

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

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2018 and 2017 and  
Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

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

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. (Far EasTone) and its subsidiaries (collectively, the Group) as of June 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, the related consolidated statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017 and the related notes, including a summary of significant accounting policies (collectively referred to as the consolidated financial statements). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### **Scope of Review**

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standard No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Basis for Qualified Conclusion**

As disclosed in Note 13 to the consolidated financial statements, the financial statements of some non-significant subsidiaries included in the consolidated financial statements were not reviewed. As of June 30, 2018 and 2017, the combined total assets of these non-significant subsidiaries were NT\$2,930,942 thousand and NT\$2,952,436 thousand, respectively, representing 2.1% and 2.2%, respectively, of the consolidated total assets, and the combined total liabilities of these subsidiaries were NT\$2,023,382 thousand and NT\$1,667,457 thousand, respectively, representing 2.9% and 2.5%, respectively, of the consolidated total liabilities; for the three months and six months ended June 30, 2018 and 2017, the combined comprehensive losses of these non-significant subsidiaries were NT\$(67,209) thousand, NT\$(46,876) thousand, NT\$(153,039) thousand and NT\$(96,868) thousand, respectively, representing (2.5%), (1.6%), (3.0%) and (1.7%), respectively, of the consolidated total comprehensive income. As stated in Note 14 to the consolidated financial statements, the investments accounted for using the equity method as of June 30, 2018 and 2017 were NT\$1,222,120 thousand and NT\$1,019,323 thousand, respectively; and the related investment comprehensive income (losses) for the three months and six months ended June 30, 2018 and 2017 were NT\$22,482 thousand, NT\$15,769 thousand, NT\$17,104 thousand and NT\$(34,837) thousand,

respectively. The amounts related to these equity-method investments and the related investees' information were based on unreviewed financial statements. Additionally, related information on the Group's investments shown in Note 38 to the consolidated financial statements were not reviewed either.

### **Qualified Conclusion**

Based on our reviews, except for any adjustments as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and equity-method investees as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of June 30, 2018 and 2017, its consolidated financial performance for the three months ended June 30, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the six months ended June 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting".

