# Far EasTone Telecommunications Co., Ltd.

**Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report**

**INDEPENDENT AUDITORS' REPORT**

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

**Opinion**

We have audited the financial statements of Far EasTone Telecommunications Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

We conducted our audits 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 Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the financial statements for the year ended December 31, 2018 are as follows:

Impairment Loss of Property, Plant and Equipment and Intangible Assets (Including Goodwill) and the Incremental Costs of Obtaining a Contract

As of December 31, 2018, the balances of property, plant and equipment and intangible assets and the incremental costs of obtaining a contract account for 61% of the Company's total assets and are material for the financial statements as a whole. Economic trends, market competition, and technological development influence the operation of the Company 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 and the incremental costs of obtaining a contract is considered a key audit matter.

For estimates and judgments related to property, plant and equipment and intangible assets as well as the incremental costs of obtaining a contract, refer to Note 5 to the accompanying financial statements. For other related disclosures, refer to Notes 11, 13 and 20.

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

1. We obtained the Company's asset impairment evaluation reports for each cash-generating unit.

2. We evaluated the reasonableness of the Company'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 Company's revenue, and it accounts for 66% of the Company's total revenue for the year ended December 31, 2018. 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 Company often launches different combinations of products and services which make the calculation of revenue more complex and directly affect the accuracy and timing of revenue recognition. Due to the complexity of revenue calculation and the inherent risk that revenue could be manipulated to meet the expectation of users of the financial statements; therefore, the recognition of mobile telecommunications service revenue is considered a key audit matter.

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

By conducting tests of controls, we obtained an understanding of the Company's recognition of mobile telecommunications service revenue and the design and implementation of related controls. We also engaged IT specialists to perform the corresponding audit procedures which are listed as follows. The IT specialists:

1. Reviewed the contracts of mobile subscribers to confirm the accuracy of the information in the billing system.

2. Tested the accuracy of the billing calculation.

3. Tested the completeness and accuracy of the calculation and billing of monthly fees and airtime fees.

4. Tested the completeness and accuracy of the calculation and billing of value-added service fees.

In coordination with the IT specialists, we performed dialing tests to verify the accuracy and completeness of the traffic and information in the switch equipment.

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 of the amounts.

In addition, we evaluated manual journal entries posted to revenue accounts, by sampling test of entries with specific risk, and compared details of these journal entries with the relevant underlying documentation to evaluate the reasonableness and accuracy of these selected entries.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company 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 Company's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2018 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 20, 2019

<u>*Notice to Readers*</u>

*The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors’ report and the accompanying 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 financial statements shall prevail.*

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**BALANCE SHEETS**
**DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4, 6 and 28) | $ 1,251,405 | 1 | $ 1,093,018 | 1 |
| Financial assets at amortized cost - current (Notes 4 and 28) | 45,999 | - | - | - |
| Contract assets - current (Notes 3, 4 and 20) | 3,762,170 | 3 | - | - |
| Debt investments with no active market - current (Notes 4 and 28) | - | - | 42,488 | - |
| Notes receivable (Notes 4, 8 and 28) | 21,848 | - | 35,465 | - |
| Accounts receivable, net (Notes 4 and 8) | 5,955,063 | 5 | 5,755,169 | 4 |
| Accounts receivable - related parties (Notes 4, 8 and 28) | 210,399 | - | 252,976 | - |
| Other receivables - related parties (Note 28) | 42,253 | - | 261,960 | - |
| Inventories (Notes 4 and 9) | 2,692,121 | 2 | 3,550,840 | 3 |
| Prepaid expenses (Note 3) | 842,127 | 1 | 679,833 | 1 |
| Other financial assets - current (Notes 4, 28 and 29) | 1,409,962 | 1 | 2,575,508 | 2 |
| Other current assets | 14,681 | - | 37,046 | - |
| Total current assets | 16,248,028 | 13 | 14,284,303 | 11 |
| NONCURRENT ASSETS | | | | |
| Financial assets at fair value through other comprehensive income - noncurrent (Notes 4, 7 and 27) | 191,245 | - | - | - |
| Financial assets measured at cost (Note 4) | - | - | 195,000 | - |
| Investments accounted for using the equity method (Notes 3, 4, 10 and 28) | 30,191,630 | 23 | 30,093,290 | 23 |
| Contract assets - noncurrent (Notes 3, 4 and 20) | 1,535,757 | 1 | - | - |
| Property, plant and equipment, net (Notes 3, 4, 11 and 28) | 24,980,931 | 19 | 28,927,960 | 22 |
| Investment properties (Notes 4 and 12) | 739,771 | 1 | 761,492 | 1 |
| Concessions, net (Notes 1, 4 and 13) | 38,688,253 | 30 | 41,820,510 | 32 |
| Computer software, net (Notes 4 and 13) | 3,000,111 | 2 | 2,801,276 | 2 |
| Goodwill (Notes 4 and 13) | 10,283,031 | 8 | 10,283,031 | 8 |
| Deferred income tax assets (Notes 4 and 22) | 701,459 | 1 | 675,336 | 1 |
| Refundable deposits (Note 28) | 543,268 | - | 442,572 | - |
| Incremental costs of obtaining a contract - noncurrent (Notes 3, 4 and 20) | 2,106,684 | 2 | - | - |
| Total noncurrent assets | 112,962,140 | 87 | 116,000,467 | 89 |
| TOTAL | $ 129,210,168 | 100 | $ 130,284,770 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 4 and 14) | $ 1,500,000 | 1 | $ 400,000 | - |
| Short-term bills payable (Notes 4 and 14) | 999,720 | 1 | - | - |
| Contract liabilities - current (Notes 3, 4 and 20) | 2,075,984 | 2 | - | - |
| Notes payable | 11,530 | - | 12,056 | - |
| Accounts payable | 1,895,115 | 1 | 2,661,505 | 2 |
| Accounts payable - related parties (Note 28) | 665,327 | 1 | 1,607,562 | 1 |
| Other payables (Notes 3 and 16) | 5,824,899 | 5 | 6,455,120 | 5 |
| Other payables - related parties (Notes 3 and 28) | 8,408,279 | 7 | 3,757,966 | 3 |
| Current tax liabilities (Notes 4 and 22) | 3,004,824 | 2 | 1,894,767 | 1 |
| Unearned revenue (Notes 3 and 4) | - | - | 2,615,961 | 2 |
| Current portion of long-term borrowings (Notes 4, 14 and 15) | 3,199,112 | 2 | 8,998,533 | 7 |
| Guarantee deposits received - current | 146,250 | - | 200,885 | - |
| Other current liabilities (Notes 3, 4, 16 and 17) | 1,524,340 | 1 | 642,709 | 1 |
| Total current liabilities | 29,255,380 | 23 | 29,247,064 | 22 |
| NONCURRENT LIABILITIES | | | | |
| Bonds payable (Notes 4 and 15) | 22,175,150 | 17 | 20,373,820 | 16 |
| Long-term borrowings (Notes 4 and 14) | 700,000 | 1 | 7,600,000 | 6 |
| Provisions - noncurrent (Notes 4 and 17) | 352,975 | - | 335,304 | - |
| Deferred income tax liabilities (Notes 4 and 22) | 2,072,265 | 2 | 1,629,888 | 1 |
| Net defined benefit liabilities - noncurrent (Notes 4 and 18) | 660,374 | - | 727,479 | 1 |
| Guarantee deposits received - noncurrent | 224,255 | - | 246,199 | - |
| Other noncurrent liabilities (Notes 3, 4, 10 and 16) | 452,271 | - | 366,604 | - |
| Total noncurrent liabilities | 26,637,290 | 20 | 31,279,294 | 24 |
| Total liabilities | 55,892,670 | 43 | 60,526,358 | 46 |
| EQUITY | | | | |
| Capital stock | | | | |
| Common stock | 32,585,008 | 25 | 32,585,008 | 25 |
| Capital surplus | 5,820,041 | 5 | 8,143,345 | 6 |
| Retained earnings | | | | |
| Legal reserve | 18,487,851 | 14 | 17,405,561 | 14 |
| Special reserve | 626,328 | 1 | 783,467 | 1 |
| Unappropriated earnings | 15,766,913 | 12 | 10,822,899 | 8 |
| Total retained earnings | 34,881,092 | 27 | 29,011,927 | 23 |
| Other equity | 31,357 | - | 18,132 | - |
| Total equity | 73,317,498 | 57 | 69,758,412 | 54 |
| TOTAL | $ 129,210,168 | 100 | $ 130,284,770 | 100 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 3, 4, 20 and 28) | $ 65,909,728 | 100 | $ 72,945,992 | 100 |
| OPERATING COSTS (Notes 4, 9, 21 and 28) | 42,684,950 | 65 | 41,675,647 | 57 |
| GROSS PROFIT | 23,224,778 | 35 | 31,270,345 | 43 |
| OPERATING EXPENSES (Notes 3, 4, 20, 21 and 28) | | | | |
| Marketing | 8,357,627 | 13 | 14,369,608 | 20 |
| General and administrative | 4,692,036 | 7 | 4,709,283 | 6 |
| Expected credit losses | 197,463 | - | - | - |
| Total operating expenses | 13,247,126 | 20 | 19,078,891 | 26 |
| OPERATING INCOME | 9,977,652 | 15 | 12,191,454 | 17 |
| NONOPERATING INCOME AND EXPENSES | | | | |
| Other income (Notes 4, 21 and 28) | 126,947 | - | 132,434 | - |
| Other gains and losses (Notes 4, 12, 21 and 27) | 177,926 | - | 83,295 | - |
| Financial costs (Notes 4, 21 and 28) | (445,995) | (1) | (472,909) | - |
| Share of the profit of subsidiaries and associates (Notes 3 and 4) | 1,850,848 | 3 | 1,459,098 | 2 |
| Losses on disposal of property, plant, equipment and intangible assets (Note 4) | (320,760) | - | (638,322) | (1) |
| Total nonoperating income and expenses | 1,388,966 | 2 | 563,596 | 1 |
| INCOME BEFORE INCOME TAX | 11,366,618 | 17 | 12,755,050 | 18 |
| INCOME TAX (Notes 3, 4 and 22) | 1,985,267 | 3 | 1,898,368 | 3 |
| NET INCOME | 9,381,351 | 14 | 10,856,682 | 15 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 18) | 53,621 | - | 18,887 | - |
| Unrealized gains on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4, 19 and 27) | 12,745 | - | - | - |
| Share of other comprehensive income of subsidiaries and associates (Notes 4 and 19) | (237) | - | 139 | - |
| | 66,129 | - | 19,026 | - |

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## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations (Notes 4 and 19) | $ (105) | - | $ (4) | - |
| Cash flow hedges (Notes 4 and 19) | - | - | 31,670 | - |
| Share of other comprehensive income of subsidiaries and associates (Notes 4 and 19) | 12,522 | - | 119,945 | - |
| | 12,417 | - | 151,611 | - |
| Total other comprehensive income, net of income tax | 78,546 | - | 170,637 | - |
| TOTAL COMPREHENSIVE INCOME | $ 9,459,897 | 14 | $ 11,027,319 | 15 |
| EARNINGS PER SHARE, NEW TAIWAN DOLLARS (Note 23) | | | | |
| Basic | $ 2.88 | | $ 3.33 | |
| Diluted | $ 2.88 | | $ 3.33 | |

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | Capital Stock (Note 19) | | | Retained Earnings | | | Other Equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares (In Thousands of Shares) | Amounts | Capital Surplus (Notes 4 and 19) | Legal Reserve (Note 19) | Special Reserve (Note 19) | Unappropriated Earnings Notes 3, 4 (and 19) | Exchange Differences on Translating the Financial Statements of Foreign Operations (Notes 4 and 19) | Unrealized (Losses) Gains on Available-for-sale Financial Assets (Notes 4 and 19) | Unrealized (Losses) Gains on Financial Assets at Fair Value Through Other Comprehensive Income (Notes 3, 4 and 19) | Cash Flow Hedges (Notes 4 and 19) | Gains on Hedging Instruments | Total |
| BALANCE AT JANUARY 1, 2017 | 3,258,501 | $ 32,585,008 | $ 10,166,874 | $ 16,270,878 | $ 769,907 | $ 11,346,830 | $ 4,638 | $ (45,872) | $ - | $ (92,245) | $ - | $ 71,006,018 |
| 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) |
| Cash dividends from capital surplus - NT$0.621 per share | - | - | (2,023,529) | - | - | - | - | - | - | - | - | (2,023,529) |
| Changes in equity from investments in associates accounted for using the equity method | - | - | - | - | - | (5,182) | - | - | - | - | - | (5,182) |
| Difference between the price and carrying amount for the acquisition or disposal of subsidiaries | - | - | - | - | - | (144) | - | - | - | - | - | (144) |
| Changes in ownership interests of subsidiaries | - | - | - | - | - | (50,221) | - | - | - | - | - | (50,221) |
| Net income for the year ended December 31, 2017 | - | - | - | - | - | 10,856,682 | - | - | - | - | - | 10,856,682 |
| Other comprehensive income (loss) for the year ended December 31, 2017 | - | - | - | - | - | 19,026 | (516) | 45,872 | - | 106,255 | - | 170,637 |
| BALANCE AT DECEMBER 31, 2017 | 3,258,501 | 32,585,008 | 8,143,345 | 17,405,561 | 783,467 | 10,822,899 | 4,122 | - | - | 14,010 | - | 69,758,412 |
| Effects of retrospective application and retrospective restatement | - | - | - | - | - | 6,364,273 | - | - | (11,733) | (14,010) | 14,010 | 6,352,540 |
| BALANCE AT JANUARY 1, 2018 AS RESTARTED | 3,258,501 | 32,585,008 | 8,143,345 | 17,405,561 | 783,467 | 17,187,172 | 4,122 | - | (11,733) | - | 14,010 | 76,110,952 |
| Appropriation of the 2017 earnings | | | | | | | | | | | | |
| Legal reserve | - | - | - | 1,082,290 | - | (1,082,290) | - | - | - | - | - | - |
| Special reserve | - | - | - | - | (157,139) | 157,139 | - | - | - | - | - | - |
| Cash dividends - NT$3.037 per share | - | - | - | - | - | (9,896,067) | - | - | - | - | - | (9,896,067) |
| Cash dividends from capital surplus - NT$0.713 per share | - | - | (2,323,311) | - | - | - | - | - | - | - | - | (2,323,311) |
| Changes in equity from investments in associates accounted for using the equity method | - | - | 7 | - | - | (6) | - | - | - | - | - | 1 |
| Changes in ownership interests of subsidiaries | - | - | - | - | - | (33,974) | - | - | - | - | - | (33,974) |
| Net income for the year ended December 31, 2018 | - | - | - | - | - | 9,381,351 | - | - | - | - | - | 9,381,351 |
| Other comprehensive income for the year ended December 31, 2018 | - | - | - | - | - | 53,588 | 75 | - | 12,541 | - | 12,342 | 78,546 |
| BALANCE AT DECEMBER 31, 2018 | 3,258,501 | $ 32,585,008 | $ 5,820,041 | $ 18,487,851 | $ 626,328 | $ 15,766,913 | $ 4,197 | $ - | $ 808 | $ - | $ 26,352 | $ 73,317,498 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 11,366,618 | $ 12,755,050 |
| Adjustments for: | | |
| Depreciation | 8,101,870 | 7,798,274 |
| Amortization | 759,851 | 692,430 |
| Amortization of concessions | 3,132,257 | 3,078,021 |
| Expected credit losses | 197,463 | - |
| Allowance for doubtful accounts | - | 481,907 |
| Financial costs | 445,995 | 472,909 |
| Interest income | (33,131) | (27,284) |
| Share of the profit of subsidiaries and associates | (1,850,848) | (1,459,098) |
| Loss on disposal of property, plant, equipment and intangible assets | 320,760 | 638,322 |
| Loss on disposal of associate | 2,486 | - |
| Write-down (reversal of write-down) of inventories | 24,065 | (1,073) |
| Loss (gain) on change in fair value of investment properties | 21,721 | (7,464) |
| Net changes in operating assets and liabilities | | |
| Contract assets | 570,692 | - |
| Notes receivable | 13,617 | (6,041) |
| Accounts receivable | (250,669) | (100,529) |
| Accounts receivable - related parties | 42,577 | 49,686 |
| Other receivables - related parties | 223,694 | (49,841) |
| Inventories | 834,654 | (2,287,915) |
| Prepaid expenses | (161,160) | 368,553 |
| Other current assets | (2,900) | (3,519) |
| Incremental costs of obtaining a contract | (274,941) | - |
| Contract liabilities | (386,783) | - |
| Notes payable | (581) | 2,443 |
| Accounts payable | (767,956) | 1,106,884 |
| Accounts payable - related parties | (942,235) | 482,743 |
| Other payables | (888,747) | (812,117) |
| Other payables - related parties | (51,108) | (124,299) |
| Provisions | (70,101) | (36,896) |
| Unearned revenue | - | 312,277 |
| Other current liabilities | 897,548 | 53,710 |
| Net defined benefit liabilities | (13,566) | (13,489) |
| Cash generated from operations | 21,261,142 | 23,363,644 |
| Interest received | 36,082 | 23,148 |
| Dividends received | 1,738,841 | 1,966,584 |
| Interest paid | (427,652) | (355,809) |
| Income taxes paid | (1,816,791) | (1,328,761) |
| Net cash generated from operating activities | 20,791,622 | 23,668,806 |

