> Opas Fund Segregated Portfolio Tranche A	Available-for-sale financial assets - current	-	Other related party	14,561.612	487,050 (Note 2)	-	-	14,561.612	521,054	487,050	34,004	-	-
	Opas Fund Segregated Portfolio Tranche A	Financial asset at fair value through profit or loss - current	-	Other related party	-	-	13,491.781	448,950	-	-	-	-	13,491.781	448,950 (Note 2)

Note 1: The amount is the investments accounted for using the equity method.

Note 2: Except for the disposal price, other amounts were their respective costs.

Note 3: The ending balance of stock includes 1,397,549 stock acquired through stock exchange due to the merger between YSDT (formerly Hiiiir Inc.) and FEEC.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty Is A Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
New Century InfoComm Tech Co., Ltd.	Land	2017.5.4	\$ 1,749,577	\$1,037,394 was paid	Far Eastern Resource Development Co., Ltd.	Subsidiaries of FENC	Far Eastern New Century Corporation	Ultimate parent Company	2003.9.2	FERD was spun off from FENC with the land being spin-off asset.	The price approved by NCIC Board of Directors was determined through the price negotiation based on the valuation reports issued by professional appraisers.	The purpose was to accommodate Banqiao offices and provide spaces for switch room expansion.	None

**FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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	\$ (156,057)	-	Based on agreement	\$ -	-	Accounts receivable	\$ 117,517	2
			Costs of telecommunications services, marketing expenses and cost of sales	10,375,311	17	Based on agreement	-	-	Accounts payable and other payables	(1,576,436)	(11)
	New Century InfoComm Tech Co., Ltd.	Subsidiary	Operating revenue	(484,292)	(1)	Based on agreement	-	-	Accounts receivable	981	-
			Costs of telecommunications services	2,743,437	7	Based on agreement	-	-	Accounts payable and other payables (Note A)	(679,319)	(5)
	KGEx. com. Co., Ltd.	Subsidiary	Operating revenue	(102,083)	-	Based on agreement	-	-	Accounts receivable	15,284	-
	DataExpress Infotech Co., Ltd.	Subsidiary of ARCOA Communication Co., Ltd.	Operating revenue	(227,493)	-	Based on agreement	-	-	Accounts receivable	35,984	1
	Omusic Co., Ltd.	Subsidiary	Costs of telecommunications services	199,764	-	Based on agreement	-	-	Accounts payable	(33,033)	(1)
	Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	Subsidiary	Operating revenue	(193,591)	-	Based on agreement	-	-	Accounts receivable	24,466	-
	Far Cheng Human Resource Consultant Corp.	Same ultimate parent company	Service fees	110,241	1	Based on agreement	-	-	Other payables	(9,762)	-
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(2,743,437)	(24)	Based on agreement	-	-	Accounts receivable (Note B)	679,319	40
			Costs of telecommunications services	484,292	6	Based on agreement	-	-	Accounts payable	(981)	-
	KGEx. com. Co., Ltd.	Same parent company	Costs of telecommunications services	111,379	1	Based on agreement	-	-	Accounts payable and other payables	(28,804)	(2)
	Sino Lead Enterprise Limited	Subsidiary	Costs of telecommunications services	116,246	1	Based on agreement	-	-	Accounts payable	(19,971)	(3)
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(10,375,311)	(61)	Based on agreement	-	-	Accounts receivable	1,576,436	69
			Costs of telecommunications services and cost of sales	156,057	1	Based on agreement	-	-	Accounts payable	(117,517)	(5)
	Home Master Technology Ltd.	Subsidiary of DataExpress Infotech Co., Ltd.	Operating revenue	(126,631)	(1)	Based on agreement	-	-	Accounts receivable	16,297	1
KGEx. com. Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating costs	102,083	23	Based on agreement	-	-	Accounts payable	(15,284)	(35)
	New Century InfoComm Tech Co., Ltd.	Same parent company	Operating revenue	(111,379)	(21)	Based on agreement	-	-	Accounts receivable	28,804	39
Omusic Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(199,764)	(98)	Based on agreement	-	-	Accounts receivable	33,033	98
Sino Lead Enterprise Limited	New Century InfoComm Tech Co., Ltd.	Parent company	Operating revenue	(116,246)	(100)	Based on agreement	-	-	Accounts receivable	19,971	74
DataExpress Infotech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Cost of sales	227,493	7	Based on agreement	-	-	Accounts payable	(35,984)	(7)
	Linkwell Tech. Ltd.	Subsidiary	Cost of sales	180,850	5	Based on agreement	-	-	Accounts payable	(36,571)	(8)
	Home Master Technology Ltd.	Subsidiary	Operating revenue	(358,184)	(9)	Based on agreement	-	-	Accounts receivable	37,063	8
Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	Far EasTone Telecommunications Co., Ltd.	Parent company	Cost of sales	193,591	10	Based on agreement	-	-	Accounts payable	(24,466)	(8)
Linkwell Tech. Ltd.	DataExpress Infotech Co., Ltd.	Parent company	Sales of inventories	(180,850)	(24)	Based on agreement	-	-	Accounts receivable	36,571	65
Home Master Technology Ltd.	ARCOA Communication Co., Ltd.	Parent company	Operating costs	126,631	18	Based on agreement	-	-	Accounts payable	(16,297)	(18)
	DataExpress Infotech Co., Ltd.	Parent company	Operating costs	358,184	51	Based on agreement	-	-	Accounts payable	(37,063)	(41)