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

August 1, 2018

### Notice to Readers

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

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Notes 6 and 33)	\$ 14,324,762	10	\$ 8,347,304	6	\$ 12,476,559	9
Financial assets at fair value through profit or loss - current (Notes 4, 32 and 33)	749,257	1	595,200	-	-	-
Available-for-sale financial assets - current (Notes 4 and 32)	-	-	-	-	611,083	1
Derivative financial assets for hedging - current (Notes 4, 32 and 33)	-	-	1,700	-	6,338	-
Financial assets at amortized cost - current (Notes 4, 8 and 33)	507,085	-	-	-	-	-
Contract assets - current (Notes 4 and 25)	3,519,357	3	-	-	-	-
Debt investments with no active market - current (Notes 4, 9 and 33)	-	-	658,765	1	618,734	1
Notes receivable, net (Notes 4 and 11)	55,721	-	70,321	-	56,728	-
Accounts receivable, net (Notes 4 and 11)	7,270,832	5	7,706,352	6	6,710,949	5
Accounts receivable - related parties (Notes 4, 11 and 33)	208,205	-	251,910	-	179,069	-
Inventories (Note 12)	3,399,450	3	4,776,547	4	3,030,669	2
Prepaid expenses	931,023	1	859,512	1	1,126,703	1
Other financial assets - current (Notes 4, 33 and 34)	1,890,586	1	2,856,693	2	4,256,106	3
Other current assets (Note 33)	167,080	-	159,849	-	352,955	-
Total current assets	<u>33,023,358</u>	<u>24</u>	<u>26,284,153</u>	<u>20</u>	<u>29,425,893</u>	<u>22</u>
<b>NONCURRENT ASSETS</b>						
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4, 7 and 32)	196,929	-	-	-	-	-
Financial assets measured at cost (Notes 4 and 10)	-	-	263,308	-	263,308	-
Investments accounted for using the equity method (Notes 14 and 33)	1,222,120	1	1,205,015	1	1,019,323	1
Contract assets - noncurrent (Notes 4 and 25)	1,582,287	1	-	-	-	-
Property, plant and equipment, net (Notes 15 and 33)	43,657,319	31	46,233,707	35	48,021,923	36
Investment properties (Note 16)	1,082,453	1	1,082,453	1	1,041,406	1
Concessions, net (Notes 1 and 17)	40,254,381	29	41,820,510	31	36,871,638	28
Goodwill (Note 17)	10,808,901	8	10,808,901	8	10,808,901	8
Other intangible assets (Note 17)	3,508,628	2	3,479,960	3	3,289,925	2
Deferred income tax assets (Note 4)	855,102	1	759,909	-	882,406	1
Incremental costs of obtaining a contract - noncurrent (Notes 4 and 25)	1,421,216	1	-	-	-	-
Other noncurrent assets (Notes 4, 11, 18, 33 and 34)	838,697	1	768,439	1	717,481	1
Total noncurrent assets	<u>105,428,033</u>	<u>76</u>	<u>106,422,202</u>	<u>80</u>	<u>102,916,311</u>	<u>78</u>
<b>TOTAL</b>	<u>\$ 138,451,391</u>	<u>100</u>	<u>\$ 132,706,355</u>	<u>100</u>	<u>\$ 132,342,204</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Note 19)	\$ 346,000	-	\$ 864,000	1	\$ 234,000	-
Short-term bills payable (Note 19)	319,742	-	299,681	-	349,673	-