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## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**
**(In Thousands of New Taiwan Dollars)**

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through other comprehensive income | $ (45,000) | $ - |
| Remittance of cash due to capital reduction of financial assets at fair value through other comprehensive income | 61,500 | - |
| Acquisition of financial assets at amortized cost | (3,511) | - |
| Proceeds from the disposal of debt investments with no active market | - | 5,710 |
| Acquisition of financial assets measured at cost | - | (45,000) |
| Acquisition of investments accounted for using the equity method | - | (590,620) |
| Proceeds from capital reduction of investments accounted for using the equity method | - | 99,985 |
| Acquisition of property, plant and equipment | (4,264,224) | (5,686,247) |
| Proceeds from the disposal of property, plant and equipment | 139,930 | 66,686 |
| Increase in refundable deposits | (245,017) | (112,130) |
| Decrease in refundable deposits | 163,961 | 106,512 |
| Increase in financing provided by other receivables - related parties | - | (130,000) |
| Acquisition of intangible assets | (951,970) | (7,471,107) |
| Proceeds from the disposal of intangible assets | - | 3,750 |
| Cash received through a merger | 3,761 | - |
| Decrease in other financial assets | 1,165,546 | 125,368 |
| Net cash used in investing activities | (3,975,024) | (13,627,093) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term borrowings | 981,000 | (2,000,000) |
| Increase (decrease) in short-term bills payable | 999,720 | (2,799,387) |
| Proceeds from the issuance of bond payables | 4,993,390 | 14,675,877 |
| Repayments of bonds payable | (6,500,000) | (6,200,000) |
| Proceeds from long-term borrowings | 700,000 | 8,900,057 |
| Repayment of long-term borrowings | (10,100,000) | (12,848,402) |
| Increase in guarantee deposits received | 48,807 | 72,819 |
| Decrease in guarantee deposits received | (126,352) | (110,167) |
| Increase in financing obtained from other payables - related parties | 4,570,000 | 2,800,000 |
| Cash dividends paid | (12,219,378) | (12,219,378) |
| Acquisition of partial interest of subsidiary | (5,398) | - |
| Net cash used in financing activities | (16,658,211) | (9,728,581) |
| INCREASE IN CASH AND CASH EQUIVALENTS | 158,387 | 313,132 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 1,093,018 | 779,886 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | $ 1,251,405 | $ 1,093,018 |

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

## 1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (the Company) was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. The Company's stock was initially listed and commenced trading on the over-the-counter (OTC) securities exchange (known as the Taipei Exchange, TPEx) of the ROC on December 10, 2001, but later ceased trading on the TPEx and transferred listing of its stock on the Taiwan Stock Exchange (TWSE) on August 24, 2005. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2018 and 2017, Far Eastern New Century Corporation (Far Eastern New Century) and its affiliates directly and indirectly owned 38.28% of the Company's stock. Since Far Eastern New Century and its subsidiaries have the power to cast the majority of votes at the meeting of the Company's board of directors, Far Eastern New Century has control over the Company's finances, operations and personnel affairs. Thus, Far Eastern New Century is the ultimate parent company of the Company.

The Company provides second-generation (2G) wireless communications services under type I licenses issued by the Directorate General of Telecommunications (DGT) of the ROC. These licenses allowed the Company to provide services for 15 years starting from 1997. The National Communications Commission (NCC) approved the renewal of the licenses when they were due. However, 2G wireless communication services were terminated on June 30, 2017.

The DGT also issued the Company a type II license to provide Internet and ISR services until December 2021 and a license to provide local/domestic long-distance land cable leased circuit services from January 2003 until December 2017.

Through the completion of the merger with Yuan-Ze Telecommunications Co., Ltd. on May 2, 2005, the Company acquired a third-generation (3G) wireless communications license which was issued by the DGT and is valid through December 31, 2018.

On October 30, 2013, the Company bid for two 4G (fourth-generation wireless communications services) wireless communications licenses, GSM700 and GSM1800 (GSM means global system for mobile communications), valid through December 31, 2030. On December 7, 2015 and November 15, 2017, the Company bid for fourth-generation (4G) wireless communications licenses, GSM2600 and GSM2100, respectively, both of which are valid through December 31, 2033.

The financial statements are presented in the Company's functional currency, the New Taiwan dollars.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on February 20, 2019.

## 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, whenever applied, 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 would not have any material impact on the Company's accounting policies:

1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for the classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

| | Measurement Category | | Carrying Amount | | |
|---|---|---|---|---|---|
| **Financial Assets** | **IAS 39** | **IFRS 9** | **IAS 39** | **IFRS 9** | **Remark** |
| Cash and cash equivalents | Loans and receivables | Amortized cost | $ 1,093,018 | $ 1,093,018 | |
| Equity securities | Available-for-sale | Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments | 195,000 | 195,000 | a) |
| Certificates of deposits with original maturities of more than 3 months | Loans and receivables | Amortized cost | 42,488 | 42,488 | b) |
| Notes receivable, accounts receivable and other receivables | Loans and receivables | Amortized cost | 6,305,570 | 6,305,570 | c) |
| Refundable deposits | Loans and receivables | Amortized cost | 442,572 | 442,572 | |

| | IAS 39 Carrying Amount as of January 1, 2018 | Reclassifi- cations | Remeasure- ments | IFRS 9 Carrying Amount as of January 1, 2018 | Other Equity Effect on January 1, 2018 | Remark |
|---|---|---|---|---|---|---|
| Financial assets at fair value through other comprehensive income - equity instruments | $ - | $ - | $ - | $ - | $ - | |
| Add: Reclassification from financial assets measured at cost (IAS 39) | - | 195,000 | - | 195,000 | - | a) |
| | - | 195,000 | - | 195,000 | - | |
| Financial assets at amortized cost | - | - | - | - | - | |
| Add: Reclassification from debt investments with no active market (IAS 39) | - | 42,488 | - | 42,488 | - | b) |
| | - | 42,488 | - | 42,488 | - | |
| | $ - | $ 237,488 | $ - | $ 237,488 | $ - | |

| | IAS 39 Carrying Amount as of January 1, 2018 | Adjustments Arising from Initial Application | IFRS 9 Carrying Amount as of January 1, 2018 | Retained Earnings Effect on January 1, 2018 | Other Equity Effect on January 1, 2018 | Remark |
|---|---|---|---|---|---|---|
| Investments accounted for using the equity method | $ 30,093,290 | $ (11,733) | $ 30,081,557 | $ - | $ (11,733) | d) |

a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were measured at fair value.

b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

c) Notes receivable, accounts receivable and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

d) As a result of the retrospective application of IFRS 9 by a subsidiary, there was a decrease of $11,733 thousand on January 1, 2018 in both investments accounted for using the equity method and other equity - unrealized gain (loss) on financial assets at FVTOCI.

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 supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

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 Company 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 a combined output).

Under IFRS 15, the Company allocates the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Prior to the application of IFRS 15, the Company enters into transactions that involve the bundling of the service of air time with goods, 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 for which customers pay.

Incremental costs of obtaining a contract are recognized as assets to the extent that the Company expects to recover those costs. Such assets are amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Prior to the application of IFRS 15, related costs were recognized as expenses immediately.

The Company 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. The transaction price allocated to service-type warranty is recognized as revenue, and the related costs are recognized when the warranty service is performed. Prior to the application of IFRS 15, the transaction price of the aforementioned transaction was fully recognized as revenue when products were sold, and a corresponding provision was recognized for the expected warranty costs.

Under IFRS 15, the Company obtains control of the specified goods or services before they are transferred to the customers and, therefore, is acting as a principal in the transaction. Prior to the application of IFRS 15, the Company determined whether it was a principal or an agent based on its exposure to the significant risks and rewards of the goods or services and considered itself a principal in the transaction.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivables were recognized or deferred revenue was reduced when revenue was recognized for the contract under IAS 18.

The Company elected to recognize the cumulative effect of retrospectively applying IFRS 15 on retained earnings on January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Company did not apply the requirements in IFRS 15 individually to each of the modifications. Instead, the Company identified the performance obligations, determined and allocated the transaction price in the manner that reflected the aggregate effect of all modifications that occurred before December 31, 2017. This reduced the complexity and cost of retrospective application, and resulted in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

The impact on assets, liabilities and equity as of January 1, 2018 from the initial application of IFRS 15 is set out below:

| | As Originally Stated | Adjustments Arising from Initial Application | Restated |
|---|---|---|---|
| Impact on assets, liabilities and equity | | | |
| Current assets | | | |
| Contract assets - current | $ - | $ 4,006,717 | $ 4,006,717 |
| Noncurrent assets | | | |
| Contract assets - noncurrent | - | 1,997,827 | 1,997,827 |
| Investments accounted for using the equity method | 30,093,290 | (265,553) | 29,827,737 |
| Incremental costs of obtaining a contract - noncurrent | - | 1,831,743 | 1,831,743 |
| Total assets | 130,284,770 | 7,570,734 | 137,855,504 |
| Current liabilities | | | |
| Contract liabilities - current | - | 2,464,505 | 2,464,505 |
| Current tax liabilities | 1,894,767 | 1,357,917 | 3,252,684 |
| Unearned revenue | 2,615,961 | (2,615,961) | - |
| Total liabilities | 60,526,358 | 1,206,461 | 61,732,819 |
| Equity | | | |
| Retained earnings | 29,011,927 | 6,364,273 | 35,376,200 |
| Total equity | 69,758,412 | 6,364,273 | 76,122,685 |

The impact of applying the pervious standards (IAS 18 "Revenue") as of December 31, 2018 and for the year ended December 31, 2018 is summarized below:

Impact on assets, liabilities and equity for the current year

| | December 31, 2018 |
|---|---|
| Decrease in contract assets - current | $ (3,762,170) |
| Increase in investments accounted for using the equity method | 304,521 |
| Decrease in contract assets - noncurrent | (1,535,757) |
| Decrease in incremental costs of obtaining a contract - noncurrent | (2,106,684) |
| Decrease in assets | $ (7,100,090) |

(Continued)

| | December 31, 2018 |
|---|---|
| Decrease in contract liabilities - current | $ (2,075,984) |
| Increase in unearned revenue | 2,274,175 |
| Decrease in current tax liabilities | (1,271,016) |
| Decrease in liabilities | $ (1,072,825) |
| Decrease in retained earnings | $ (6,027,265) |
| Decrease in equity | $ (6,027,265) |

(Concluded)

Impact on total comprehensive income for the current year

| | For the Year Ended December 31, 2018 |
|---|---|
| Increase in operating revenue | $ 3,996,556 |
| Increase in operating expenses | 3,611,615 |
| Increase in share of profit of associates | 38,968 |
| Increase in income tax expense | 86,901 |
| Increase in net profit for the year | 337,008 |
| Increase in total comprehensive income for the year | $ 337,008 |
| Impact on earnings per share: | |
| Increase in basic earnings per share | $0.1 |

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2019

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2015-2017 Cycle | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment Features with Negative Compensation" | January 1, 2019 (Note 2) |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 (Note 3) |
| 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: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Company will reassess whether a contract is, or contains, a lease in accordance with the definition of a lease under IFRS 16. Contracts that are reassessed as containing a lease will be accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

Upon initial application of IFRS 16, the Company will recognize right-of-use assets and lease liabilities for all leases on the balance sheets, except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Company will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Company will apply IAS 36 to all right-of-use assets.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Company as lessor

The Company will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

| | Carrying Amount as of December 31, 2018 | Adjustments Arising from Initial Application | Adjusted Carrying Amount as of January 1, 2019 |
|---|---|---|---|
| Current assets | | | |
| Prepaid expenses | $ 842,127 | $ (383,172) | $ 458,955 |
| Noncurrent assets | | | |
| Investments accounted for using the equity method | 30,191,630 | (1,976) | 30,189,654 |
| Property, plant and equipment, net | 24,980,931 | (190,813) | 24,790,118 |
| Right-of-use assets | - | 8,171,386 | 8,171,386 |
| Total assets | 129,210,168 | 7,595,425 | 136,805,593 |
| Current liabilities | | | |
| Other payables (including related parties) | 14,233,178 | (51,836) | 14,181,342 |
| Current tax liabilities | 3,004,824 | (12,632) | 2,992,192 |
| Lease liabilities - current | - | 2,751,976 | 2,751,976 |
| Other current liabilities | 1,524,340 | (49,585) | 1,474,755 |
| Noncurrent liabilities | | | |
| Lease liabilities - noncurrent | - | 5,057,267 | 5,057,267 |
| Other noncurrent liabilities | 452,271 | (47,260) | 405,011 |
| Total liabilities | 55,892,670 | 7,647,930 | 63,540,600 |
| Equity | | | |
| Retained earnings | 34,881,092 | (52,505) | 34,828,587 |
| Total equity | 73,317,498 | (52,505) | 73,264,993 |

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company assesses that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will not have any material impact on the Company's financial position and financial performance.

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

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 (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 17 "Insurance Contracts" | January 1, 2021 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 (Note 3) |

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 Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis of Preparation

The 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.

When preparing its parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

### 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 Company 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.

**Foreign Currencies**

In preparing the Company's financial statements, transactions in currencies other than the Company'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 except for exchange difference on transactions entered into in order to hedge against certain foreign currency risks.

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 period 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 financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries in other countries or subsidiaries that use currencies different from the ones used by the Company) are translated into New Taiwan dollars using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.

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 Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to noncontrolling interests of the subsidiary and 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.

**Investments in Subsidiaries**

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

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

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Company's share of the fair value of the net identifiable assets and liabilities over the cost of the acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the financial statements of the invested company as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

**Investments in Associates**

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

The Company uses the equity method to account for its investments in associates.

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

Any excess of the cost of acquisition over the Company'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 Company'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 Company 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 Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Company's share of equity of associates. If the Company's ownership interest is reduced due to the additional subscription of the new stock of the 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 using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company'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 using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company 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 is not allocated to any asset, including goodwill, which 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 Company 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 Company 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 subsidiary 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 Company continues to apply the equity method and does not remeasure the retained interest.

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

**Property, Plant and Equipment**

Property, plant and equipment (including assets held under finance leases) are measured at cost, less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried at cost. 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 is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, it is depreciated over its lease term. 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 and is recognized in profit or loss.

**Investment Properties**

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

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

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the assets 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 loss.

For the purposes of impairment testing, goodwill is allocated to each of the Company'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. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 is recognized in profit or loss.

**Assets related to contract costs**

When a sales contract is obtained, commission and subsidies paid to dealers under sales agreements are recognized as assets (incremental costs of obtaining a contract) to the extent that the costs are expected to be recovered and are amortized consistently with the recognition of telecommunications service revenue. However, the Company elects not to capitalize the incremental costs of obtaining a contract if the amortization period of such assets, which the Company otherwise would have recognized, is expected to be one year or less.

**Impairment of Tangible and Intangible Assets (Other Than Goodwill) and Assets Related to Contract Costs**

At the end of each reporting period, the Company 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 Company 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.

The 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.

Before the Company recognizes an impairment loss from assets related to contract costs, any impairment loss on incremental costs of obtaining a contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. The impairment loss from the assets related to the contract costs is then recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs 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, cash-generating unit or assets related to contract costs 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 Company 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 issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL 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

      2018

      Financial assets are classified into the following categories: Financial assets at amortized cost and investments in equity instruments at FVTOCI.

      a) Financial assets at amortized cost

         Financial assets that meet the following conditions are subsequently measured at amortized cost:

         i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

         ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

         Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, accounts receivable at amortized cost and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

<u>2017</u>

The Company's financial assets are classified into loans and receivables.

<u>Loans and receivables</u>

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 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are 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 and contract assets

<u>2018</u>

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable) and contract assets.

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for accounts receivable and contract assets. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

The Company was 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 decreased.

Financial assets at amortized cost, such as accounts receivable, 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 Company’s past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets 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 all other financial assets, 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 enter bankruptcy or financial reorganization, or the disappearance of an active market for those financial asset because of financial difficulties.

For a financial asset measured at cost, the amount of the impairment loss is measured as the difference between such an asset’s carrying amount and the present value of its 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 a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of accounts receivable, 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 Company 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Company 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 the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company'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 Company'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 Company uses derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts.

Derivatives are initially recognized at fair value at the date on which 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 the derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of the derivative financial instrument is negative, the derivative is recognized as a financial liability.

**Hedge Accounting**

The Company designates certain hedging instruments (including derivative instruments) as cash flow hedges.