Note A: All interconnect revenue, 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, 2017  
(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.	New Century InfoComm Tech Co., Ltd.	Subsidiary	\$ 104,625	(Note A)	\$ -	-	\$ 94,524	\$ -
	ARCOA Communication Co., Ltd.	Subsidiary	117,517	11.36	-	-	79,465	-
	Q-ware Communications Co., Ltd.	Subsidiary	152,420	(Note B)	-	-	7,456	-
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	3,566,828	(Note C)	-	-	602,489	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,576,436	7.90	-	-	1,576,436	-

Note A: The turnover rate was unavailable as the receivables from related parties were mainly due to the advances made for NCIC’s daily operating expenditures and the management service charges to NCIC.

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

Note C: All interconnect revenues, costs and collection of international direct dial revenues between Far EasTone and NCIC were settled at net amount and were included in accounts receivable/payable-related parties. The turnover rate was unavailable as the receivables from related parties were due to A) the collection of telecommunications bills by Far EasTone for NCIC and B) financing provided by NCIC to Far EasTone.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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	\$ 981	Note E	-
				Other receivables - related parties	103,644	Note E	-
				Refundable deposits	3,517	Note E	-
				Accounts payable - related parties	30,840	Note E	-
				Other payables - related parties	3,535,988	Note E	3
				Unearned revenue	3,411	Note E	-
				Sales of inventories	1,821	Note E	-
				Telecommunications service revenue	482,471	Note E	1
				Costs of telecommunications services	2,743,437	Note E	3
				Operating expenses	70,778	Note E	-
				Nonoperating income and gains	80,976	Note E	-
				Nonoperating expenses	40,568	Note E	-
		ARCOA Communication Co., Ltd.	1	Accounts receivable - related parties	112,883	Note E	-
				Other receivables - related parties	4,634	Note E	-
				Accounts payable - related parties	1,519,158	Note E	1
				Other payables - related parties	57,278	Note E	-
				Guarantee deposits received	148	Note E	-
				Unearned revenue	48,157	Note E	-
				Sales of inventories	152,471	Note E	-
				Telecommunications service revenue	3,586	Note E	-
				Cost of sales	9,816,880	Note E	11
				Costs of telecommunications services	67,360	Note E	-
				Operating expenses	519,327	Note E	1
				Nonoperating income and gains	1,545	Note E	-
		KGEx.com Co., Ltd.	1	Accounts receivable - related parties	15,284	Note E	-
				Other receivables - related parties	4	Note E	-
				Refundable deposits	898	Note E	-
				Other payables - related parties	7,835	Note E	-
				Unearned revenue	42	Note E	-
				Telecommunications service revenue	102,083	Note E	-
				Costs of telecommunications services	22,444	Note E	-
				Operating expenses	48,432	Note E	-
				Nonoperating income and gains	1,387	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	\$ 3,237	Note E	-
				Other payables - related parties	6,664	Note E	-
				Operating expenses	15,529	Note E	-
				Nonoperating income and gains	151	Note E	-
		Q-ware Communications Co., Ltd.	1	Accounts receivable - related parties	19,227	Note E	-
				Other receivables - related parties	133,193	Note E	-
				Accounts payable - related parties	3,433	Note E	-
				Telecommunications service revenue	5,730	Note E	-
				Costs of telecommunications services	41,143	Note E	-
				Operating expenses	226	Note E	-
				Nonoperating income and gains	3,077	Note E	-
		DataExpress Infotech Co., Ltd.	1	Accounts receivable - related parties	35,984	Note E	-
				Other receivables - related parties	1,952	Note E	-
				Accounts payable - related parties	2,647	Note E	-
				Other payables - related parties	2,563	Note E	-
				Sales of inventories	226,877	Note E	-
				Telecommunications service revenue	616	Note E	-
				Cost of sales	1,201	Note E	-
				Costs of telecommunications services	9,158	Note E	-
				Operating expenses	10,397	Note E	-
				Nonoperating income and gains	372	Note E	-
		Omusic Co., Ltd.	1	Accounts receivable - related parties	124	Note E	-
				Accounts payable - related parties	33,033	Note E	-
				Telecommunications service revenue	503	Note E	-
				Sales of inventories	75	Note E	-
				Costs of telecommunications services	199,764	Note E	-
				Cost of sales	73	Note E	-
				Nonoperating income and gains	42	Note E	-