Derivative financial liabilities for hedging - current (Notes 4, 32 and 33)	-	-	-	-	6,087	-
Financial liabilities for hedging - current (Notes 4, 32 and 33)	4,013	-	-	-	-	-
Contract liabilities - current (Note 25)	2,640,862	2	-	-	-	-
Notes payable	37,289	-	45,637	-	31,874	-
Accounts payable (Note 33)	5,137,858	4	6,515,052	5	4,495,515	3
Other payables (Note 21)	18,527,948	13	7,531,030	6	19,652,069	15
Current tax liabilities (Note 4)	3,371,860	3	2,033,857	1	2,180,947	2
Provisions - current (Note 22)	288,726	-	227,536	-	215,384	-
Unearned revenue (Note 4)	-	-	2,806,802	2	2,276,386	2
Current portion of long-term borrowings (Notes 19 and 20)	6,499,534	5	8,998,533	7	8,698,160	7
Guarantee deposits received - current	192,537	-	246,344	-	250,549	-
Other current liabilities (Note 33)	1,786,687	1	823,502	1	849,804	1
Total current liabilities	<u>39,153,056</u>	<u>28</u>	<u>30,391,974</u>	<u>23</u>	<u>39,240,448</u>	<u>30</u>
<b>NONCURRENT LIABILITIES</b>						
Contract liabilities - noncurrent (Notes 21 and 25)	220,696	-	-	-	-	-
Bonds payable (Note 20)	25,370,192	18	20,373,820	15	19,377,998	15
Long-term borrowings (Note 19)	-	-	7,600,000	6	4,599,645	3
Provisions - noncurrent (Note 22)	842,862	1	887,441	1	868,540	1
Deferred income tax liabilities (Note 4)	2,093,902	2	1,730,452	1	1,662,119	1
Deferred revenue - noncurrent (Note 21)	-	-	185,766	-	181,214	-
Net defined benefit liabilities - noncurrent (Note 4)	721,207	1	728,162	1	757,096	1
Guarantee deposits received - noncurrent	286,635	-	296,738	-	294,512	-
Other noncurrent liabilities	61,013	-	65,789	-	57,757	-
Total noncurrent liabilities	<u>29,596,507</u>	<u>22</u>	<u>31,868,168</u>	<u>24</u>	<u>27,798,881</u>	<u>21</u>
Total liabilities	<u>68,749,563</u>	<u>50</u>	<u>62,260,142</u>	<u>47</u>	<u>67,039,329</u>	<u>51</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF FAR EASTONE</b>						
Capital stock	-	-	-	-	-	-
Common stock	32,585,008	24	32,585,008	25	32,585,008	25
Capital surplus	5,820,041	4	8,143,345	6	8,143,345	6
Retained earnings	-	-	-	-	-	-
Legal reserve	18,487,851	13	17,405,561	13	17,405,561	13
Special reserve	626,328	1	783,467	1	783,467	1
Unappropriated earnings	11,474,062	8	10,822,899	8	5,719,027	4
Total retained earnings	<u>30,588,241</u>	<u>22</u>	<u>29,011,927</u>	<u>22</u>	<u>23,908,055</u>	<u>18</u>
Other equity	24,177	-	18,132	-	(29,731)	-
Total equity attributable to owners of Far Eastone	<u>69,017,467</u>	<u>50</u>	<u>69,758,412</u>	<u>53</u>	<u>64,606,677</u>	<u>49</u>
<b>NONCONTROLLING INTERESTS</b>						
Total equity	<u>684,361</u>	<u>-</u>	<u>687,801</u>	<u>-</u>	<u>696,198</u>	<u>-</u>
Total equity	<u>69,701,828</u>	<u>50</u>	<u>70,446,213</u>	<u>53</u>	<u>65,302,875</u>	<u>49</u>
<b>TOTAL</b>	<u>\$ 138,451,391</u>	<u>100</u>	<u>\$ 132,706,355</u>	<u>100</u>	<u>\$ 132,342,204</u>	<u>100</u>