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

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Before 2018, hedge accounting was discontinued prospectively when the Company revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met 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; and

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

b. Warranties

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

**Revenue Recognition**

2018

The Company identifies contracts with customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

a. Revenue from the sale of goods

Revenue from the sale of goods comes from sales of mobile telecommunication devices and accessories. Sales of mobile telecommunication devices and accessories are recognized as revenue when the goods are shipped or delivered to the customer because that is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has primary responsibility for sales to future customers, and bears the risks of obsolescence. Accounts receivable are recognized concurrently.

b. Revenue from the rendering of services

Revenue from the rendering of services comes from telecommunications services, value-added services and enterprise project services.

Usage revenue from cellular services 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 telecommunication revenue is recognized as follows: (a) monthly fees are recognized as income when services are rendered at the amount allocated from the transaction price of the related contracts on a relative stand-alone selling price basis, and (b) prepaid and recharge services are recognized as income based upon actual usage by customers.

As the Company provides telecommunication value-added services, the customer simultaneously receives and consumes the benefits provided by the Company's performance. Consequently, related revenue is recognized when services are rendered. The effort of technical personnel is required to perform enterprise project services, and therefore, the Company measures progress on the basis of costs incurred relative to the total expected costs. The Company recognizes revenue over time based on the progress of the project. Payments for enterprise project services are made at several time points specified in the service contract. A contract asset is recognized over the period in which the enterprise project services are performed and is reclassified to accounts receivable when each milestone payment is due.

A bundle sale contract consists of the rendering of air time services and the sale of goods. The rendering of services and the sale of goods are accounted for as distinct performance obligations. The Company allocates the transaction price to each performance obligation identified in a bundle sale contract on a relative stand-alone selling price basis and recognizes sales and service revenue in accordance with the aforesaid principles of revenue recognition.

Under the Company's Customer Loyalty Program, the Company offers award credits when customers purchase goods or services. The award credits provide a material right to customers. The transaction price allocated to the award credits is recognized as a contract liability when collected and will be recognized as revenue when the award credits are redeemed or have expired.

2017

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 cellular services and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based on 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods.

2) The Company 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 Company.

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

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

Services revenue and sales of goods that result in award credits for customers, under the Company'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 Company'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 Company 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 Company 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 Company as a lessor

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

b. The Company as a lessee

   Assets held under finance leases are initially recognized as assets of the Company 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 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 that 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 Company will comply with the conditions attached 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 Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company 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 Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Employee Benefits**

a. Short-term employee benefits

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

b. Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement 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 Company'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 Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

**Taxation**

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

a. Current tax

Current taxes include tax payables and tax deduction receivables on taxable gains (losses), as well as tax adjustments of prior years' tax liabilities.

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

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 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 Company 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 these investments are recognized only to the extent that it is probable that there will be sufficient taxable profits against which to use the benefits of the temporary differences and 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 assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the 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 Company 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 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 the subsidiary.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company’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. Estimated impairment of financial assets - 2018

The provision for impairment of accounts receivable is based on assumptions about the risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, based on the Company’s historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 8. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of accounts receivable - 2017

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

c. Impairment of property, plant and equipment, intangible assets (other than goodwill) and incremental costs of obtaining a contract

For impairment test of assets, the Company 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 Company's strategy may cause significant impairment loss.

d. 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 calculation of the value in use requires the Company'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.

e. Income tax

As of December 31, 2018 and 2017, 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.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Cash on hand | $ 8,637 | $ 9,186 |
| Checking and demand deposits | 1,242,768 | 1,083,832 |
| | $ 1,251,405 | $ 1,093,018 |

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

| | December 31, 2018 |
|---|---|
| Noncurrent | |
| Investments in equity instruments at FVTOCI | $ 191,245 |

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as financial assets measured at cost under IAS 39. Refer to Note 3 for information relating to their reclassification and comparative information for 2017.

## 8. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Notes receivable | | |
| At amortized cost | | |
| Gross carrying amount | $ 21,848 | $ 35,465 |
| Less: Allowance for impairment loss | - | - |
| | $ 21,848 | $ 35,465 |
| Notes receivable - operating | $ 21,848 | $ 35,465 |
| Accounts receivable (including related parties) | | |
| At amortized cost | | |
| Gross carrying amount | $ 6,764,254 | $ 6,924,761 |
| Less: Allowance for impairment loss | (598,792) | (916,616) |
| | $ 6,165,462 | $ 6,008,145 |

For the year ended December 31, 2018

The Company'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.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of accounts receivable and notes receivable at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to allowances for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected loss allowance for all notes receivable and accounts receivable. The expected credit losses on notes receivable and accounts receivable are estimated using an allowance matrix by reference to past default experience with the debtor and an analysis of the debtor's current financial position, adjusted for the general economic conditions of the industry in which the debtor operates and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the allowance for losses based on the past due status of receivables is not further distinguished according to different segments of the Company's customer base.

The Company recognizes an allowance for impairment loss of 100% when there is information indicating that a debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery of the receivable, e.g. when the debtor has been placed under liquidation or when the accounts receivable is over 120 days past due, whichever occurs earlier. For notes receivable and accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The Company's expected credit loss rate ranges of receivables which were not overdue and receivables which were overdue were 0.79%-7.00% and 9.84%-100%, respectively.

The following table details the loss allowance of notes receivable and accounts receivable based on the Company's allowance matrix.

December 31, 2018

| | Not Overdue | Overdue Less than 60 Days | Overdue 60 Days or More | Total |
|---|---|---|---|---|
| Gross carrying amount | $ 6,346,234 | $ 247,218 | $ 192,650 | $ 6,786,102 |
| Loss allowance (lifetime ECLs) | (411,411) | (37,314) | (150,067) | (598,792) |
| Amortized cost | $ 5,934,823 | $ 209,904 | $ 42,583 | $ 6,187,310 |

The movements of the loss allowance of notes receivable and accounts receivable were as follows:

| | For the Year Ended December 31, 2018 |
|---|---|
| Balance at January 1, 2018 per IAS 39 | $ 916,616 |
| Adjustment on initial application of IFRS 9 | - |
| Balance at January 1, 2018 per IFRS 9 | 916,616 |
| Add: Acquisition through business combination | 11 |
| Add: Amounts recovered | 247,842 |
| Add: Net remeasurement of loss allowance | 61,538 |
| Less: Amounts written off | (627,215) |
| Balance at December 31, 2018 | $ 598,792 |

For the year ended December 31, 2017

The Company applied the same credit policy in 2018 and 2017. When deciding the recoverability of notes receivable and accounts receivable, the Company considers any change in the credit quality from the date credit was initially granted up to the end of the reporting period. The Company has recognized an allowance for doubtful accounts of 100% against all receivables past due beyond 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowance for doubtful accounts is recognized against notes receivable and accounts receivable which are past due for 120 days or less based on estimated irrecoverable amounts determined with reference to past default experience with the respective counterparty and an analysis of their current financial positions.

The aging of receivables was as follows:

| | December 31, 2017 |
|---|---|
| Not overdue | $ 5,795,015 |
| Overdue | |
| 0-60 days | 165,762 |
| 61 days or more | 82,833 |
| | $ 6,043,610 |

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

The Company does not have notes receivable and accounts receivable that were past due but not impaired.

Movements of the allowance for doubtful accounts were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2017 | $ 397 | $ 864,947 | $ 865,344 |
| Add: Accounts recovered during the period | - | 231,889 | 231,889 |
| Add: Impairment loss/bad debt (reversed) | (222) | 482,129 | 481,907 |
| Less: Amounts written off during the period as uncollectible | (175) | (662,349) | (662,524) |
| Balance at December 31, 2017 | $ - | $ 916,616 | $ 916,616 |

**Sale of Overdue Accounts Receivable**

Under agreements on sales of accounts receivable signed in the years ended December 31, 2018 and 2017, the Company sold to asset management companies the overdue accounts receivable that had been written off. Thus, as of December 31, 2018 and 2017, the Company was not under the risk of uncollectible receivables.

Related information as of December 31, 2018 and 2017 is as follows:

| Counterparty | Amount of Accounts Receivable Sold | Proceeds from the Sale of Accounts Receivable |
|---|---|---|
| 2018 | | |
| Good Management Consultant Co., Ltd. | $ 1,523,228 | $ 111,429 |
| 2017 | | |
| E-Hao Management Consultant Co., Ltd. | $ 1,499,625 | $ 97,143 |

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Cellular phone equipment and accessories | $ 2,554,959 | $ 3,330,361 |
| Others | 137,162 | 220,479 |
| | $ 2,692,121 | $ 3,550,840 |

Costs of inventories sold for the years ended December 31, 2018 and 2017 were $18,883,133 thousand and $17,717,038 thousand, respectively.

The inventory write-downs and the reversal of write-downs amounting to $24,065 thousand and $(1,073) thousand were included in the cost of sales for the years ended December 31, 2018 and 2017, respectively.

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY-METHOD

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Investments in subsidiaries | $ 28,979,505 | $ 28,905,173 |
| Investments in associates | 1,212,125 | 1,188,117 |
| | $ 30,191,630 | $ 30,093,290 |

a. Investments in subsidiaries

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unlisted companies | | |
| New Century InfoComm Tech Co., Ltd. | $ 27,069,715 | $ 26,809,796 |
| ARCOA Communication Co., Ltd. | 995,299 | 1,268,193 |
| KGEx.com Co., Ltd. | 863,666 | 783,448 |
| Yuan Cing Co., Ltd. | 35,243 | 34,270 |
| Omusic Co., Ltd. | 10,559 | 9,466 |
| Far Eastern Info Service (Holding) Ltd. | 5,023 | (47,302) |
| Yuanshi Digital Technology Co., Ltd. (formerly known as Hiiir Inc.) | (405,011) | (115,145) |
| Qware Communications Co., Ltd. | - | (138,368) |
| | 28,574,494 | 28,604,358 |
| Credit balance on carrying amounts of investments accounted for using the equity method reclassified to other liabilities | 405,011 | 300,815 |
| | $ 28,979,505 | $ 28,905,173 |

| | Proportion of Ownership and Voting Rights | |
|---|---|---|
| | December 31 | |
| | 2018 | 2017 |
| New Century InfoComm Tech Co., Ltd. | 100.00% | 100.00% |
| ARCOA Communication Co., Ltd. | 61.63% | 61.63% |
| KGEx.com Co., Ltd. | 99.99% | 99.99% |
| Yuan Cing Co., Ltd. | 100.00% | 100.00% |
| Omusic Co., Ltd. | 50.00% | 50.00% |
| Far Eastern Info Service (Holding) Ltd. | 100.00% | 100.00% |
| Yuanshi Digital Technology Co., Ltd. (formerly known as Hiiir Inc.) | 86.41% | 86.41% |
| Qware Communications Co., Ltd. | - | 81.46% |

Refer to Note 33 for the details of subsidiaries indirectly held by the Company.

In order to simplify the Company's investment structure and to integrate wireless network services and mobile virtual network services, the Company's board of directors resolved on May 4, 2018 that the Company would proceed with a cash merger with Qware. The Company became the surviving company, and Qware was dissolved after it merged with the Company. The merger's total cash consideration is $397 thousand. The record date of the merger is June 30, 2018.

The investments of subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the subsidiaries' financial statements audited by the auditors for the same year.

b. Investments in associates

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Material associates | | |
| Far Eastern Electronic Toll Collection Co., Ltd. | $ 924,758 | $ 816,685 |
| Associates that are not individually material | 287,367 | 371,432 |
| | $ 1,212,125 | $ 1,188,117 |

All of the investments in associates listed in the table above were accounted for using the equity method.

1) Material associates

| Name of Associate | Nature of Activities | Main Place of Business | Interests and Voting Rights December 31 2018 | 2017 |
|---|---|---|---|---|
| Far Eastern Electronic Toll Collection Co., Ltd. | Electronic information services | Taiwan | 39.42% | 39.42% |

Summarized financial information in respect of each of the Company's material associates 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 Company for equity accounting purposes.

Far Eastern Electronic Toll Collection Co., Ltd.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current assets | $ 431,720 | $ 665,666 |
| Noncurrent assets | 6,403,125 | 6,223,855 |
| Current liabilities | (893,567) | (1,121,929) |
| Noncurrent liabilities | (3,595,189) | (3,692,708) |
| Equity | $ 2,346,089 | $ 2,074,884 |
| Proportion of the Company's ownership | 39.42% | 39.42% |
| Carrying amount | $ 924,758 | $ 816,685 |

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Operating revenue | $ 2,096,764 | $ 2,044,747 |
| Net profit for the year | $ 239,893 | $ 128,058 |
| Other comprehensive income | 31,312 | 207,335 |
| Total comprehensive income for the year | $ 271,205 | $ 335,393 |

As of June 30, 2011, the usage rate of electronic toll collection (ETC) services had not reached the requirement as stated in the contract of the Electronic Toll Collection BOT Project ("ETC Project"). Thus, Far Eastern Electronic Toll Collection Co., Ltd. (FETC) filed a lawsuit against the 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, and on October 19, 2018, the Taipei District Court pronounced the judgment in FETC's favor. The TANFB filed an appeal on November 9, 2018.

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 filed an appeal on May 31, 2016 and accrued related penalties.

2) Aggregate information of associates that are not individually material

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| The Company's share of: | | |
| Net loss for the year | $ (75,469) | $ (121,896) |
| Other comprehensive income | 39 | 24 |
| Total comprehensive loss for the year | $ (75,430) | $ (121,872) |

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

The calculation of investments accounted for using 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 of 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.

On June 29, 2018, the stockholders of Alliance Digital Technology Co., Ltd. approved the liquidation of Alliance Digital Technology Co., Ltd. and the liquidation date was set on December 31, 2018. As of February 20, 2019, the liquidation procedures have not been completed.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Building | Operating Equipment | Computer Equipment | Other Equipment | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2017 | $ 1,170,687 | $ 2,272,009 | $ 101,905,334 | $ 10,757,969 | $ 4,380,418 | $ 1,828,485 | $ 122,314,902 |
| Additions | - | - | 44,565 | - | 658 | 5,212,964 | 5,258,187 |
| Disposals | - | (2,554) | (47,215,947) | (982,849) | (163,659) | (22,893) | (48,387,902) |
| Reclassification | - | 9,204 | 4,672,388 | 909,344 | 206,765 | (5,797,701) | - |
| Balance at December 31, 2017 | $ 1,170,687 | $ 2,278,659 | $ 59,406,340 | $ 10,684,464 | $ 4,424,182 | $ 1,220,855 | $ 79,185,187 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2017 | $ - | $ (1,032,346) | $ (76,505,290) | $ (9,165,031) | $ (3,427,270) | $ - | $ (90,129,937) |
| Depreciation expense | - | (74,470) | (6,439,112) | (910,267) | (374,425) | - | (7,798,274) |
| Disposals | - | 2,539 | 46,561,699 | 982,247 | 124,499 | - | 47,670,984 |
| Reclassification | - | - | - | - | - | - | - |
| Balance at December 31, 2017 | $ - | $ (1,104,277) | $ (36,382,703) | $ (9,093,051) | $ (3,677,196) | $ - | $ (50,257,227) |
| Carrying amount at December 31, 2017 | $ 1,170,687 | $ 1,174,382 | $ 23,023,637 | $ 1,591,413 | $ 746,986 | $ 1,220,855 | $ 28,927,960 |
| Cost | | | | | | | |
| Balance at January 1, 2018 | $ 1,170,687 | $ 2,278,659 | $ 59,406,340 | $ 10,684,464 | $ 4,424,182 | $ 1,220,855 | $ 79,185,187 |
| Additions | - | - | 51,226 | - | 161 | 4,489,359 | 4,540,746 |
| Disposals | (20,165) | (30,999) | (7,146,668) | (107,307) | (552,572) | (23,458) | (7,881,169) |
| Acquisitions through merger | - | - | 3,608 | 224,714 | - | - | 228,322 |
| Reclassification | - | 10,130 | 3,943,079 | 297,994 | 228,532 | (4,479,735) | - |
| Balance at December 31, 2018 | $ 1,150,522 | $ 2,257,790 | $ 56,257,585 | $ 11,099,865 | $ 4,100,303 | $ 1,207,021 | $ 76,073,086 |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2018 | $ - | $ (1,104,277) | $ (36,382,703) | $ (9,093,051) | $ (3,677,196) | $ - | $ (50,257,227) |
| Depreciation expense | - | (71,234) | (6,848,305) | (852,294) | (330,037) | - | (8,101,870) |
| Disposals | - | 23,824 | 6,793,080 | 107,188 | 523,443 | - | 7,447,535 |
| Acquisition through merger | - | - | (1,801) | (178,792) | - | - | (180,593) |
| Reclassification | - | - | - | - | - | - | - |
| Balance at December 31, 2018 | $ - | $ (1,151,687) | $ (36,439,729) | $ (10,016,949) | $ (3,483,790) | $ - | $ (51,092,155) |
| Carrying amount at December 31, 2018 | $ 1,150,522 | $ 1,106,103 | $ 19,817,856 | $ 1,082,916 | $ 616,513 | $ 1,207,021 | $ 24,980,931 |

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Main buildings | 41-55 years |
| Other building equipment | 5-10 years |
| Operating equipment | 2-15 years |
| Computer equipment | 3-10 years |
| Other equipment | 2-11 years |

## 12. INVESTMENT PROPERTIES

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Investment properties | $ 739,771 | $ 761,492 |

The fluctuations of investment properties' carrying amounts result from the changes in fair value of investment properties.