		Linkwell Tech. Ltd.	1	Other payables - related parties	1,071	Note E	-
				Sales of inventories	12,149	Note E	-
				Telecommunications service revenue	171	Note E	-
				Operating expenses	3,162	Note E	-
		Home Master Technology Ltd.	1	Other payables - related parties	10,852	Note E	-
				Sales of inventories	1,382	Note E	-
				Telecommunications service revenue	59	Note E	-
				Operating expenses	22,241	Note E	-
		New Diligent Hong Kong Company Ltd.	1	Accounts payable - related parties	4,083	Note E	-
		Information Security Services Digital United Inc.	1	Accounts receivable - related parties	89	Note E	-
				Other receivables - related parties	1,646	Note E	-
				Accounts payable - related parties	732	Note E	-
				Other payables - related parties	5,199	Note E	-
				Telecommunications service revenue	949	Note E	-
				Costs of telecommunications services	4,046	Note E	-
				Cost of sales	10,698	Note E	-
				Operating expenses	12,743	Note E	-
				Nonoperating income and gains	108	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)
		Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	1	Accounts receivable - related parties	\$ 24,466	Note E	-
				Other receivables - related parties	3,365	Note E	-
				Accounts payable - related parties	12,903	Note E	-
				Other payables - related parties	4,955	Note E	-
				Sales of inventories	187,413	Note E	-
				Telecommunications service revenue	6,178	Note E	-
				Operating expenses	10,153	Note E	-
				Nonoperating income and gains	428	Note E	-
		Digital United Information Technologies (Shanghai) Co., Ltd.	1	Accounts receivable - related parties	1,132	Note E	-
				Other payables - related parties	1,132	Note E	-
				Sales of inventories	1,078	Note E	-
				Operating expenses	1,080	Note E	-
		Sino Lead Enterprise Limited	1	Other payables - related parties	6,923	Note E	-
1	New Century InfoComm Tech Co., Ltd.	ARCOA Communication Co., Ltd.	3	Accounts receivable - related parties	96	Note E	-
				Accounts payable - related parties	70	Note E	-
				Other payables - related parties	53	Note E	-
				Telecommunications service revenue	1,128	Note E	-
				Cost of sales	135	Note E	-
				Costs of telecommunications services	285	Note E	-
				Operating expenses	219	Note E	-
		KGEx.com Co., Ltd.	3	Accounts receivable - related parties	1,665	Note E	-
				Accounts payable - related parties	13,964	Note E	-
				Other payables - related parties	14,839	Note E	-
				Telecommunications service revenue	27,051	Note E	-
				Costs of telecommunications services	111,379	Note E	-
				Operating expenses	13,476	Note E	-
		Q-ware Communications Co., Ltd.	3	Accounts receivable - related parties	1,542	Note E	-
				Other receivables - related parties	356	Note E	-
				Accounts payable - related parties	1,008	Note E	-
				Guarantee deposits received	720	Note E	-
				Telecommunications service revenue	21,278	Note E	-
				Sales of inventories	2,356	Note E	-
				Cost of sales	16,324	Note E	-
				Costs of telecommunications services	9,464	Note E	-
				Operating expenses	56	Note E	-
				Nonoperating income and gains	4,217	Note E	-
		Omusic Co., Ltd.	3	Accounts receivable - related parties	3	Note E	-
				Unearned revenue	16	Note E	-
				Telecommunications service revenue	46	Note E	-
				Nonoperating income and gains	23	Note E	-
		Sino Lead Enterprise Limited	3	Refundable deposits	1,196	Note E	-
				Accounts payable - related parties	19,971	Note E	-
				Costs of telecommunications services	116,246	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.	3	Accounts payable - related parties	\$ 2,721	Note E	-
		Information Security Services Digital United Inc.	3	Costs of telecommunications services	5,623	Note E	-
				Accounts receivable - related parties	350	Note E	-
				Other receivables - related parties	1,940	Note E	-
				Accounts payable - related parties	18,379	Note E	-
				Other payables - related parties	728	Note E	-
				Unearned revenue	34	Note E	-
				Guarantee deposits received	990	Note E	-
				Telecommunications service revenue	4,682	Note E	-
				Sales of inventories	1	Note E	-
				Cost of sales	9,437	Note E	-
				Other operating costs	28,500	Note E	-
				Operating expenses	1,935	Note E	-
				Nonoperating income and gains	5,198	Note E	-
		Digital United Information Technologies (Shanghai) Co., Ltd.	3	Telecommunications service revenue	308	Note E	-
		Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	3	Operating expenses	763	Note E	-