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

(With Deloitte & Touche review report dated August 1, 2018)

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

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 25 and 33)	\$ 21,620,613	100	\$ 21,935,841	100	\$ 43,287,173	100	\$ 44,416,228	100
OPERATING COSTS (Notes 12, 26 and 33)	<u>14,197,504</u>	<u>65</u>	<u>12,615,298</u>	<u>58</u>	<u>28,788,573</u>	<u>66</u>	<u>25,814,175</u>	<u>58</u>
GROSS PROFIT	<u>7,423,109</u>	<u>35</u>	<u>9,320,543</u>	<u>42</u>	<u>14,498,600</u>	<u>34</u>	<u>18,602,053</u>	<u>42</u>
OPERATING EXPENSES (Notes 26 and 33)								
Marketing	2,404,032	11	3,970,566	18	4,798,135	11	8,022,003	18
General and administrative	1,379,847	7	1,564,510	7	2,746,613	7	3,013,262	7
Expected credit losses	<u>58,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,768</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>3,842,337</u>	<u>18</u>	<u>5,535,076</u>	<u>25</u>	<u>7,666,516</u>	<u>18</u>	<u>11,035,265</u>	<u>25</u>
OPERATING INCOME	<u>3,580,772</u>	<u>17</u>	<u>3,785,467</u>	<u>17</u>	<u>6,832,084</u>	<u>16</u>	<u>7,566,788</u>	<u>17</u>
NONOPERATING INCOME AND EXPENSES								
Other income (Notes 4 and 33)	29,879	-	27,962	-	47,673	-	46,768	-
Other gains and losses (Note 32)	60,054	-	61,187	-	85,116	-	66,331	-
Financial costs (Notes 4, 26 and 33)	(113,895)	-	(114,872)	-	(220,872)	-	(222,850)	-
Share of the gains (losses) of associates	2,969	-	5,616	-	7,826	-	(63,653)	-
Losses on disposal of property, plant and equipment and intangible assets	<u>(184,898)</u>	<u>(1)</u>	<u>(227,822)</u>	<u>(1)</u>	<u>(285,540)</u>	<u>(1)</u>	<u>(408,992)</u>	<u>(1)</u>
Total nonoperating income and expenses	<u>(205,891)</u>	<u>(1)</u>	<u>(247,929)</u>	<u>(1)</u>	<u>(365,797)</u>	<u>(1)</u>	<u>(582,396)</u>	<u>(1)</u>
INCOME BEFORE INCOME TAX	3,374,881	16	3,537,538	16	6,466,287	15	6,984,392	16
INCOME TAX (Notes 4 and 27)	<u>691,851</u>	<u>3</u>	<u>619,070</u>	<u>3</u>	<u>1,325,589</u>	<u>3</u>	<u>1,222,269</u>	<u>3</u>
NET INCOME	<u>2,683,030</u>	<u>13</u>	<u>2,918,468</u>	<u>13</u>	<u>5,140,698</u>	<u>12</u>	<u>5,762,123</u>	<u>13</u>
OTHER COMPREHENSIVE INCOME (LOSSES)								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans (Note 4)	10,790	-	-	-	10,790	-	-	-
Unrealized gains on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 24)	<u>2,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,458</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>13,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,248</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations (Note 24)	\$ (569)	-	\$ 739	-	\$ 221	-	\$ (1,019)	-
Unrealized gains on available-for-sale financial assets (Notes 4 and 24)	-	-	18,845	-	-	-	10,749	-
Cash flow hedges (Notes 4 and 24)	-	-	48,344	1	-	-	65,286	-
Share of other comprehensive income of associates accounted for using the equity method (Note 24)	<u>19,513</u>	-	<u>10,153</u>	-	<u>9,278</u>	-	<u>28,816</u>	-
	<u>18,944</u>	-	<u>78,081</u>	1	<u>9,499</u>	-	<u>103,832</u>	-
Total other comprehensive income, net of income tax	<u>32,223</u>	-	<u>78,081</u>	1	<u>28,747</u>	-	<u>103,832</u>	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 2,715,253</u>	<u>13</u>	<u>\$ 2,996,549</u>	<u>14</u>	<u>\$ 5,169,445</u>	<u>12</u>	<u>\$ 5,865,955</u>	<u>13</u>
<b>NET INCOME</b>								
ATTRIBUTABLE TO:								
Owners of Far EasTone	\$ 2,678,100	13	\$ 2,917,335	13	\$ 5,131,298	12	\$ 5,753,581	13
Noncontrolling interests	<u>4,930</u>	-	<u>1,133</u>	-	<u>9,400</u>	-	<u>8,542</u>	-
	<u>\$ 2,683,030</u>	<u>13</u>	<u>\$ 2,918,468</u>	<u>13</u>	<u>\$ 5,140,698</u>	<u>12</u>	<u>\$ 5,762,123</u>	<u>13</u>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>								
Owners of Far EasTone	\$ 2,710,151	13	\$ 2,995,416	14	\$ 5,159,866	12	\$ 5,857,329	13
Noncontrolling interests	<u>5,102</u>	-	<u>1,133</u>	-	<u>9,579</u>	-	<u>8,626</u>	-
	<u>\$ 2,715,253</u>	<u>13</u>	<u>\$ 2,996,549</u>	<u>14</u>	<u>\$ 5,169,445</u>	<u>12</u>	<u>\$ 5,865,955</u>	<u>13</u>
<b>EARNINGS PER SHARE, NEW TAIWAN DOLLARS</b> (Note 28)								
Basic	<u>\$ 0.82</u>		<u>\$ 0.90</u>		<u>\$ 1.57</u>		<u>\$ 1.77</u>	
Diluted	<u>\$ 0.82</u>		<u>\$ 0.89</u>		<u>\$ 1.57</u>		<u>\$ 1.76</u>	