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

The future minimum lease payments of noncancellable operating lease commitments are as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Not later than 1 year | $ 13,113 | $ 14,126 |
| Later than 1 year and not later than 5 years | 30,591 | 41,036 |
| Later than 5 years | - | 1,486 |
| | $ 43,704 | $ 56,648 |

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Independent valuation | $ 739,771 | $ 761,492 |

The fair value of the investment properties as of December 31, 2018 and 2017 were based on the valuations carried out on January 4, 2019 and January 2, 2018, respectively, by independent qualified professional valuer, Ms. Hu, Chun-Chun and Mr. Tasi, Chia-ho, from DTZ Cushman & Wakefield, a member of certified ROC real estate appraisers.

The fair value of investment properties was estimated using level 3 unobservable inputs. 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 are stated below. An increase in estimated future net cash inflows or a decrease in discount rates would result in an increase in the fair value.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Expected future cash inflows | $ 1,293,501 | $ 1,319,870 |
| Expected future cash outflows | (32,235) | (33,733) |
| Expected future cash inflows, net | $ 1,261,266 | $ 1,286,137 |
| Discount rate | 2.00%-2.25% | 2.00%-2.20% |

The market rentals in the area where the investment property is located were between $1 thousand and $19 thousand per ping per month (i.e. 1 ping = 3.3 square meters). The market rentals for comparable properties were between $1 thousand and $16 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, 2018 and 2017 were $16,352 thousand and $16,112 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 values that are overly high or overly low, 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 the interest rate of 1.04%, the interest rate announced by the central bank for the one-year average deposit interest rate of five major banks, and the disposal value was determined using the direct capitalization method under the income approach. The expected future cash outflows on investment property included expenditures such as land value taxes, house taxes, insurance premium, management fee, maintenance costs, replacement allowance and depreciation. The expenditure was extrapolated on the basis of the current level of expenditure, taking into account the future adjustment to the government-announced land value and the tax rate promulgated under the House Tax Act.

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

## 13. INTANGIBLE ASSETS

| | Concessions | Computer Software | Goodwill | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at January 1, 2017 | $ 50,614,000 | $ 13,710,467 | $ 10,283,031 | $ 74,607,498 |
| Additions | 6,515,000 | 956,107 | - | 7,471,107 |
| Disposals | - | (147,551) | - | (147,551) |
| Balance at December 31, 2017 | $ 57,129,000 | $ 14,519,023 | $ 10,283,031 | $ 81,931,054 |
| Accumulated amortization | | | | |
| Balance at January 1, 2017 | $ (12,230,469) | $ (11,169,158) | $ - | $ (23,399,627) |
| Amortization | (3,078,021) | (692,430) | - | (3,770,451) |
| Disposals | - | 143,841 | - | 143,841 |
| Balance at December 31, 2017 | $ (15,308,490) | $ (11,717,747) | $ - | $ (27,026,237) |
| Carrying amount at December 31, 2017 | $ 41,820,510 | $ 2,801,276 | $ 10,283,031 | $ 54,904,817 |

(Continued)

| | Concessions | Computer Software | Goodwill | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at January 1, 2018 | $ 57,129,000 | $ 14,519,023 | $ 10,283,031 | $ 81,931,054 |
| Additions | - | 951,970 | - | 951,970 |
| Disposals | - | (408,709) | - | (408,709) |
| Acquisition through merger | - | 28,367 | - | 28,367 |
| Balance at December 31, 2018 | $ 57,129,000 | $ 15,090,651 | $ 10,283,031 | $ 82,502,682 |
| Accumulated amortization | | | | |
| Balance at January 1, 2018 | $ (15,308,490) | $ (11,717,747) | $ - | $ (27,026,237) |
| Amortization | (3,132,257) | (759,851) | - | (3,892,108) |
| Disposals | - | 408,104 | - | 408,104 |
| Acquisition through merger | - | (21,046) | - | (21,046) |
| Balance at December 31, 2018 | $ (18,440,747) | $ (12,090,540) | $ - | $ (30,531,287) |
| Carrying amount at December 31, 2018 | $ 38,688,253 | $ 3,000,111 | $ 10,283,031 | $ 51,971,395 |

(Concluded)

Intangible assets were amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Concessions | 14 to 17.75 years |
| Computer software | 3 to 7 years |

The Company has identified the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

As of December 31, 2018, the carrying amount of the tangible and intangible assets and the incremental costs of obtaining a contract used by the Company was $79,059,010 thousand; as of December 31, 2017, the carrying amount of the tangible and intangible assets used by the Company was $83,832,777 thousand. The Company's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast on the discount rates of 5.63% and 7.17% on December 31, 2018 and 2017, respectively. The operating revenue forecast was based on the expected future growth rate of the telecom industry along with the projected advancement of the Company's own business.

The principal assumptions and the relevant measurement of the recoverable amounts of the Company 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, taking into account the market trend.

   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, taking into account the demands and changes of the market.

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 revenue, while the possible impact of revenue, cost and expense are taken into account individually.

Based on the key assumptions of each cash-generating unit, for the years ended December 31, 2018 and 2017, the Company's management believes that the carrying amounts of operating assets and goodwill did not exceed their recoverable amounts even if there were reasonable changes in the critical assumptions used to estimate the recoverable amounts.

## 14. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unsecured bank loans | | |
| Credit loans | $ 1,500,000 | $ 400,000 |
| Interest rate | 0.73%-0.88% | 0.76% |

b. Short-term bills payable

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Commercial paper | $ 1,000,000 | $ - |
| Less: Unamortized discount | 280 | - |
| | $ 999,720 | $ - |
| Interest rate | 0.818% | - |

The short-term commercial paper payables are treated as revolving credit facilities under contracts. The last repayment date is in October 2019.

c. Long-term borrowings

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unsecured bank loans | | |
| Credit loans | $ 700,000 | $ 10,100,000 |
| Less: Current portion | - | 2,500,000 |
| Long-term borrowings | $ 700,000 | $ 7,600,000 |
| Interest rate | 0.74% | 0.72%-1.13% |

The credit loans are payable in New Taiwan dollars. Repayment of principal will be made in full on maturity together with interest payment. Under some contracts, loans are treated as revolving credit facilities, and the maturity dates of the loans are based on terms as specified in the contracts. The loans are all repayable by January 2020.

## 15. BONDS PAYABLE

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| 4th unsecured domestic bonds | $ 2,498,040 | $ 4,996,723 |
| 5th unsecured domestic bonds | - | 3,998,855 |
| 6th unsecured domestic bonds | 3,199,112 | 3,198,205 |
| 2016 1st unsecured domestic bonds | 5,194,949 | 5,193,271 |
| 2017 1st unsecured domestic bonds | 4,495,159 | 4,493,701 |
| 2017 2nd unsecured domestic bonds | 1,997,120 | 1,996,612 |
| 2017 3rd unsecured domestic bonds | 2,995,805 | 2,994,986 |
| 2018 1st unsecured domestic bonds | 4,994,077 | - |
| | 25,374,262 | 26,872,353 |
| Less: Current portion | 3,199,112 | 6,498,533 |
| | $ 22,175,150 | $ 20,373,820 |

On January 5, 2017, the Company issued the first five-year unsecured domestic bonds of 2016, with an aggregate principal amount of $5,200,000 thousand, 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, the Company issued the first five-year unsecured domestic bonds of 2017, with an aggregate principal amount of $4,500,000 thousand, 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, the Company issued the second seven-year unsecured domestic bonds of 2017, with an aggregate principal amount of $2,000,000 thousand, 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, the Company issued the third 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 simple interest due annually. Repayment will be made in full at maturity.

On May 7, 2018, the Company issued the first unsecured domestic bonds of 2018, with an aggregate principal amount of $5,000,000 thousand and a par value of $10,000 thousand. The bond included five-year bonds and seven-year bonds, with principal amounts of $1,500,000 thousand and $3,500,000 thousand and with coupon interest rates of 0.85% and 1.01%, respectively, with simple interest due annually. Repayment will be made in full at maturity.

In 2018, the Company repaid $2,500,000 thousand of the 4th unsecured domestic bonds and $4,000,000 thousand of the 5th unsecured domestic bonds which are due in 2018. In 2017, the Company repaid $1,000,000 thousand of the 5th unsecured domestic bonds and $5,200,000 thousand of the 6th unsecured domestic bonds which are due in 2017.

## 16. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current | | |
| Other payables | | |
| Commission | $ 1,068,296 | $ 1,989,124 |
| Salary and bonus | 1,395,953 | 1,096,111 |
| Acquisition of properties | 950,573 | 704,894 |
| Maintenance fee | 424,953 | 335,044 |
| Employees' compensation and remuneration of directors | 317,817 | 355,693 |
| Others | 1,667,307 | 1,974,254 |
| | $ 5,824,899 | $ 6,455,120 |
| Other current liabilities | | |
| Temporary receipts due to litigation | $ 791,867 | $ - |
| Lease liabilities | 49,585 | 49,699 |
| Provision | 34,643 | 50,511 |
| Others | 648,245 | 542,499 |
| | $ 1,524,340 | $ 642,709 |

The Company received a security deposit of $791,867 thousand from Taiwan Mobile Co., Ltd., which was included in temporary receipts since the court decision has not been declared.

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Noncurrent | | |
| Credit balance on carrying amount of investments accounted for using the equity method | $ 405,011 | $ 300,815 |
| Leases payable | 47,260 | 65,789 |
| | $ 452,271 | $ 366,604 |

## 17. PROVISIONS

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current | | |
| Product warranty | $ 19,816 | $ 25,361 |
| Dismantling obligation | 14,827 | 25,150 |
| | $ 34,643 | $ 50,511 |
| Noncurrent | | |
| Dismantling obligation | $ 352,975 | $ 335,304 |

| | Dismantling Obligation | Product Warranty |
|---|---|---|
| Balance at January 1, 2017 | $ 335,371 | $ 35,323 |
| Additional provisions recognized | 52,017 | 25,428 |
| Reductions arising from payments | (26,934) | (35,390) |
| Balance at December 31, 2017 | $ 360,454 | $ 25,361 |
| Balance at January 1, 2018 | $ 360,454 | $ 25,361 |
| Acquisitions through merger | 13,370 | - |
| Additional provisions recognized | 58,534 | 23,830 |
| Reductions arising from payments | (64,556) | (29,375) |
| Balance at December 31, 2018 | $ 367,802 | $ 19,816 |

## 18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plan adopted by the Company 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 Company contribute 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 Company 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 Company 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 Company has no right to influence the investment policy and strategy.

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Present value of defined benefit obligation | $ 1,656,501 | $ 1,691,073 |
| Fair value of plan assets | (996,127) | (963,594) |
| Net defined benefit liabilities | $ 660,374 | $ 727,479 |

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

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liabilities (Assets) |
|---|---|---|---|
| Balance at January 1, 2017 | $ 1,715,688 | $ (951,965) | $ 763,723 |
| Service cost | | | |
| Current service cost | 10,886 | - | 10,886 |
| Net interest expense (income) | 25,604 | (14,418) | 11,186 |
| Recognized in profit or loss | 36,490 | (14,418) | 22,072 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 5,136 | 5,136 |
| Actuarial loss - changes in financial assumptions | - | - | - |
| Actuarial gain - experience adjustments | (27,891) | - | (27,891) |
| Recognized in other comprehensive income | (27,891) | 5,136 | (22,755) |
| Contributions from the employer | - | (35,561) | (35,561) |
| Benefits paid | (33,214) | 33,214 | - |
| Balance at December 31, 2017 | $ 1,691,073 | $ (963,594) | $ 727,479 |
| Balance at January 1, 2018 | $ 1,691,073 | $ (963,594) | $ 727,479 |
| Service cost | | | |
| Current service cost | 10,575 | - | 10,575 |
| Net interest expense (income) | 25,248 | (14,605) | 10,643 |
| Recognized in profit or loss | 35,823 | (14,605) | 21,218 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (24,309) | (24,309) |
| Actuarial loss - changes in demographic assumptions | 14,293 | - | 14,293 |
| Actuarial loss - changes in financial assumptions | 45,763 | - | 45,763 |
| Actuarial gain - experience adjustments | (89,286) | - | (89,286) |
| Recognized in other comprehensive income | (29,230) | (24,309) | (53,539) |
| Contributions from the employer | - | (34,784) | (34,784) |
| Benefits paid | (41,165) | 41,165 | - |
| Balance at December 31, 2018 | $ 1,656,501 | $ (996,127) | $ 660,374 |

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

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

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

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

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

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Discount rate | 1.25% | 1.50% |
| Expected rate of salary increase | 1.75% | 1.75% |

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

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Discount rate(s) | | |
| 0.25% increase | $ (45,763) | $ (54,672) |
| 0.25% decrease | $ 47,502 | $ 57,003 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 47,160 | $ 56,729 |
| 0.25% decrease | $ (45,663) | $ (54,681) |

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

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| The expected contributions to the plan for the next year | $ 35,392 | $ 36,000 |
| The average duration of the defined benefit obligation | 11.4 years | 13.4 years |

## 19. EQUITY

a. Capital stock

1) Common stock

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Stock authorized (in thousands) | 4,200,000 | 4,200,000 |
| Capital authorized | $ 42,000,000 | $ 42,000,000 |
| Issued and fully paid stock (in thousands) | 3,258,501 | 3,258,501 |
| Issued capital | $ 32,585,008 | $ 32,585,008 |

Issued common stocks, which have a par value of NT$10, are entitled to one vote per stock and a right to dividends.

2) Global depositary receipts (GDRs)

Since 2004, part of the Company's issued common stocks were listed and have been trading on the Luxemburg Stock Exchange in the form of GDRs. One GDR unit represents 15 shares of the Company's common stocks. As of December 31, 2018 and 2017, there were 195 thousand and 419 thousand units of GDRs outstanding, representing 2,921 thousand and 6,283 thousand common stocks, respectively.

The holders of GDRs have the same rights and obligations as the holders of common stock, except regarding the manner of exercise of GDR holders' rights, which shall be handled in accordance with the terms of the Depositary Agreements and the relevant laws and regulations of the ROC. Such rights which shall be exercised through a depositary trust company include:

a) The exercise of voting rights;

b) Conversion of GDRs into common stocks; and

c) The receipt of dividends and exercise of preemptive rights or other rights and interests.

b. Capital surplus

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| May be used to offset a deficit, distributed as cash dividends or transferred to capital stock* | | |
| From business combinations | $ 5,820,034 | $ 8,143,345 |
| May be used to offset a deficit only | | |
| Share of changes in equities of associates | 7 | - |
| | $ 5,820,041 | $ 8,143,345 |

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or may be transferred to capital stock once a year within a certain percentage of the Company's capital surplus.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Articles, where the Company 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 a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the stockholders' meeting for the distribution of dividends and bonuses to stockholders. For the policies on the distribution of employees' compensation and remuneration of directors, refer to Note 21(f) 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 requirements for any significant future capital expenditures or plans to improve the financial structure.

Legal reserve may be used to offset a deficit. If the Company has no deficit and the legal reserve exceeds 25% of the Company'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", the Company should appropriate or reverse a special reserve.

The appropriations of earnings of 2017 and 2016, which have been approved in the stockholders' meeting on June 14, 2018 and June 23, 2017, respectively, were as follows:

| | Appropriation of Earnings For the Years Ended December 31 | | Dividends Per Share (NT$) For the Years Ended December 31 | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Legal reserve | $ 1,082,290 | $ 1,134,683 | | |
| Special reserve | (157,139) | 13,560 | | |
| Cash dividends | 9,896,067 | 10,195,849 | $3.037 | $3.129 |

In addition to distributing cash dividends at NT$3.037 and NT$3.129 per share from the unappropriated earnings, the Company's stockholders also approved to distribute cash of $2,323,311 thousand and $2,023,529 thousand, respectively, from the above-mentioned additional paid-in capital - stock issuance in excess of par value and from business combinations at NT$0.713 and NT$0.621 per share, respectively. Therefore, the Company's stockholders received NT$3.75 per share in both 2018 and 2017.