				Accounts receivable - related parties	2,557	Note E	-
				Other receivables - related parties	490	Note E	-
				Other payables - related parties	381	Note E	-
				Unearned revenue	130	Note E	-
				Telecommunications service revenue	12,530	Note E	-
				Sales of inventories	163	Note E	-
				Costs of telecommunications services	3,670	Note E	-
				Operating expenses	1,516	Note E	-
				Nonoperating income and gains	8,666	Note E	-
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties	65	Note E	-
				Other receivables - related parties	504	Note E	-
				Guarantee deposits received	588	Note E	-
				Sales of inventories	308	Note E	-
				Telecommunications service revenue	1,610	Note E	-
				Cost of sales	124	Note E	-
				Operating expenses	44	Note E	-
				Nonoperating income and gains	3,433	Note E	-
		Linkwell Tech. Ltd.	3	Telecommunications service revenue	147	Note E	-
		Home Master Technology Ltd.	3	Accounts receivable - related parties	9	Note E	-
				Telecommunications service revenue	120	Note E	-
2	ARCOA Communication Co., Ltd.	KGEx.com Co., Ltd.	3	Other payables - related parties	181	Note E	-
		Yuan Cing Co., Ltd.	3	Operating expenses	1,054	Note E	-
				Other payables - related parties	433	Note E	-
		Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	3	Operating expenses	1,636	Note E	-
				Accounts receivable - related parties	4,808	Note E	-
				Other payables - related parties	32	Note E	-
				Sales of inventories	59,004	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)
		DataExpress Infotech Co., Ltd.	3	Telecommunications service revenue Cost of sales Operating expenses Accounts receivable - related parties Other receivables - related parties Accounts payable - related parties Other operating costs Other operating revenue Nonoperating income and gains	\$ 6 194 96 1,845 1,187 136 429 4,638 710	Note E Note E Note E Note E Note E Note E Note E Note E Note E	- - - - - - - - -
		Linkwell Tech. Ltd.	3	Accounts receivable - related parties Sales of inventories Other operating revenue	253 5,202 797	Note E Note E Note E	- - -
		Home Master Technology Ltd.	3	Accounts receivable - related parties Sales of inventories Other operating revenue Cost of sales	16,297 126,631 579 805	Note E Note E Note E Note E	- - - -
		Omusic Co., Ltd.	3	Accounts receivable - related parties Sale of inventories	2 4	Note E Note E	- -
3	KGEx.com Co., Ltd.	Q-ware Communications Co., Ltd.	3	Accounts receivable - related parties Telecommunications service revenue	13 144	Note E Note E	- -
4	Yuan Cing Co., Ltd.	Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	3	Accounts receivable - related parties Other operating revenue	7,009 17,071	Note E Note E	- -
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties Other operating revenue	91 625	Note E Note E	- -
5	DataExpress Infotech Co., Ltd.	Linkwell Tech. Ltd.	3	Accounts receivable - related parties Other receivables - related parties Accounts payable - related parties Other payables - related parties Sales of inventories Cost of sales Nonoperating income and gains	4,814 12,797 36,571 41 70,284 180,850 8,520	Note E Note E Note E Note E Note E Note E Note E	- - - - - - -
		Home Master Technology Ltd.	3	Accounts receivable - related parties Other receivables - related parties Accounts payable - related parties Other payables - related parties Sales of inventories Cost of sales Nonoperating income and gains	37,063 34,285 15,381 352 358,184 46,580 2,640	Note E Note E Note E Note E Note E Note E Note E	- - - - - - -
		Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	3	Accounts receivable - related parties Other payables - related parties Sales of inventories Cost of sales	111 32 372 353	Note E Note E Note E 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)
		Omusic Co., Ltd.	3	Sales of inventories Other operating revenue Cost of sales	\$ 75 4 70	Note E Note E Note E	- - -
6	Linkwell Tech. Ltd.	Home Master Technology Ltd.	3	Accounts receivable - related parties Other receivables - related parties Accounts payable - related parties Sales of inventories Cost of sales	1,868 33 38 24,980 2,579	Note E Note E Note E Note E Note E	- - - - -
		Omusic Co., Ltd.	3	Other operating revenue	1	Note E	-
7	Home Master Technology Ltd.	Omusic Co., Ltd.	3	Other operating revenue	2	Note E	-
8	Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	Omusic Co., Ltd.	3	Telecommunications service revenue Sales of inventories	35 16	Note E Note E	- -