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

(With Deloitte & Touche review report dated August 1, 2018)

(Concluded)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Equity Attributable to Owners of Far Eastone					Other Equity							Total	Noncontrolling Interests (Note 24)	Total Equity
	Capital Stock (Note 24)	Capital Surplus (Note 24)	Retained Earnings			Exchange Differences on Translating the Financial Statements of Foreign Operations (Note 24)	Unrealized (Losses) Gains on Available-for-sale Financial Assets (Notes 4 and 24)	Unrealized (Losses) Gains on Financial Assets at Fair Value Through Other Comprehensive Income (Notes 4 and 24)	Cash Flow Hedges (Notes 4 and 24)	Gains on Hedging Instruments (Notes 4 and 24)	Total				
			Legal Reserve (Note 24)	Special Reserve (Note 24)	Unappropriated Earnings (Notes 24 and 29)										
BALANCE AT JANUARY 1, 2017	\$ 32,585,008	\$ 10,166,874	\$ 16,270,878	\$ 769,907	\$ 11,346,830	\$ 4,638	\$ (45,872)	\$ -	\$ (92,245)	\$ -	\$ 71,006,018	\$ 716,583	\$ 71,722,601		
Appropriation of the 2016 earnings															
Legal reserve	-	-	1,134,683	-	(1,134,683)	-	-	-	-	-	-	-	-		
Special reserve	-	-	-	13,560	(13,560)	-	-	-	-	-	-	-	-		
Cash dividends - NT\$3.129 per share	-	-	-	-	(10,195,849)	-	-	-	-	-	(10,195,849)	-	(10,195,849)		
Cash dividends from capital surplus - NT\$0.621 per share	-	(2,023,529)	-	-	-	-	-	-	-	-	(2,023,529)	-	(2,023,529)		
Changes in equity from investments in associates accounted for using the equity method	-	-	-	-	(5,166)	-	-	-	-	-	(5,166)	-	(5,166)		
Changes in ownership interests of subsidiaries	-	-	-	-	(32,126)	-	-	-	-	-	(32,126)	33,217	1,091		
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(62,228)	(62,228)		
Net income for the six months ended June 30, 2017	-	-	-	-	5,753,581	-	-	-	-	-	5,753,581	8,542	5,762,123		
Other comprehensive income (losses) for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	(1,071)	10,749	-	94,070	-	103,748	84	103,832		
<b>BALANCE AT JUNE 30, 2017</b>	<u>\$ 32,585,008</u>	<u>\$ 8,143,345</u>	<u>\$ 17,405,561</u>	<u>\$ 783,467</u>	<u>\$ 5,719,027</u>	<u>\$ 3,567</u>	<u>\$ (35,123)</u>	<u>\$ -</u>	<u>\$ 1,825</u>	<u>\$ -</u>	<u>\$ 64,606,677</u>	<u>\$ 696,198</u>	<u>\$ 65,302,875</u>		
BALANCE AT JANUARY 1, 2018	\$ 32,585,008	\$ 8,143,345	\$ 17,405,561	\$ 783,467	\$ 10,822,899	\$ 4,122	\$ -	\$ -	\$ 14,010	\$ -	\$ 69,758,412	\$ 687,801	\$ 70,446,213		
Effects of retrospective application and retrospective restatement	-	-	-	-	6,364,273	-	-	(11,733)	(14,010)	14,010	6,352,540	-	6,352,540		
<b>BALANCE AT JANUARY 1, 2018 AS RESTATED</b>	<u>32,585,008</u>	<u>8,143,345</u>	<u>17,405,561</u>	<u>783,467</u>	<u>17,187,172</u>	<u>4,122</u>	<u>-</u>	<u>(11,733)</u>	<u>-</u>	<u>14,010</u>	<u>76,110,952</u>	<u>687,801</u>	<u>76,798,753</u>		
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)	-	(9,896,067)		
Cash dividends from capital surplus - NT\$0.713 per share	-	(2,323,311)	-	-	-	-	-	-	-	-	(2,323,311)	-	(2,323,311)		
Changes in equity from investments in associates accounted for using the equity method	-	7	-	-	(6)	-	-	-	-	-	1	-	1		
Changes in ownership interest of subsidiaries	-	-	-	-	(33,974)	-	-	-	-	-	(33,974)	33,576	(398)		
Net income for the six months ended June 30, 2018	-	-	-	-	5,131,298	-	-	-	-	-	5,131,298	9,400	5,140,698		
Other comprehensive income for the six months ended June 30, 2018, net of income tax	-	-	-	-	10,790	257	-	8,287	-	9,234	28,568	179	28,747		
Return of cash capital due to subsidiary's liquidation	-	-	-	-	-	-	-	-	-	-	-	(360)	(360)		
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(46,235)	(46,235)		
<b>BALANCE AT JUNE 30, 2018</b>	<u>\$ 32,585,008</u>	<u>\$ 5,820,041</u>	<u>\$ 18,487,851</u>	<u>\$ 626,328</u>	<u>\$ 11,474,062</u>	<u>\$ 4,379</u>	<u>\$ -</u>	<u>\$ (3,446)</u>	<u>\$ -</u>	<u>\$ 23,244</u>	<u>\$ 69,017,467</u>	<u>\$ 684,361</u>	<u>\$ 69,701,828</u>		