The appropriation of earnings for 2018 was proposed by the Company's board of directors on February 20, 2019. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 938,135 | |
| Reversal of special reserve | (19,598) | |
| Cash dividends | 12,219,378 | $ 3.75 |

The appropriation of earnings for 2018 is subject to the resolution of the stockholders in the stockholders' meeting which is to be held on June 18, 2019.

d. Special reserve

| | For the Years Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Beginning balance | $ 783,467 | $ 769,907 |
| (Reversal) appropriation in respect of | | |
| Application of the fair value model for investment properties | (23,659) | 5,293 |
| (Reversal of) debit to other equity items | (133,480) | 8,267 |
| Ending balance | $ 626,328 | $ 783,467 |

e. Other equity items

Adjustments to other equity items for the years ended December 31, 2018 and 2017 are summarized as follows:

| | Exchange Differences on Translating the Financial Statements of Foreign Operations | Unrealized Gains and Losses on Available-for-sale Financial Assets | Unrealized Gains and Losses on Financial Assets at Fair Value through Other Comprehensive Income | Unrealized Gains and Losses on Cash Flow Hedges | Gains and Losses on Hedging Instruments | Total |
|---|---|---|---|---|---|---|
| For the year ended December 31, 2018 | | | | | | |
| Beginning balance (IAS 39) | $ 4,122 | $ - | $ - | $ 14,010 | $ - | $ 18,132 |
| Effects of retrospective application of IFRS 9 | - | - | (11,733) | (14,010) | 14,010 | (11,733) |
| Beginning balance (IFRS 9) | 4,122 | - | (11,733) | - | 14,010 | 6,399 |
| Recorded as adjustments to stockholders' equity | - | - | 12,745 | - | - | 12,745 |
| Share of other comprehensive income of subsidiaries and associates | 75 | - | (204) | - | 12,342 | 12,213 |
| Ending balance | $ 4,197 | $ - | $ 808 | $ - | $ 26,352 | $ 31,357 |
| For the year ended December 31, 2017 | | | | | | |
| Beginning balance | $ 4,638 | $ (45,872) | $ - | $ (92,245) | $ - | $ (133,479) |
| Recorded as adjustments to stockholders' equity | - | - | - | 3,471 | - | 3,471 |
| Recorded as profit or loss | - | - | - | 28,199 | - | 28,199 |
| Share of other comprehensive income of subsidiaries and associates | (516) | 45,872 | - | 74,585 | - | 119,941 |
| Ending balance | $ 4,122 | $ - | $ - | $ 14,010 | $ - | $ 18,132 |

## 20. REVENUE

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Contract revenue | | |
| Sales of inventories | $ 17,313,730 | $ 12,701,589 |
| Telecommunications service revenue | 43,778,006 | 56,397,163 |
| | 61,091,736 | 69,098,752 |
| Other operating revenue | 4,817,992 | 3,847,240 |
| | $ 65,909,728 | $ 72,945,992 |

a. Contract information

Refer to Note 4 - revenue recognition for information on revenue recognition for contracts.

b. Contract balances

| | December 31, 2018 |
|---|---|
| Contract assets | |
| Bundle sale of goods | $ 5,433,852 |
| Less: Allowance for impairment loss | (135,925) |
| | $ 5,297,927 |
| Contract assets - current | $ 3,762,170 |
| Contract assets - noncurrent | 1,535,757 |
| | $ 5,297,927 |
| Contract liabilities | |
| Goods | $ 303,951 |
| Services | 1,772,033 |
| | $ 2,075,984 |
| Contract liabilities - current | $ 2,075,984 |

For details of notes receivable and accounts receivable, refer to Note 8.

The changes in the balance of contract assets and contract liabilities primarily resulted from the timing difference between the Company's performance of obligations and the respective customer's payment; other significant changes are as follows:

| | For the Year Ended December 31, 2018 |
|---|---|
| Contract assets | |
| Transfers of beginning balance to accounts receivable | $ (4,244,776) |

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected loss provision for the contract assets. The contract assets will be transferred to accounts receivable when the corresponding invoice is billed to the client, and the contract assets have substantially the same risk characteristics as the accounts receivable for the same types of contracts. Therefore, the Company concluded that the expected loss rates for accounts receivable can be applied to the contract assets. As of December 31, 2018, the gross carrying amount of the contract assets was $5,433,852 thousand, the expected credit loss rate was 0.79%-3%, and the allowance for impairment loss was $135,925 thousand.

The movements of the loss allowance of contract assets are as follows:

| | For the Year Ended December 31, 2018 |
|---|---|
| Balance at January 1 per IAS 39 | $ - |
| Adjustment on initial application of IFRS 9 | - |
| Balance at January 1 per IFRS 9 | - |
| Add: Net remeasurement of loss allowance | 135,925 |
| Balance at December 31 | $ 135,925 |

Revenue of the reporting period recognized from the beginning contract liabilities is as follows:

| | For the Year Ended December 31, 2018 |
|---|---|
| From the beginning contract liabilities | |
| Sale of inventories | $ 559,969 |
| Services | 1,543,875 |
| | $ 2,103,844 |

c. Assets related to contract costs

| | December 31, 2018 |
|---|---|
| Noncurrent | |
| Incremental costs of obtaining a contract | $ 2,106,684 |

The Company considered its past experience and believes the commission and subsidies paid for obtaining contracts are wholly recoverable. Total expense recognized for the year ended December 31, 2018 is $2,212,939 thousand.

d. Disaggregation of revenue

Refer to Statements of Major Accounting Items No.10 for information about the disaggregation of revenue.

e. Partially completed contracts

The transaction prices, excluding any estimated amounts of variable consideration that are constrained, allocated to the performance obligations that are not fully satisfied and the expected timing for recognition of revenue are as follows.

| | December 31, 2018 |
|---|---|
| Telecommunication service contracts | |
| Fulfillment in 2019 | $ 18,076,289 |
| Fulfillment in 2020 and beyond | 9,318,613 |
| | $ 27,394,902 |

The disclosure does not include revenue from contracts of which the timing of revenue recognition is not affected by price allocation.

## 21. NET INCOME

The items included in net income are as follows:

a. Other income

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Rental income | $ 43,273 | $ 54,306 |
| Management service revenue | 50,189 | 50,644 |
| Interest income | 33,131 | 27,284 |
| Others | 354 | 200 |
| | $ 126,947 | $ 132,434 |

b. Other gains and losses

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Gain from property insurance claims | $ 72,853 | $ 33,604 |
| Others | 105,073 | 49,691 |
| | $ 177,926 | $ 83,295 |

c. Depreciation and amortization

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Property, plant and equipment | $ 8,101,870 | $ 7,798,274 |
| Intangible assets | 759,851 | 692,430 |
| | $ 8,861,721 | $ 8,490,704 |
| Depreciation expense categorized by function | | |
| Operating costs | $ 7,288,674 | $ 6,892,567 |
| Operating expenses | 813,196 | 905,707 |
| | $ 8,101,870 | $ 7,798,274 |
| Amortization expense categorized by function | | |
| Operating costs | $ 195,010 | $ 213,294 |
| Marketing expenses | 116,237 | 102,250 |
| General and administrative expenses | 448,604 | 376,886 |
| | $ 759,851 | $ 692,430 |

d. Financial costs

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest on financial liabilities measured at amortized cost | $ 404,289 | $ 410,600 |
| Interest expense on bank loans and commercial paper | 34,058 | 44,538 |
| Other financial costs | 7,648 | 17,771 |
| | $ 445,995 | $ 472,909 |

e. Employee benefits expense

| | For the Year Ended December 31, 2018 | | | |
|---|---|---|---|---|
| | Operating Costs | Operating Expenses | Costs or Expenses Deduction | Total |
| Retirement benefits | | | | |
| Defined contribution plans | $ 33,252 | $ 119,817 | $ 36,905 | $ 189,974 |
| Defined benefit plans | 4,609 | 16,609 | - | 21,218 |
| Other employee benefits | | | | |
| Salary | 723,863 | 3,970,941 | 770,987 | 5,465,791 |
| Insurance | 59,758 | 336,302 | 63,190 | 459,250 |
| Remuneration of directors | - | 92,447 | - | 92,447 |
| Others | 21,581 | 233,417 | 27,042 | 282,040 |
| | $ 843,063 | $ 4,769,533 | $ 898,124 | $ 6,510,720 |

| | For the Year Ended December 31, 2017 | | | |
|---|---|---|---|---|
| | Operating Costs | Operating Expenses | Costs or Expenses Deduction | Total |
| Retirement benefits | | | | |
| Defined contribution plans | $ 38,314 | $ 199,723 | $ 40,655 | $ 278,692 |
| Defined benefit plans | 3,553 | 18,519 | - | 22,072 |
| Other employee benefits | | | | |
| Salary | 718,308 | 3,769,294 | 782,670 | 5,270,272 |
| Insurance | 60,321 | 343,849 | 62,858 | 467,028 |
| Remuneration of directors and supervisors | - | 101,989 | - | 101,989 |
| Others | 21,296 | 239,343 | 25,361 | 286,000 |
| | $ 841,792 | $ 4,672,717 | $ 911,544 | $ 6,426,053 |

The Company provided management services to certain subsidiaries accounted for using the equity method. The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs or expenses.

There were 6,092 and 6,396 employees, both of which include 11 directors not serving concurrently as employees, in the Company as of December 31, 2018 and 2017, respectively.

f. Employees’ compensation and remuneration of directors

The Company 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, 2018 and 2017, the employees’ compensation and the remuneration of directors represented 2% and 0.72%, respectively, of net profit before income tax, employees’ compensation and remuneration of directors.

The accrued employees’ compensation and remuneration of directors for the years ended December 31, 2018 and 2017 were as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Employees’ compensation | $ 233,689 | $ 261,539 |
| Remuneration of directors | $ 84,128 | $ 94,154 |

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

There was no difference between the amounts of employees’ compensation and the remuneration of directors resolved by the board of directors and the respective amounts recognized in the financial statements for the years ended December 31, 2017 and 2016.

Information on employees’ compensation and the remuneration of directors resolved by the Company’s board of directors during 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 22. INCOME TAX

a. The major components of tax expense recognized in profit or loss

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current tax | $ 1,568,931 | $ 1,620,322 |
| Deferred tax | 416,336 | 278,046 |
| Income tax expense recognized in profit or loss | $ 1,985,267 | $ 1,898,368 |

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

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Profit before tax | $ 11,366,618 | $ 12,755,050 |
| Income tax expense computed at the statutory tax rate | $ 2,273,324 | $ 2,168,359 |
| Add (deduct) tax effects of: | | |
| Investments accounted for using the equity method | (499,003) | (292,235) |
| Effect of tax rate changes | 411,068 | - |
| Others | 64,660 | 54,861 |
| Prior year's adjustments | (264,782) | (32,617) |
| Income tax expense recognized in profit or loss | $ 1,985,267 | $ 1,898,368 |

In 2017, the applicable corporate income tax rate used by the Company is 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Deferred tax | | |
| Effect of change in tax rate - remeasurement of defined benefit plan | $ 10,790 | $ - |
| Current year: | | |
| Fair value changes of hedging instruments for cash flow hedges | - | (6,486) |
| Remeasurement of defined benefit plan | (10,708) | (3,868) |
| Income tax recognized in other comprehensive income | $ 82 | $ (10,354) |

c. Deferred income tax assets and liabilities

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

For the year ended December 31, 2018

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Allowance for impairment loss | $ 333,490 | $ 21,783 | $ - | $ 355,273 |
| Defined benefit obligation | 122,334 | 8,085 | 82 | 130,501 |
| Others | 219,512 | (3,827) | - | 215,685 |
| | $ 675,336 | $ 26,041 | $ 82 | $ 701,459 |
| Deferred income tax liabilities | | | | |
| Amortization of goodwill | $ 1,613,645 | $ 442,961 | $ - | $ 2,056,606 |
| Investment property | 16,243 | (584) | - | 15,659 |
| | $ 1,629,888 | $ 442,377 | $ - | $ 2,072,265 |

For the year ended December 31, 2017

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Allowance for doubtful accounts | $ 331,689 | $ 1,801 | $ - | $ 333,490 |
| Defined benefit obligation | 128,495 | (2,293) | (3,868) | 122,334 |
| Others | 369,640 | (143,642) | (6,486) | 219,512 |
| | $ 829,824 | $ (144,134) | $ (10,354) | $ 675,336 |
| Deferred tax liabilities | | | | |
| Amortization of goodwill | $ 1,479,175 | $ 134,470 | $ - | $ 1,613,645 |
| Investment property | 16,801 | (558) | - | 16,243 |
| | $ 1,495,976 | $ 133,912 | $ - | $ 1,629,888 |

d. Income tax assessments

Income tax returns of the Company through 2015 have been assessed by the tax authorities.

## 23. 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 Years Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Net income | $ 9,381,351 | $ 10,856,682 |
| Effect of potentially dilutive common stock: | | |
| Employees' compensation | - | - |
| Earnings used in the calculation of diluted earnings per share | $ 9,381,351 | $ 10,856,682 |

**Weighted Average Number of Common Stock Outstanding**

**(In Thousands of Shares)**

| | For the Years Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Weighted average number of common stock used in the calculation of basic earnings per share | 3,258,501 | 3,258,501 |
| Effect of potentially dilutive common stock: | | |
| Employees' compensation | 3,587 | 4,014 |
| Weighted average number of common stock used in the calculation of diluted earnings per share | 3,262,088 | 3,262,515 |

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

## 24. EQUITY TRANSACTIONS WITH NONCONTROLLING INTERESTS

The Company subscribed for new common stocks issued by Hiiir Inc. at a percentage different from the existing ownership percentage in June 2017, and the subsidiary of the Company bought stocks of Hiiir Inc. from noncontrolling interests in July 2017; therefore, the Company increased its interest in Hiiir Inc.

The Company subscribed for new common stocks of Qware in April 2018 and acquired noncontrolling interests' shares of Qware in cash in June 2018, and increased its interest from 81.63% to 100%.

The above transaction was accounted for as an equity transaction, since the Company did not lose control of the subsidiary. Refer to Note 30 of the consolidated financial statements of the Company as of and for the year ended December 31, 2018 for related information.

## 25. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Operating leases relate to leases of retail stores, cell sites and office space with lease terms of between 1 and 20 years. All operating lease contracts over 5 years contain clauses for 5-year market rental reviews.

The future minimum lease payments of noncancellable operating lease commitments are as follows:

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Not later than 1 year | $ 3,054,092 | $ 3,035,370 |
| Later than 1 year and not later than 5 years | 5,059,255 | 5,056,516 |
| Later than 5 years | 13,856 | 74,352 |
| | $ 8,127,203 | $ 8,166,238 |

The lease payments recognized as expenses were as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Minimum lease payments | $ 3,549,321 | $ 3,580,311 |

b. The Company as lessor

For the investment properties that are leased out under operating lease agreements, refer to Note 12.

## 26. CAPITAL MANAGEMENT

The Company is required to maintain sufficient capital to meet the minimum paid-in capital requirements for the telecommunication industry, and to finance the upgrade of its telecommunications network. Thus, the Company'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.

## 27. FINANCIAL INSTRUMENTS

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

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

| | December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Refundable deposits | $ 543,268 | $ 542,564 | $ 442,572 | $ 441,724 |
| Financial liabilities | | | | |
| Bonds payable | 25,374,262 | 25,583,418 | 26,872,353 | 27,105,492 |

2) Fair value hierarchy

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Refundable deposits | $ - | $ - | $ 542,564 | $ 542,564 |
| Financial liabilities | | | | |
| Bonds payable | $ 25,583,418 | $ - | $ - | $ 25,583,418 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Refundable deposits | $ - | $ - | $ 441,724 | $ 441,724 |
| Financial liabilities | | | | |
| Bonds payable | $ 27,105,492 | $ - | $ - | $ 27,105,492 |

The fair values of the financial assets included in the Level 3 category above have been determined in accordance with the discounted cash flow approach based on the discount rate of corporate bonds at the end of the reporting period in 2018, and based on the average discount rate of commercial papers in 2017, respectively.

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

1) Fair value hierarchy

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Domestic unlisted common stock | $ - | $ - | $ 191,245 | $ 191,245 |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

2) Reconciliation of Level 3 fair value measurements of financial instruments:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| | Financial Instruments at Fair Value Through Other Comprehensive Income | Hedging Derivative Financial Instruments |
| Beginning balance | $ 195,000 | $ (38,156) |
| Additions | 45,000 | - |
| Recognized in profit or loss (included in other gains and losses) | - | 33,975 |
| Recognized in other comprehensive income | 12,745 | 4,181 |
| Remittance of cash due to capital reduction | (61,500) | - |
| Ending balance | $ 191,245 | $ - |

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

| Financial Instrument | Valuation Techniques and Inputs |
|---|---|
| Domestic unlisted common stock | a) Asset-based approach. Valuation based on the fair value of an investee, calculated through each investment of the investee using the income approach, market approach or a combination of the two approaches, while also taking the liquidity premium into consideration.<br>b) Transaction method of market approach. The approach is a valuation strategy that looks at market ratios of companies with similar profitability at the end of the reporting period, while taking the liquidity premium into consideration. |

c. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Financial assets | | |
| Loans and receivables (Note 1) | $ - | $ 10,485,826 |
| Available-for-sale financial assets (Note 2) | - | 195,000 |
| Financial assets at amortized cost (Note 3) | 9,480,416 | - |
| Financial assets at fair value through other comprehensive income | 191,245 | - |
| Financial liabilities | | |
| Financial liabilities at amortized cost (Note 4) | 45,846,482 | 52,429,134 |

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

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

Note 3: The balances include financial assets at amortized cost, which comprise cash and cash equivalents, debt investments, notes receivable, accounts receivable (including related parties), other receivables (including related parties), refundable deposits, and other financial assets.