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.

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, 2017; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2017.

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 INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note	Highest Shares Units Held During the Year
				December 31, 2017	December 31, 2016	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	\$ 26,809,796	\$ 1,757,282	\$ 1,763,368	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	1,268,193	109,636	56,910	A and B	82,762,221
	KGEx. com. Co., Ltd.	Taiwan	Type II telecommunications services	2,340,472	2,440,457	68,897,234	99.99	783,448	78,781	78,769	A and B	78,895,760
	Yuanshi Digital Technology Co., Ltd.	Taiwan	Electronic information providing services	886,169	537,260	90,014,424	86.41	(115,145)	(371,842)	(323,278)	A, B and H	90,014,424
	Yuan Cing Co., Ltd.	Taiwan	Call center services	-	-	2,000,000	100.00	34,270	13,184	13,184	A, B and G	2,000,000
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	(47,302)	2,270	2,270	A and B	1,200
	Omusic Co., Ltd.	Taiwan	Electronic information providing services	25,000	25,000	2,500,000	50.00	9,466	2,639	1,320	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	(138,368)	(75,556)	(61,551)	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	816,685	125,510	50,002	B and C	118,250,967
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	139,500	139,500	10,408,200	15.00	50,692	435	(862)	B and C	10,408,200
	Alliance Digital Technology Co., Ltd.	Taiwan	Electronic information providing services	60,000	60,000	6,000,000	14.40	14,451	(132,040)	(19,418)	C and D	6,000,000
	Yuan Hsin Digital Payment Co., Ltd.	Taiwan	Other financing and supporting services	600,000	450,000	37,432,782	30.00	306,289	(268,409)	(81,075)	C and D	37,432,782
ARCOA Communication Co., Ltd.	Far Eastern Electronic Commerce Co., Ltd.	Taiwan	Electronic information providing services	-	80,893	-	-	-	(136,755)	(20,541)	H	15,862,077
	DataExpress Infotech Co., Ltd.	Taiwan	Sale of communications products	141,750	141,750	12,866,353	70.00	178,086	32,872	-	B and E	12,866,353
New Century InfoComm Tech Co., Ltd.	New Diligent Co., Ltd.	Taiwan	Investments	540,000	1,060,000	54,000,000	100.00	139,909	27,098	-	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	116,072	13,227	-	B and E	10,249,047
	Digital United (Cayman) Ltd.	Cayman Islands	Investments	132,406	132,406	4,320,000	100.00	13,978	(17,265)	-	B and E	4,320,000
	Yuanshi Digital Technology Co., Ltd.	Taiwan	Electronic information providing services	20,000	-	2,499,617	2.40	(3,197)	(371,842)	-	A, B and H	2,499,617
	Far Eastern Electronic Commerce Co., Ltd.	Taiwan	Electronic information providing services	-	28,922	-	-	-	(136,755)	-	H	5,670,615
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	46,500	46,500	3,469,400	5.00	16,898	435	-	C and D	3,469,000
New Diligent Co., Ltd.	Sino Lead Enterprise Limited	Hong Kong	Telecommunication services	125	125	30,000	100.00	226	77	-	B and E	30,000
	Far Eastern New Diligent Company Ltd.	British Virgin Islands	Investments	330,598	330,598	-	100.00	78,207	25,855	-	B and E	-
	New Diligent Hong Kong Co., Ltd.	Hong Kong	Investments	3,051	-	-	100.00	2,866	(185)	-	B and E	-
DataExpress Infotech Co., Ltd.	Linkwell Tech. Ltd.	Taiwan	Sale of communications products	10,000	10,000	-	100.00	41,675	2,075	-	B and E	-
	Home Master Technology Ltd.	Taiwan	Sale of communications products	10,000	10,000	-	100.00	(1,374)	7,042	-	B and E	-