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

(With Deloitte & Touche review report dated August 1, 2018)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 6,466,287	\$ 6,984,392
Adjustments for:		
Depreciation	5,121,822	4,939,380
Amortization	440,549	411,698
Amortization of concessions	1,566,129	1,511,893
Expected credit losses	121,768	-
Allowance for doubtful accounts	-	242,621
Net gain on fair value changes of financial assets designated as at fair value through profit or loss	(4,057)	-
Financial costs	220,872	222,850
Interest income	(31,333)	(28,911)
Dividend income	(450)	-
Share of the (gain) loss of associates	(7,826)	63,653
Loss on disposal of property, plant and equipment and intangible assets	285,540	408,992
Gain on disposal of financial assets	-	(945)
Reversal of write-down of inventories recognized	(16,932)	(3,736)
Deferred gain on derivative assets for hedging	-	32,713
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(150,000)	-
Financial assets for hedging	5,713	-
Contract assets	750,193	-
Notes receivable	14,600	7,633
Accounts receivable	470,803	491,950
Accounts receivable - related parties	43,705	26,356
Inventories	1,394,029	(538,568)
Prepaid expenses	(71,511)	63,327
Other current assets	12,550	(66,246)
Incremental costs of obtaining a contract	144,974	-
Contract liabilities	20,446	-
Notes payable	(8,348)	16,449
Accounts payable	(1,377,194)	369,051
Other payables	(1,138,290)	(929,367)
Provisions	(32,698)	(16,873)
Unearned revenue	-	(170,807)
Other current liabilities	954,156	93,368
Net defined benefit liabilities	(7,031)	(7,216)
Cash generated from operations	15,188,466	14,123,657
Interest received	32,068	23,986
Interest paid	(208,749)	(109,189)
Income taxes paid	(1,064,645)	(1,086,127)
Net cash generated from operating activities	13,947,140	12,952,327

(Continued)



# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the disposal of financial assets at amortized cost	\$ 151,680	\$ -
Disposal of debt investments with no active market	-	291,662
Acquisition of financial assets measured at cost	-	(45,000)
Proceeds from the disposal of financial assets measured at cost	-	945
Acquisition of investments accounted for using the equity method	-	(124,497)
Acquisition of property, plant and equipment	(2,931,387)	(4,111,041)
Proceeds from the disposal of property, plant and equipment	44,179	34,664
Increase in refundable deposits	(181,567)	(158,642)
Decrease in refundable deposits	129,223	154,649
Acquisition of intangible assets	(469,910)	(435,709)
Decrease (increase) in other financial assets	<u>957,106</u>	<u>(1,176,908)</u>
Net cash used in investing activities	<u>(2,300,676)</u>	<u>(5,569,877)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term borrowings	(518,000)	(2,566,000)
Increase (decrease) in short-term bills payable	20,061	(2,799,498)
Proceeds from the issuance of bonds payable	4,993,390	9,684,320
Repayment of bonds payable	(2,500,000)	-
Proceeds of long-term borrowings	-	1,699,848
Repayment of long-term borrowings	(7,600,000)	(11,148,548)
Increase in guarantee deposits received	43,550	43,843
Decrease in guarantee deposits received	(107,460)	(66,743)
Decrease in deferred revenue	-	(11,974)
Cash dividends paid	(10)	(9)
Net changes in noncontrolling interests	<u>(758)</u>	<u>1,091</u>
Net cash used in financing activities	<u>(5,669,227)</u>	<u>(5,163,670)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<u>221</u>	<u>(964)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,977,458	2,217,816
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>8,347,304</u>	<u>10,258,743</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 14,324,762</u>	<u>\$ 12,476,559</u>

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

(With Deloitte & Touche review report dated August 1, 2018)

(Concluded)

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

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)**

---

### **1. ORGANIZATION AND OPERATIONS**

Far EasTone Telecommunications Co., Ltd. (Far EasTone) was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's stock began to be traded on the ROC over-the-counter (OTC) securities exchange (known as the Taipei Exchange, TPEx) on December 10, 2001. Later, Far EasTone's stock ceased to be traded on the TPEx and became listed on the ROC Taiwan Stock Exchange (the TWSE) on August 24, 2005. Far EasTone provides wireless communications, leased circuits, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of June 30, 2018 and 2017, Far Eastern New Century Corporation (Far Eastern New Century) and its affiliates directly and indirectly owned 38.28% of Far EasTone's stock. Since Far Eastern New Century and its subsidiaries have the power to cast a majority vote at the meeting of Far EasTone's board of directors, Far Eastern New Century has control over Far EasTone's finances, operations and personnel affairs. Thus, Far Eastern New Century is the ultimate parent company of Far EasTone.

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

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

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

On October 30, 2013, Far EasTone bid for two 4G (fourth-generation wireless communications services) wireless communications licenses, GSM700 and GSM1800, with validity through December 31, 2030. Far EasTone bid for a 4G wireless communications license, GSM2600, on December 7, 2015, with validity through December 31, 2033. Far EasTone also bid for a 4G wireless communications license, GSM 2100 on November 15, 2017.