Note 4: The balances include financial liabilities at amortized cost, which comprise short-term borrowings, short-term bills payable, notes payable, accounts payable (including related parties), other payables (including related parties), financial lease payables, bonds payable (including current portion), long-term borrowings (including current portion), and guarantee deposits received.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, accounts payable, bonds payable and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages financial risks relating to the operations of the Company 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 Company is committed to identify, assess and avoid the uncertainty of the market and reduce the potential downside effects of market changes against the Company's financial performance.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies which were approved by the board of directors, which provide written principles 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 Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function is reviewed by the Company's board of directors in accordance with related rules and the internal control system. The Company 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 Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company managed the risk of change in the foreign currency exchange through forward exchange contracts.

a) Foreign currency risk

The Company undertakes transactions and expected future purchase denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed through forward exchange contracts.

Foreign currency sensitivity analysis

The Company was mainly exposed to the U.S. dollar and the Euro.

The following table details the Company'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 reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, for which their translation at the end of the reporting period is adjusted for a 5% change in foreign currency rates. The positive number shown in the currency impact table below indicates an increase in pre-tax profit where the NTD strengthened 5% against the U.S. dollar and EUR. For a 5% weakening of the NTD against the U.S. dollar and EUR, shown by the negative amount below, there was a decrease in pre-tax profit.

| | **USD/EUR Impact** | |
|---|---|---|
| | **For the Years Ended December 31** | |
| | **2018** | **2017** |
| 5% change in profit or loss | | |
| USD | $ (24,601) | $ (18,013) |
| EUR | $ (13) | $ (138) |

Hedge Accounting

As of December 31, 2017, the Company used forward exchange contracts to hedge against adverse cash flow fluctuations on expected future transactions. The contracts were negotiated in accordance with the contracts on the hedged items. As of December 31, 2018 and 2017, there was no outstanding contract.

The Company used forward exchange contracts to hedge against fluctuations of exchange rates for expected future purchases.

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

| | For the Year Ended December 31, 2107 |
|---|---|
| Other gains and losses | $ (33,975) |

b) Interest rate risk

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

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Fair value interest rate risk | | |
| Financial assets | $ 1,558,122 | $ 2,628,013 |
| Financial liabilities | 28,541,332 | 35,934,924 |
| Cash flow interest rate risk | | |
| Financial assets | 1,627,472 | 1,625,267 |
| Financial liabilities | 8,000,000 | 4,800,000 |

Sensitivity analysis

The sensitivity analysis described below was based on the Company'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 financial assets and financial liabilities with fixed interest rates, their fair values will change as the market interest rates change. For financial assets and financial liabilities with floating interest rates, 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, 2018 and 2017 would have decreased/increased by $15,931 thousand and $7,937 thousand, respectively, mainly affected by bank deposits and borrowings with floating interest rates.

c) Other price risk

The Company was exposed to equity price risk through its investments in domestic unlisted equity securities. The Company manages the risk by maintaining a portfolio of investments with different risks.

Sensitivity analysis

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

If equity prices had been 5% higher/lower, the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by $9,562 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties and financial guarantees provided by the Company arises from the carrying amounts of the respective recognized financial assets as stated in the balance sheets.

The Company has a policy of dealing only with creditworthy counterparties. The credit lines 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 Company transacts with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company relies on bank borrowings as a significant source of liquidity. The Company's unutilized overdraft and bank loan facilities amounted to $35,951,338 thousand and $25,039,480 thousand as of December 31, 2018 and 2017, respectively.

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

| | Carrying Amount | Contract Cash Flows | Less than 1 Year | 1-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| December 31, 2018 | | | | | |
| Short-term borrowings | $ 1,500,000 | $ 1,500,898 | $ 1,500,898 | $ - | $ - |
| Short-term notes payable | 999,720 | 1,000,000 | 1,000,000 | - | - |
| Other payables - related parties | 7,500,000 | 7,541,102 | 7,541,102 | - | - |
| Long-term borrowings | 700,000 | 710,360 | 5,180 | 705,180 | - |
| Bonds payable | 25,374,262 | 26,584,845 | 3,499,400 | 15,974,995 | 7,110,450 |
| | $ 36,073,982 | $ 37,337,205 | $ 13,546,580 | $ 16,680,175 | $ 7,110,450 |
| December 31, 2017 | | | | | |
| Short-term borrowings | $ 400,000 | $ 400,250 | $ 400,250 | $ - | $ - |
| Other payables - related parties | 2,800,000 | 2,816,959 | 2,816,959 | - | - |
| Long-term borrowings | 10,100,000 | 10,246,970 | 2,587,455 | 7,659,515 | - |
| Bonds payable | 26,872,353 | 28,121,395 | 6,847,750 | 16,187,020 | 5,086,625 |
| | $ 40,172,353 | $ 41,585,574 | $ 12,652,414 | $ 23,846,535 | $ 5,086,625 |

## 28. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, details of transactions between the Company and its related parties are disclosed below.

a. The Company's related parties and their relationships

| Related Party | Relationship with the Company |
|---|---|
| Far Eastern New Century Corporation (FENC) | Ultimate parent company |
| ARCOA Communication Co., Ltd. (ARCOA) | Subsidiary |
| DataExpress Infotech Co., Ltd. (DataExpress) | Subsidiary of ARCOA |
| Linkwell Tech. Ltd. | Subsidiary of DataExpress |
| Home Master Technology Ltd. | Subsidiary of DataExpress |
| Qware Communications Co., Ltd. (Qware) | Subsidiary (dissolved after merging with the Company on June 30, 2018) |
| Far Eastern Info Service (Holding) Ltd. | Subsidiary |
| KGEx.com Co., Ltd. | Subsidiary |
| Yuan Cing Co., Ltd. (Yuan Cing) | Subsidiary |
| Yuanshi Digital Technology Co., Ltd. (YSDT) | Subsidiary |
| Far Eastern Tech-info Ltd. (Shanghai) | Subsidiary of FEIS |
| Omusic Co., Ltd. | Subsidiary |
| New Century InfoComm Tech Co., Ltd. (NCIC) | Subsidiary |
| Prime Ecopower Co., Ltd. | Subsidiary of NCIC |
| Information Security Service Digital United Inc. | Subsidiary of NCIC |
| New Diligent Co., Ltd. (New Diligent) | Subsidiary of NCIC |
| Sino Lead Enterprise Limited | Subsidiary of New Diligent |
| New Diligent Hong Kong Co., Ltd. | Subsidiary of New Diligent |
| Far Eastern New Diligent Company Ltd. (FEND) | Subsidiary of New Diligent |
| Far Eastern New Century Information Technology (Beijing) Limited | Subsidiary of FEND |
| Digital United (Cayman) Ltd. (DU Cayman) | Subsidiary of NCIC |
| Digital United Information Technologies (Shanghai) Co., Ltd. | Subsidiary of DU Cayman |
| Far Eastern Electronic Toll Collection Co., Ltd. | Subsidiary of FENC |
| Ding Ding Integrated Marketing Service Co., Ltd. | Subsidiary of FENC |
| Far Eastern Electronic Commerce Co., Ltd. (FEEC) | Subsidiary of FENC (dissolved after merging with YSDT on August 1, 2017) |
| Far Eastern International Leasing Corp. | Other related party (equity-method investment of subsidiary of FENC) |
| Telecommunication and Transportation Foundation | Other related party (the Company's donation is over one third of the foundation's fund) |
| Far Eastern Apparel Co., Ltd. | Subsidiary of FENC |
| Far Cheng Human Resources Consultant Corp. (FCHRC) | Subsidiary of FENC |
| Far Eastern Resource Development Co., Ltd. | Subsidiary of FENC |
| Pacific Sogo Department Stores Co., Ltd. (SOGO) | Other related party (same chairman as parent company's) |
| Far Eastern Big City Shopping Malls Co., Ltd. | Subsidiary of SOGO |
| Far Eastern Citysuper Co., Ltd. | Other related party (same chairman as parent company's) |
| Ya Tung Department Store Co., Ltd. | Other related party (same chairman as parent company's) |

(Continued)

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

(Continued)

| Related Party | Relationship with the Company |
|---|---|
| Far Eastern Investment (Holding) Ltd. | Subsidiary of FENC |
| Kaohsiung Rapid Transit Corporation | Other related party (substantive related party) |

(Concluded)

b. Operating revenue

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| FENC | $ 2,507 | $ 2,699 |
| Subsidiaries of FENC | 81,482 | 159,971 |
| Subsidiaries | 1,230,663 | 1,185,612 |
| Associates | 10 | - |
| Other related parties | 31,906 | 27,325 |
| | $ 1,346,568 | $ 1,375,607 |

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

c. Operating costs and expenses

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Costs of telecommunications services | | |
| Subsidiaries of FENC | $ 5,212 | $ 40,380 |
| Subsidiaries | | |
| NCIC | 2,725,576 | 2,722,752 |
| Others | 280,559 | 343,886 |
| | 3,006,135 | 3,066,638 |
| Other related parties | 156 | 85 |
| | $ 3,011,503 | $ 3,107,103 |
| Purchases | | |
| Subsidiaries | | |
| ARCOA | $ 8,083,660 | $ 9,816,880 |
| Others | 41,944 | 11,972 |
| | $ 8,125,604 | $ 9,828,852 |
| Rental (included in operating costs) | | |
| FENC | $ 1,439 | $ 1,534 |
| Subsidiaries of FENC | 7,430 | 7,676 |
| Subsidiaries | 20,714 | 20,714 |
| Other related parties | 19,637 | 18,618 |
| | $ 49,220 | $ 48,542 |

(Continued)

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Rental (included in operating expenses) | | |
| FENC | $ 2,980 | $ 2,935 |
| Subsidiaries of FENC | 41,153 | 41,158 |
| Subsidiaries | 82,219 | 57,569 |
| Other related parties | 38,631 | 40,147 |
| | $ 164,983 | $ 141,809 |
| Marketing expenses | | |
| Subsidiaries of FENC | $ 30,623 | $ 44,124 |
| Subsidiaries | | |
| ARCOA | 505,304 | 491,071 |
| Others | 78,497 | 56,949 |
| | 583,801 | 548,020 |
| Other related parties | 3,274 | 5,052 |
| | $ 617,698 | $ 597,196 |
| Service fees | | |
| FENC | $ 567 | $ 583 |
| Subsidiaries of FENC | | |
| FCHRC | 111,924 | 110,241 |
| Others | 2,056 | - |
| | 113,980 | 110,241 |
| Subsidiaries | | |
| Yuan Cing | 33,673 | 15,529 |
| Others | 4,405 | 15,331 |
| | 38,078 | 30,860 |
| Other related parties | 20 | 100 |
| | $ 152,645 | $ 141,784 |
| Telephone fees | | |
| Subsidiaries | $ 48,854 | $ 52,574 |
| Other related parties | 4 | 4 |
| | $ 48,858 | $ 52,578 |
| Other expenses | | |
| FENC | $ 119,802 | $ 115,710 |
| Subsidiaries of FENC | 13,177 | 19,270 |
| Subsidiaries | 24,409 | 25,045 |
| Associates | 1,047 | - |
| Other related parties | 11,237 | 23,783 |
| | $ 169,672 | $ 183,808 |

The above companies provide telecommunication services to the Company. The terms and conditions conformed to normal business practices.

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

d. Property transactions

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Acquisition of investments accounted for using the equity method | | |
| Subsidiaries of FENC | | |
| FEEC | $ - | $ 91,711 |
| Yuan Hsin Digital | - | 150,000 |
| | - | 241,711 |
| Subsidiaries | | |
| YSDT | - | 348,909 |
| Qware | 5,398 | - |
| | $ 5,398 | $ 590,620 |
| Acquisition of property, plant and equipment and intangible assets | | |
| Subsidiaries of FENC | $ 2,948 | $ 5,753 |
| Subsidiaries | 44,585 | 8,911 |
| | $ 47,533 | $ 14,664 |

For the expansion of future business, the Company participated in the issuance of common stocks for cash by subsidiaries and the subsidiaries of FENC.

e. Bank deposits, financial assets at amortized cost, debt investments with no active market and other financial assets

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Other related parties | | |
| FEIB | $ 1,787,775 | $ 2,848,515 |

The Company had bank deposits in FEIB. These deposits included a portion of the proceeds of the Company’s sale of prepaid cards. This portion, which referred to sold but unused prepaid cards, had been consigned to FEIB as a trust fund and was included in other financial assets - current.

f. Receivables and payables - related parties

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Notes receivable - related parties (included in notes receivable) | | |
| Subsidiaries of FENC | $ - | $ 5 |
| Accounts receivable - related parties | | |
| FENC | $ 6 | $ 8 |
| Subsidiaries of FENC | 27,558 | 13,199 |
| Subsidiaries | 147,724 | 210,170 |
| Associates | 10 | - |
| Other related parties | 35,101 | 29,599 |
| | $ 210,399 | $ 252,976 |

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Other receivables - related parties (not including loans to related parties) | | |
| Subsidiaries of FENC | $ 3,832 | $ 3,341 |
| Subsidiaries | | |
| NCIC | 11,413 | 103,644 |
| Others | 16,868 | 18,031 |
| | 28,281 | 121,675 |
| Associates | 6,149 | - |
| Other related parties | 3,991 | 6,944 |
| | $ 42,253 | $ 131,960 |
| Accounts payable - related parties | | |
| Subsidiaries of FENC | $ 112 | $ 11 |
| Subsidiaries | | |
| ARCOA | 591,465 | 1,519,158 |
| Others | 72,571 | 87,671 |
| | 664,036 | 1,606,829 |
| Other related parties | 1,179 | 722 |
| | $ 665,327 | $ 1,607,562 |
| Other payables - related parties (not including loans from related parties) | | |
| FENC | $ 23,144 | $ 33,566 |
| Subsidiaries of FENC | 81,342 | 76,347 |
| Subsidiaries | | |
| NCIC | 644,017 | 735,988 |
| Others | 156,435 | 104,472 |
| | 800,452 | 840,460 |
| Other related parties | 3,341 | 7,593 |
| | $ 908,279 | $ 957,966 |

g. Refundable deposits

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Refundable deposits | | |
| Subsidiaries of FENC | $ 23,517 | $ 29,079 |
| Subsidiaries | 4,430 | 4,415 |
| Other related parties | 1,441 | 1,421 |
| | $ 29,388 | $ 34,915 |

h. Others

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Management service revenue | | |
| Subsidiaries | $ 50,189 | $ 50,644 |
| Interest income (not including interest revenue of loans to related parties) | | |
| Subsidiaries of FENC | $ 22 | $ 26 |
| Subsidiaries | - | 3 |
| Other related parties | | |
| FEIB | 18,753 | 17,759 |
| Others | 11 | 9 |
| | 18,764 | 17,768 |
| | $ 18,786 | $ 17,797 |
| Rental income | | |
| Subsidiaries of FENC | $ 40 | $ 16 |
| Subsidiaries | | |
| NCIC | 22,933 | 32,703 |
| Others | 2,418 | 2,998 |
| | 25,351 | 35,701 |
| | $ 25,391 | $ 35,717 |

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

i. Loans to related parties (included in other receivables - related parties)

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Other receivables | | |
| Subsidiaries | $ - | $ 130,000 |

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest income | | |
| Subsidiaries | $ 602 | $ 1,589 |

The Company provided Qware with short-term loans of rates comparable to the market rate of interest.

j. Loans from related parties (included in other payables - related parties)

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Subsidiaries | $ 7,500,000 | $ 2,800,000 |

The Company obtained loans at rates comparable to market interest rates for the loans from NCIC. The interest expense was $47,144 thousand and $40,568 thousand for the years ended 2018 and 2017, respectively.

k. Compensation of key management personnel

| | For the Years Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Short-term benefits | $ 293,004 | $ 291,084 |
| Post-employment benefits | 2,807 | 2,834 |
| | $ 295,811 | $ 293,918 |

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

## 29. ASSETS PLEDGED OR MORTGAGED

Assets pledged or mortgaged for litigation were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Other financial assets - current | $ 356,000 | $ 1,528,000 |

## 30. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Company as of December 31, 2018 and 2017 were as follows:

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Acquisition of property, plant and equipment under contracts | $ 3,214,707 | $ 4,779,869 |
| Less: Payments for acquisition of property, plant and equipment | 886,425 | 1,395,618 |
| | $ 2,328,282 | $ 3,384,251 |
| Acquisition of inventories under contract | $ 10,165,172 | $ 11,570,772 |
| Less: Payments for acquisition of inventories | 5,314,695 | 4,948,635 |
| | $ 4,850,477 | $ 6,622,137 |

## 31. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

In order to provide cross-industry financial services and deploy online banking, the Company’s board of directors resolved on February 20, 2019 that the Company would acquire a 5% stake in Line Financial Corporation for NT$500 million. The Company has remitted 20% of the investment amount (NT$100 million) and if Line Financial Corporation is unsuccessful in its application for an online banking license, it will return the paid investment amounts to the Company.