Note A:     Subsidiary.

Note B:     The calculation was based on audited financial statements as of December 31, 2017.

Note C:     Equity-method investee of Far EasTone.

Note D:     The calculation was based on unaudited financial statements as of December 31, 2017.

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 I.

Note G:     Yuan Cing Co., Ltd. reduced capital and remitted cash which exceeded the original investment amount.     Thus, the investment amount is \$0.

Note H:     Hiiir merged with FEEC on August 1, 2017.     Hiiir is the surviving company and FEEC was dissolved.     After the merger, Hiiir, the surviving company, was renamed as Yuanshi Digital Technology Co., Ltd.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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, 2017	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outflow	Inflow						
Digital United Information Technologies (Shanghai) Ltd.	Research and design of computer system	\$ 92,256 (US\$ 3,100,000)	2	\$ 92,256 (US\$ 3,100,000)	\$ -	\$ -	\$ 92,256 (US\$ 3,100,000)	\$ (8,642)	100.00	\$ (8,642)	\$ 2,200 (RMB 482,000)	\$ -
Far Eastern New Century Information Technology (Beijing) Limited (Note G and H)	Electronic information providing services	342,240 (US\$ 11,500,000)	2	306,528 (US\$ 10,300,000)	-	-	306,528 (US\$ 10,300,000)	26,597	90.52 (Note B)	24,075 (Note B)	96,687 (RMB 21,180,000) (Note B)	-
Far Eastern Tech-info Ltd. (Shanghai) (Note G)	Computer software, data processing and provision of network information	178,560 (US\$ 6,000,000)	2	196,776 (Note F)	-	-	196,776 (Note F)	5,478	100.00 (Note C)	5,478 (Note C)	104,370 (RMB 22,863,000) (Note C)	-
New Diligence Corporation (Shanghai) (Note E)	Consulting services, supporting services, and wholesale of machinery and equipment	-	1	33,540 (US\$ 1,127,000)	-	-	33,540 (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	\$ 41,855,047
New Century InfoComm Tech Co., Ltd.	92,256 (US\$ 3,100,000)	92,256 (US\$ 3,100,000)	14,411,645
New Diligent Co., Ltd.	444,228 (US\$14,927,000)	444,228 (US\$14,927,000)	83,945

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, 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, 2017.

Note H: The investee company was dissolved on February 9, 2018 with the approval of the local government.