## 32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company 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, 2018 | | |
|---|---|---|---|
| | **Foreign Currency** | **Exchange Rate** | **Carrying Amount** |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 20,127 | 30.715 | $ 618,197 |
| EUR | 48 | 35.20 | 1,687 |
| Nonmonetary items | | | |
| USD | 164 | 30.715 | 5,023 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 4,108 | 30.715 | 126,180 |
| EUR | 41 | 35.20 | 1,428 |

| | December 31, 2017 | | |
|---|---|---|---|
| | **Foreign Currency** | **Exchange Rate** | **Carrying Amount** |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 15,670 | 29.76 | $ 466,331 |
| EUR | 119 | 35.57 | 4,250 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 3,564 | 29.76 | 106,062 |
| EUR | 42 | 35.57 | 1,499 |
| Nonmonetary items | | | |
| USD | 1,589 | 29.76 | 47,302 |

The significant foreign exchange gains (losses) were as follows:

| | For the Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Foreign Currency | Exchange Rate | Net Foreign Exchange Gains (Losses) | Exchange Rate | Net Foreign Exchange Gains (Losses) |
| EUR | 35.61 (EUR:NTD) | $ (1,208) | 34.35 (EUR:NTD) | $ 4,659 |
| USD | 30.149 (USD:NTD) | 9,480 | 30.432 (USD:NTD) | (10,322) |
| | | $ 8,272 | | $ (5,663) |

## 33. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and the Company's investees:

1) Financing provided to others: (Schedule A)

2) Endorsements/guarantees provided: (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and jointly 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: (None)

5) Acquisition of real estate at costs of at least NT$300 million or 20% of the paid-in capital: (Schedule C)

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

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

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

9) Trading in derivative transactions: (Note 27)

10) Information on investees: (Schedule F)

b. Information on investments 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 G)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (None)

   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 a material effect on the profit or loss for the period or on the financial position, such as rendering or receiving services.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| No. | Lender | Borrower | Financial Statement Account | Related Party | Highest Balance for the Period | Ending Balance | Actual Borrowing Amount | Interest Rate | Nature of Financing | Business Transaction Amount | 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. | Qware Communications Co., Ltd.(Note C) | Other receivables - related parties | Yes | $ 250,000 | $ - | $ - | 1.47-1.58% | Short-term financing | $ - | For business operations | $ - | - | $ - | $ 7,331,750 | $ 36,658,749 |
| 1 | New Century InfoComm Tech Co., Ltd. | Qware Communications Co., Ltd. (Note C) | Other receivables - related parties | Yes | 150,000 | - | - | 1.33% | Short-term financing | - | For business operations | - | - | - | 8,531,418 | 12,187,740 |
| | | Far EasTone Telecommunications Co., Ltd. | Other receivables - related parties | Yes | 2,500,000 | 2,500,000 | 2,500,000 | 0.83% | Transaction | 3,052,994 | - | - | - | - | 3,052,994 | 12,187,740 |
| | | Far EasTone Telecommunications Co., Ltd. | Other receivables - related parties | Yes | 7,500,000 | 7,500,000 | 5,000,000 | 0.83% | Short-term financing | - | For business operations | - | - | - | 8,531,418 | 12,187,740 |

Note A: The maximum total financing amount provided should not exceed 50% of the Company’s net worth of the most current audited or reviewed financial statements; while the amount of financing provided to those with short-term financing needs should not exceed 10% of the Company’s net worth in the most current audited or reviewed financial statements.

Note B: Where New Century InfoComrn Tech 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 business transaction amount between the two parties. The business transaction amount refers to the estimated amount in the year the loan contract was signed 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.

Note C: The Company merged with Qware Communications Co., Ltd. on June 30, 2018. The Company is the surviving company, and Qware Communications Co., Ltd. is the dissolved company.

SCHEDULE B

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Holding Company Name | Type and Name of Marketable Security | Relationship with the Holding Company | Financial Statement Account | December 31, 2018 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| Far EasTone Telecommunications Co., Ltd. | Stock | | | | | | | |
| | App Works Fund II Co., Ltd. | - | Financial assets at fair value through other comprehensive income - noncurrent | 8,850,000 | $ 101,245 | 11.11 | $ 101,245 | B |
| | CDIB Capital Innovation Accelerator Limited | - | Financial assets at fair value through other comprehensive income - noncurrent | 9,000,000 | 90,000 | 11.32 | 90,000 | B |
| ARCOA Communication Co., Ltd. | Stock | | | | | | | |
| | THI consultants | - | Financial assets at fair value through other comprehensive income - noncurrent | 1,213,594 | 12,190 | 18.32 | 12,190 | B |
| | Web Point Co., Ltd. | - | Financial assets at fair value through other comprehensive income - noncurrent | 160,627 | 1,618 | 0.63 | 1,618 | B |
| New Century InfoComm Tech Co., Ltd. | Stock | | | | | | | |
| | Kaohsiung Rapid Transit Corporation | Other related party | Financial assets at fair value through other comprehensive income - noncurrent | 8,858,191 | 38,268 | 3.18 | 38,268 | B |
| | Bank Pro E-service Technology Co., Ltd. | - | Financial assets at fair value through other comprehensive income - noncurrent | 450,000 | 4,500 | 3.33 | 4,500 | B |
| | Stock Certificate | | | | | | | |
| | Changing.ai Inc. | - | Financial assets at fair value through other comprehensive income - noncurrent | 500,000 | 30,715 | 2.50 | 30,715 | B |
| | Open-end mutual fund | | | | | | | |
| | DFE DWS Taiwan Money Market Fund | Other related party | Financial assets at fair value through profit or loss - current | 12,877,231.400 | 150,409 | - | 150,409 | A |
| | Overseas funds | | | | | | | |
| | Opas Fund Segregated Portfolio Tranche A | Other related party | Financial asset at fair value through profit or loss - current | 13,491.781 | 437,363 | - | 437,363 | A |
| | Opas Fund Segregated Portfolio Tranche B | Other related party | Financial asset at fair value through profit or loss - current | 5,000.000 | 145,126 | - | 145,126 | A |
| Digital United (Cayman) Ltd. | Stock Certificate | | | | | | | |
| | TBCASoft, Inc. | - | Financial assets at fair value through other comprehensive income - noncurrent | 980,435 | 153,575 | 6.77 | 153,575 | B |

Note A: The market values of open-end mutual funds were calculated at their net asset values as of December 31, 2018.

Note B: The fair values of financial assets at fair value through other comprehensive income were calculated using inputs and valuation methods.

SCHEDULE C

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**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, 2018**
**(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 | The transaction amount was paid ($712,183 was paid in 2018). | Far Eastern Resource Development Co., Ltd. (FERD) | Subsidiaries of FENC | Far Eastern New Century Corporation (FENC) | Ultimate parent Company | 2003.9.2 | FERD was spun off from FENC with the land being a spin-off asset. | The price approved by NCIC's board of directors was determined through price negotiations 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 INVESTEES

**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, 2018**
**(In Thousands of New Taiwan Dollars)**

| Purchaser (Seller) of Goods | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Accounts/other Receivables (Payables) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Financial Statement Account and Ending Balance | | % to Total |
| Far EasTone Telecommunications Co., Ltd. | ARCOA Communication Co., Ltd. | Subsidiary | Costs of telecommunications services, marketing expenses and cost of sales | $ 8,657,375 | 17 | Based on agreement | $ - | - | Accounts payable and other payables | $ (642,766) | (4) |
| | | | Operating revenue | (299,337) | - | Based on agreement | - | - | Accounts receivable | 127,983 | 2 |
| | New Century InfoComm Tech Co., Ltd. | Subsidiary | Operating revenue | (306,678) | - | Based on agreement | - | - | Accounts receivable | 700 | - |
| | | | Costs of telecommunications services and cost of sales | 2,746,316 | 6 | Based on agreement | - | - | Accounts payable and other payables (Note A) | (604,199) | (4) |
| | DataExpress Infotech Co., Ltd. | Subsidiary of ARCOA Communication Co., Ltd. | Operating revenue | (179,648) | - | Based on agreement | - | - | Accounts receivable | 1 | - |
| | Omusic Co., Ltd. | Subsidiary | Costs of telecommunications services | 160,320 | - | Based on agreement | - | - | Accounts payable | (28,817) | (1) |
| | Yuanshi Digital Technology Co., Ltd. | Subsidiary | Operating revenue | (372,622) | (1) | Based on agreement | - | - | Accounts receivable | 9,330 | - |
| | Far Cheng Human Resources Consultant Corp. | Same ultimate parent company | Service fees | 111,924 | 1 | Based on agreement | - | - | Other payables | (10,196) | - |
| New Century InfoComm Tech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (2,746,316) | (25) | Based on agreement | - | - | Accounts receivable (Note B) | 604,199 | 38 |
| | | | Costs of telecommunications services | 306,678 | 4 | Based on agreement | - | - | Accounts payable | (700) | - |
| | KGEx. com. Co., Ltd. | Same parent company | Costs of telecommunications services and rental | 144,738 | 2 | Based on agreement | - | - | Accounts payable and other payables | (20,248) | (2) |
| | Sino Lead Enterprise Limited | Subsidiary | Costs of telecommunications services | 109,806 | 2 | Based on agreement | - | - | Accounts payable | (1,270) | - |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (8,657,375) | (56) | Based on agreement | - | - | Accounts receivable | 642,766 | 44 |
| | | | Operating costs | 299,337 | 2 | Based on agreement | - | - | Accounts payable | (127,983) | (10) |
| | Home Master Technology Ltd. | Subsidiary of DataExpress Infotech Co., Ltd. | Operating revenue | (760,687) | (5) | Based on agreement | - | - | Accounts receivable | 292,689 | 20 |
| KGEx. com. Co., Ltd. | New Century InfoComm Tech Co., Ltd. | Same parent company | Telecommunications service revenue | (144,738) | (25) | Based on agreement | - | - | Accounts receivable | 20,248 | 23 |
| Omusic Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (160,320) | (95) | Based on agreement | - | - | Accounts receivable | 28,817 | 99 |
| Sino Lead Enterprise Limited | New Century InfoComm Tech Co., Ltd. | Parent company | Operating revenue | (109,806) | (100) | Based on agreement | - | - | Accounts receivable | 1,270 | 15 |
| DataExpress Infotech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating costs | 179,648 | 4 | Based on agreement | - | - | Accounts payable | (1) | - |
| | Linkwell Tech. Ltd. | Subsidiary | Cost of sales | 137,960 | 3 | Based on agreement | - | - | Accounts payable | (10,804) | (3) |
| | Home Master Technology Ltd. | Subsidiary | Sales of inventories | (791,458) | (16) | Based on agreement | - | - | Accounts receivable | 18,783 | 4 |
| Yuanshi Digital Technology Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating costs | 372,622 | 16 | Based on agreement | - | - | Accounts payable | (9,330) | (5) |
| Linkwell Tech. Ltd. | DataExpress Infotech Co., Ltd. | Parent company | Sales of inventories | (137,960) | (21) | Based on agreement | - | - | Accounts receivable | 10,804 | 29 |
| Home Master Technology Ltd. | ARCOA Communication Co., Ltd. | Parent company | Operating costs | 760,687 | 46 | Based on agreement | - | - | Accounts payable | (292,689) | (94) |
| | DataExpress Infotech Co., Ltd. | Parent company | Costs of sales | 791,458 | 48 | Based on agreement | - | - | Accounts payable | (18,783) | (6) |

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

Note B: Including the receivables collected by the Company for NCIC.

SCHEDULE E

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Far EasTone Telecommunications Co., Ltd. | ARCOA Communication Co., Ltd. | Subsidiary | $ 129,585 | 13.61 | $ - | - | $ 103,161 | $ - |
| New Century InfoComm Tech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | 8,170,542 | (Note A) | - | - | 332,709 | - |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | 642,766 | 7.80 | - | - | 642,766 | - |
| | Home Master Technology Ltd. | Subsidiary of DataExpress Infotech Co., Ltd. | 292,930 | 4.92 | - | - | 168,906 | - |

Note A: All interconnection revenue, cost and collection of international direct dial revenue between the Company 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 the Company for NCIC and (B) financing provided by NCIC to the Company.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**INFORMATION ON INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | As of December 31, 2018 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2018 | December 31, 2017 | 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 | $ 27,069,715 | $ 1,964,654 | $ 1,868,504 | A and B |
| | ARCOA Communication Co., Ltd. | Taiwan | Sales of communications products and office equipment | 1,305,802 | 1,305,802 | 82,762,221 | 61.63 | 995,299 | 136,561 | 51,989 | A and B |
| | KGEx. com. Co., Ltd. | Taiwan | Type II telecommunications services | 2,340,472 | 2,340,472 | 68,897,234 | 99.99 | 863,666 | 151,136 | 151,114 | A and B |
| | Yuanshi Digital Technology Co., Ltd. (formerly known as Hiiir Inc.) | Taiwan | Electronic information services | 886,169 | 886,169 | 90,014,424 | 86.41 | (405,011) | (335,442) | (289,866) | A and B |
| | Yuan Cing Co., Ltd. | Taiwan | Call center services | - | - | 2,000,000 | 100.00 | 35,243 | 12,833 | 12,833 | A, B and G |
| | Far Eastern Info Service (Holding) Ltd. | Bermuda | Investment | 92,616 | 92,616 | 1,200 | 100.00 | 5,023 | (37,532) | 52,429 | A and B |
| | Omusic Co., Ltd. | Taiwan | Electronic information services | 25,000 | 25,000 | 2,500,000 | 50.00 | 10,559 | 2,187 | 1,093 | A and B |
| | Qware Communication Co., Ltd. | Taiwan | Type II telecommunications services | - | 832,038 | - | - | - | (19,602) | (17,509) | A and H |
| | Far Eastern Electronic Toll Collection Co., Ltd. | Taiwan | Electronic information services and electronic toll collection service | 2,542,396 | 2,542,396 | 118,250,967 | 39.42 | 924,758 | 239,893 | 95,730 | B and C |
| | Ding Ding Integrated Marketing Service Co., Ltd. | Taiwan | Marketing | 139,500 | 139,500 | 5,098,200 | 15.00 | 54,287 | 23,617 | 3,556 | B and C |
| | Alliance Digital Technology Co., Ltd. | Taiwan | Electronic information services | 60,000 | 60,000 | 6,000,000 | 14.40 | - | (66,405) | (5,816) | C, D and I |
| | Yuan Hsin Digital Payment Co., Ltd. | Taiwan | Other financing and supporting services | 600,000 | 600,000 | 30,626,472 | 30.00 | 233,080 | (243,950) | (73,209) | C and D |
| ARCOA Communication Co., Ltd. | DataExpress Infotech Co., Ltd. | Taiwan | Sale of communications products | 141,750 | 141,750 | 12,866,353 | 70.00 | 216,051 | 84,693 | - | B and E |
| New Century InfoComm Tech Co., Ltd. | New Diligent Co., Ltd. | Taiwan | Investments | 540,000 | 540,000 | 54,000,000 | 100.00 | 86,982 | (52,408) | - | B and E |
| | Information Security Service Digital United Inc. | Taiwan | Security and monitoring service via internet | 148,777 | 148,777 | 10,249,047 | 100.00 | 118,958 | 14,868 | - | B and E |
| | Digital United (Cayman) Ltd. | Cayman Islands | Investments | 317,446 | 132,406 | 10,320,000 | 100.00 | 198,197 | 245 | - | B and E |
| | Yuanshi Digital Technology Co., Ltd. (formerly known as Hiiir Inc.) | Taiwan | Electronic information services | 20,000 | 20,000 | 2,499,617 | 2.40 | (11,247) | (335,442) | - | A and B |
| | Ding Ding Integrated Marketing Service Co., Ltd. | Taiwan | Marketing | 46,500 | 46,500 | 1,699,400 | 5.00 | 18,096 | 23,617 | - | C and D |
| | Prime Ecopower Co., Ltd. | Taiwan | Energy technology services | 160,000 | - | 16,000,000 | 100.00 | 155,316 | (4,684) | - | B and E |
| | Catalyst_207 SPC-SP Tranche One | Cayman Islands | Investments | 123,220 | - | 4,000 | 25.00 | 123,220 | 8 | - | D and E |
| New Diligent Co., Ltd. | Sino Lead Enterprise Limited | Hong Kong | Telecommunications services | 125 | 125 | 30,000 | 100.00 | 241 | 16 | - | B and E |
| | Far Eastern New Diligent Company Ltd. | British Virgin Islands | Investments | 330,598 | 330,598 | - | 100.00 | 24,823 | (52,865) | - | B and E |
| | New Diligent Hong Kong Co., Ltd. | Hong Kong | Investments | 3,051 | 3,051 | - | 100.00 | 2,935 | 70 | - | B and E |
| DataExpress Infotech Co., Ltd. | Linkwell Tech. Ltd. | Taiwan | Sale of communications products | 10,000 | 10,000 | - | 100.00 | 51,751 | 10,075 | - | B and E |
| | Home Master Technology Ltd. | Taiwan | Sale of communications products | 10,000 | 10,000 | - | 100.00 | 48,731 | 50,105 | - | B and E |

Note A: Subsidiary.

Note B: The calculation was based on the audited financial statements as of December 31, 2018.

Note C: Investee of the Company or NCIC, accounted for using the equity method.

Note D: The calculation was based on the unaudited financial statements as of December 31, 2018.

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 in Schedule G.

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: The Company merged with Qware Communication Co., Ltd. on June 30, 2018. The Company is the surviving company, and Qware Communication Co., Ltd. is the dissolved company.

Note I: Alliance Digital Technology Co., Ltd. dissolved on December 31, 2018. Therefore, the Company discontinued the use of the equity method to account for the investment and recognized the expected remittance of cash due to the dissolution in other current assets.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(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, 2018 | Investment Flows | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2018 | Accumulated Repatriation of Investment Income as of December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Digital United Information Technologies (Shanghai) Ltd. | Design, research, installment and maintenance of computer software and system | $ 95,217<br>(US$ 3,100,000) | 2 | $ 95,217<br>(US$ 3,100,000) | $ - | $ - | $ 95,217<br>(US$ 3,100,000) | $ (274) | 100.00 | $ (274) | $ 1,883<br>(RMB 421,000) | $ - |
| Far Eastern New Century Information Technology (Beijing) Limited (Notes G and H) | Electronic information services | 353,223<br>(US$ 11,500,000) | 2 | 316,365<br>(US$ 10,300,000) | - | - | 316,365<br>(US$ 10,300,000) | (1,035) | 90.52<br>(Note B) | (937)<br>(Note B) | -<br>(Note B) | - |
| Far Eastern Tech-info Ltd. (Shanghai) (Note G) | Computer software, data processing and provision of network information | 184,290<br>(US$ 6,000,000) | 2 | 200,119<br>(Note F) | - | - | 200,119<br>(Note F) | (90,103) | 100.00<br>(Note C) | (90,103)<br>(Note C) | 11,605<br>(RMB 2,595,000)<br>(Note C) | - |

| Company Name | Accumulated Investment in Mainland China | Investment Amounts Authorized by the Investment Commission, MOEA | Limit on Investments (Note D) |
|---|---|---|---|
| Far EasTone Telecommunications Co., Ltd. | $ 92,616 | $ 92,616 | $ 43,990,499 |
| New Century InfoComm Tech Co., Ltd. | 95,217<br>(US$ 3,100,000) | 95,217<br>(US$ 3,100,000) | 14,625,288 |
| New Diligent Co., Ltd. | 458,484<br>(US$ 14,927,000)<br>(Note E) | 458,484<br>(US$ 14,927,000)<br>(Note E) | 52,189 |

Note A: Investment type is as follows:

1. The Group made the investment directly.
2. The Group 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..
3. Others.

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

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

Note D: The limit is up to 60% of the investor's net worth 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: The amount includes US$1,127,000 from an investee company which was dissolved, but the registration of the investment amount had not been written off with the Investment Commission of the MOEA. In addition, an investment amount of US$73,000 registered in the Investment Commission of the MOEA was remitted back to Taiwan and the same amount was written off on June 27, 2012.

Note F: The amount includes US$3,500,000.

Note G: The calculation was based on the unaudited financial statements as of December 31, 2018.

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF CASH AND CASH EQUIVALENTS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Item | Amount |
|---|---|
| Cash | |
| Petty cash | $ 8,637 |
| Checking deposits | 56,403 |
| Demand deposits (Note) | 1,186,365 |
| | $ 1,251,405 |

Note: Including US$14,958 thousand @30.715, JPY38 thousand @0.278, HK$21 thousand @3.921 and EUR48 thousand @35.20.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF ACCOUNTS RECEIVABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Client Name | Amount |
|---|---|
| Others (Note) | $ 6,553,855 |
| Less: Allowance for impairment loss | 598,792 |
| Accounts receivable, net | $ 5,955,063 |

Note: The amount of accounts receivable of individual client included in “others” does not exceed 5% of the account balance.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF INVENTORIES**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount | |
|---|---|---|
| | Cost | Market Value |
| Cellular phone equipment | $ 2,452,960 | $ 2,891,375 |
| Cellular phone accessories | 170,729 | 212,695 |
| SIM cards and prepaid cards | 25,360 | 25,189 |
| Others | 122,847 | 186,507 |
| | 2,771,896 | $ 3,315,766 |
| Less: Allowance for inventory write-downs | 79,775 | |
| Inventories, net | $ 2,692,121 | |

Note: The above inventories are not pledged as collaterals.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| | Par Value Per Share (In Dollars) | Balance at January 1, 2018 | | Increases in Investments | | Decreases in Investments | | Adjustments in Investments Accounted for Using the Equity Method (Note 1) | Balance at December 31, 2018 | | | Market Value or Net Asset Value | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Shares (In Thousands) | Amount | Shares (In Thousands) | Amount | Shares (In Thousands) | Amount | | Shares (In Thousands) | (%) | Amount | | |
| Investments accounted for using the equity method | | | | | | | | | | | | | |
| New Century InfoComm Tech Co., Ltd. | $10 | 2,100,000 | $ 26,809,796 | - | $ - | - | $ (1,596,000) | $ 1,855,919 | 2,100,000 | 100.00 | $ 27,069,715 | $ 24,375,479 | Notes 2 and 5 |
| ARCOA Communication Co., Ltd. | 10 | 82,762 | 1,268,193 | - | - | - | (60,085) | (212,809) | 82,762 | 61.63 | 995,299 | 1,771,968 | Notes 2 and 5 |
| KGEx. com. Co., Ltd. | 10 | 68,897 | 783,448 | - | - | - | (70,896) | 151,114 | 68,897 | 99.99 | 863,666 | 861,105 | Notes 2 and 5 |
| Far Eastern Electronic Toll Collection Co., Ltd. | 10 | 118,250 | 816,685 | - | - | - | - | 108,073 | 118,250 | 39.42 | 924,758 | 2,346,089 | Note 2 |
| Far Eastern Info Service (Holding) Ltd. | - | 1 | (47,302) | - | - | - | - | 52,325 | 1 | 100.00 | 5,023 | 5,023 | Note 2 |
| Omusic Co., Ltd. | 10 | 2,500 | 9,466 | - | - | - | - | 1,093 | 2,500 | 50.00 | 10,559 | 21,118 | Note 2 |
| Ding Ding Integrated Marketing Service Co., Ltd. | 10 | 10,408 | 50,692 | - | - | (5,310) | - | 3,595 | 5,098 | 15.00 | 54,287 | 361,912 | Notes 2 and 6 |
| Yuan Cing Co., Ltd. | 10 | 2,000 | 34,270 | - | - | - | (11,860) | 12,833 | 2,000 | 100.00 | 35,243 | 35,243 | Notes 2 and 5 |
| Qware Communication Co., Ltd. | 10 | 33,983 | (138,368) | 540 | 189,851 | (34,523) | - | (51,483) | - | - | - | - | Notes 2, 4 and 7 |
| Yuanshi Digital Technology Co., Ltd. | 10 | 90,014 | (115,145) | - | - | - | - | (289,866) | 90,014 | 86.41 | (405,011) | (468,691) | Note 2 |
| Yuan Hsin Digital Payment Co., Ltd. | 10 | 37,432 | 306,289 | - | - | (6,806) | - | (73,209) | 30,626 | 30.00 | 233,080 | 776,933 | Notes 3 and 6 |
| Alliance Digital Technology Co., Ltd. | 10 | 6,000 | 14,451 | - | - | - | (8,635) | (5,816) | 6,000 | 14.40 | - | - | Notes 3, 5 and 8 |
| | | | 29,792,475 | | $ 189,851 | | $ (1,747,476) | $ 1,551,769 | | | 29,786,619 | 30,086,179 | |
| Add: Credit balance on carrying amounts of investments accounted for using the equity method reclassified to other liabilities | | | 300,815 | | | | | | | | 405,011 | - | |
| | | | $ 30,093,290 | | | | | | | | $ 30,191,630 | $ 30,086,179 | |

Note 1: Mainly includes:

a. The Company's share of profit or loss of investees.
b. The Company's share of other comprehensive income of investees.
c. Changes in the Company's share of equity of investees.
d. Effects of retrospective application of IFRS 9 and IFRS 15.

Note 2: The calculation was based on the audited financial statements as of December 31, 2018.

Note 3: The calculation was based on the unaudited financial statements as of December 31, 2018.

Note 4: Increases in investments include $5,398 thousand paid for the subscription of new common stocks issued by an investee and $184,453 thousand of changes in equity due to the merger with a subsidiary.

Note 5: Decreases in investments include $1,738,841 thousand of cash dividends received from investees and $8,635 thousand of investment loss due to the liquidation of Alliance Digital Technology Co., Ltd.

Note 6: The investees reduced their capital in 2018 to offset their accumulated deficit.

Note 7: The Company merged with Qware Communication Co., Ltd. on June 30, 2018. The Company is the surviving company, and Qware Communication Co., Ltd. is the dissolved company.

Note 8: Alliance Digital Technology Co., Ltd. dissolved on December 31, 2018. Therefore, the Company discontinued the use of the equity method to account for the investment.

Note 9: The long-term investments in equity are not pledged as collaterals.

STATEMENT 5

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF SHORT-TERM BORROWINGS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Type | Balance at December 31, 2018 | Contract Period | Range of Interest Rate | Loan Commitments | Collateral |
|---|---|---|---|---|---|
| Unsecured bank loans | $ 1,500,000 | 2018.12.28-2019.01.25 | 0.73%-0.88% | $ 1,950,000 | Nil |

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF SHORT-TERM BILLS PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Guarantor or Accepting Institution | Contract Period | Range of Interest Rate | Amount Issued | Unamortized Discount | Carrying Amount |
|---|---|---|---|---|---|---|
| Commercial paper | Union Bank of Taiwan | 2018.12.28-2019.01.17 | 0.818% | $ 1,000,000 | $ 280 | $ 999,720 |

**STATEMENT 7**

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF ACCOUNTS PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| Vendor A | $ 386,334 |
| Vendor B | 274,281 |
| Vendor C | 168,003 |
| Vendor D | 141,209 |
| Vendor E | 113,834 |
| Others (Note) | 811,454 |
| | $ 1,895,115 |

Note: The amount of accounts payable of individual vendor in "others" does not exceed 5% of the account balance.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF BONDS PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Bond Name | Trustee | Issuance Period | Repayment of the Principal and Interest | Coupon Rate (%) | Total Amount | Repayments made | Unamortized Costs of Issuance | Balance at December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Due in one year | Due after one year | Total |
| 4th unsecured domestic bonds | Trust Division of CTBC Bank Co., Ltd. | 2013.06.27-2020.06.27 | A bond with an aggregate principal amount of $5,000,000 thousand of which $2,500,000 thousand is due on the fifth year and on the seventh year after the issuance date. The simple interest of the outstanding balance is due annually. | 1.33 | $ 5,000,000 | $ 2,500,000 | $ 1,960 | $ - | $ 2,498,040 | $ 2,498,040 |
| 6th unsecured domestic bonds - type C | Trust Division of Mega International Commercial Bank Co., Ltd. | 2013.12.24-2019.12.24 | A six-year bond with an aggregate principal amount of $3,200,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.58 | 3,200,000 | - | 888 | 3,199,112 | - | 3,199,112 |
| 2016 1st unsecured domestic bonds | Trust Division of Mega International Commercial Bank Co., Ltd. | 2017.01.05-2022.01.05 | A five-year bond with an aggregate principal amount of $5,200,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.17 | 5,200,000 | - | 5,051 | - | 5,194,949 | 5,194,949 |
| 2017 1st unsecured domestic bonds | CTBC Bank Co., Ltd. | 2017.04.26-2022.04.26 | A five-year bond with an aggregate principal amount of $4,500,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.17 | 4,500,000 | - | 4,841 | - | 4,495,159 | 4,495,159 |
| 2017 2nd unsecured domestic bonds | Taishin International Bank Co., Ltd. | 2017.09.04-2024.09.04 | A seven-year bond with an aggregate principal amount of $2,000,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.17 | 2,000,000 | - | 2,880 | - | 1,997,120 | 1,997,120 |
| 2017 3rd unsecured domestic bonds - type A | CTBC Bank Co., Ltd. | 2017.12.20-2023.06.20 | A five-and-a-half-year bond with an aggregate principal amount of $1,500,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 0.95 | 1,500,000 | - | 2,047 | - | 1,497,953 | 1,497,953 |
| 2017 3rd unsecured domestic bonds - type B | CTBC Bank Co., Ltd. | 2017.12.20-2024.12.20 | A seven-year bond with an aggregate principal amount of $1,500,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.09 | 1,500,000 | - | 2,148 | - | 1,497,852 | 1,497,852 |
| 2018 1st unsecured domestic bonds - type A | CTBC Bank Co., Ltd. | 2018.05.07-2023.05.07 | A five-year bond with an aggregate principal amount of $1,500,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 0.85 | 1,500,000 | - | 1,725 | - | 1,498,275 | 1,498,275 |
| 2018 1st unsecured domestic bonds - type B | CTBC Bank Co., Ltd. | 2018.05.07-2025.05.07 | A seven-year bond with an aggregate principal amount of $3,500,000 thousand, which will be repaid in full on maturity. The simple interest of the outstanding balance is due annually. | 1.01 | 3,500,000 | - | 4,198 | - | 3,495,802 | 3,495,802 |
| | | | | | $ 27,900,000 | $ 2,500,000 | $ 25,738 | $ 3,199,112 | $ 22,175,150 | $ 25,374,262 |

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF LONG-TERM BORROWINGS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Name | Repayment | Contract Period | Interest Rate (%) | Balance at December 31, 2018 |
|---|---|---|---|---|
| Long-term borrowings | | | | |
| China Construction Bank | Repayment will be made in full on maturity together with interest payment. (Note 1) | 2018.12.25-2020.1.15 | 0.74 | $ 200,000 |
| China Construction Bank | Repayment will be made in full on maturity together with interest payment. (Note 1) | 2018.12.28-2020.1.15 | 0.74 | 500,000 |
| | | | | $ 700,000 |

Note: The loan is treated as a revolving credit facility. The maturity date is based on terms as specified in the contract.

STATEMENT 10

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF OPERATING REVENUE**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Sales of inventories | |
| Cellular phone equipment, accessories and etc. | $ 17,882,609 |
| Less: Sales returns and allowances | (568,879) |
| Sales of inventories, net | 17,313,730 |
| | |
| Telecommunications service revenue | |
| Type I telecommunications service revenue | |
| Mobile voice and data services and value-added services | 41,202,220 |
| Interconnection revenue (Note 1) | 2,322,057 |
| Others | 252,779 |
| | 43,777,056 |
| Type II telecommunications service revenue | 950 |
| Telecommunications service revenue | 43,778,006 |
| | |
| Other operating revenue (Note 2) | 4,817,992 |
| | |
| | $ 65,909,728 |

Note 1: The amount includes revenue from international interconnection services and other telecommunications service providers who use the Company's telecommunication network.

Note 2: The amount mainly contains revenue from penalties and micropayments.

**STATEMENT 11**

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**STATEMENT OF OPERATING COSTS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Cost of sales | $ 18,883,133 |
| Depreciation | 7,288,674 |
| Rental | 4,709,759 |
| Interconnection costs (Note 1) | 2,844,091 |
| Amortization of concessions | 3,139,665 |
| Other costs (Note 2) | 5,819,628 |
| | $ 42,684,950 |

Note 1: The amount includes rental of leased lines and connection fees paid to other telecommunications service providers.

Note 2: The amount of each item in "other costs" does not exceed 5% of the account balance.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

## STATEMENT OF OPERATING EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Item | Marketing Expense | General and Administrative Expense | Total |
|---|---|---|---|
| Commissions and subsidies | $ 3,611,698 | $ 11,246 | $ 3,622,944 |
| Salaries | 2,310,769 | 1,660,172 | 3,970,941 |
| Advertising expenses | 621,900 | - | 621,900 |
| Rental | 574,998 | 175,776 | 750,774 |
| Depreciation | 200,533 | 612,663 | 813,196 |
| Amortization | 116,237 | 448,604 | 564,841 |
| Bill processing and handling fees | - | 564,084 | 564,084 |
| Others (Note) | 921,492 | 1,219,491 | 2,140,983 |
| | $ 8,357,627 | $ 4,692,036 | $ 13,049,663 |

Note: The amount of each item in “others” does not exceed 5% of the balance.