The consolidated financial statements of Far EasTone and its subsidiaries, collectively referred to as the Group, are presented in New Taiwan dollars, the functional currency of Far EasTone.

## 2. REPORT OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were reported to Far EastOne's board of directors on August 1, 2018.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, 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 Group'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 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 at January 1, 2018, the Group 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 amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 8,347,304	\$ 8,347,304	
Derivatives	Hedging derivative financial instruments	Hedging financial instruments	1,700	1,700	
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	263,308	251,575	a)
Mutual funds	Held-for-trading	Mandatorily at FVTPL	595,200	595,200	b)
Certificates of deposits with original maturities of more than 3 months	Loans and receivables	Amortized cost	658,765	658,765	c)
Notes receivable, accounts receivable and other receivables	Loans and receivables	Amortized cost	8,109,341	8,109,341	d)
Refundable deposits	Loans and receivables	Amortized cost	712,567	712,567	

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifica tions	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)	-	<u>263,308</u>	<u>(11,733)</u>	<u>251,575</u>	<u>(11,733)</u>	a)
	-	<u>263,308</u>	<u>(11,733)</u>	<u>251,575</u>	<u>(11,733)</u>	
Financial assets at amortized cost	-	-	-	-	-	
Add: Reclassification from debt investments with no active market (IAS 39)	-	<u>658,765</u>	-	<u>658,765</u>	-	c)
	-	<u>658,765</u>	-	<u>658,765</u>	-	
	<u>\$ -</u>	<u>\$ 922,073</u>	<u>\$ (11,733)</u>	<u>\$ 910,340</u>	<u>\$ (11,733)</u>	

- a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, a decrease of \$11,733 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.
- b) Mutual funds previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- c) 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.
- d) 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.

#### Hedge accounting

Under the Group's previous hedge accounting policy of IAS 39, foreign exchange swap contracts were designated as fair value hedging instruments for the foreign currency risk of foreign exchange gains or losses on identified foreign currency-denominated assets, and the related changes were recognized directly in profit or loss. Furthermore, due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging starting from January 1, 2018.

#### 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 Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

Under IFRS 15, the Group 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 Group 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 Group 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 Group provides service-type warranty in addition to the assurance that the product complies with agreed-upon specifications. IFRS 15 requires such service to be considered as a performance obligation. 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 Group 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 Group 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 Group elected to recognize the cumulative effect of retrospectively applying IFRS 15 in retained earnings on January 1, 2018.

For all contract modifications that occurred on or before December 31, 2017, the Group did not apply the requirements in IFRS 15 individually to each of the modifications. Instead, the Group identified the performance obligations, determined and allocated 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.

	As Originally Stated	Adjustments Arising from Initial Application	Restated
<u>Impact on assets, liabilities and equity</u>			
<u>Current assets</u>			
Contract assets - current	\$ -	\$ 4,006,717	\$ 4,006,717
<u>Noncurrent assets</u>			
Contract assets - noncurrent	-	1,997,827	1,997,827
Incremental costs of obtaining a contract - noncurrent	-	1,566,190	1,566,190
Total effect on assets	132,706,355	7,570,734	140,277,089
<u>Current liabilities</u>			
Contract liabilities - current	-	2,655,346	2,655,346
Current tax liabilities	2,033,857	1,357,917	3,391,774
Unearned revenue	2,806,802	(2,806,802)	-
<u>Noncurrent liabilities</u>			
Deferred revenue - noncurrent	185,766	(185,766)	-
Contract liabilities - noncurrent	-	185,766	185,766
Total effect on liabilities	62,260,142	1,206,461	63,466,603
<u>Equity</u>			
Retained earnings	29,011,927	6,364,273	35,376,200
Total effect on equity	70,446,213	6,364,273	76,810,486

The impact of applying the previous standards (IAS 18 "Revenue") as of June 30, 2018 and for the six months ended June 30, 2018 is summarized below:

Impact on assets, liabilities and equity for current period

	<b>June 30, 2018</b>
Decrease in contract assets - current	\$ (3,519,357)
Decrease in contract assets - noncurrent	(1,582,287)
Decrease in incremental costs of obtaining a contract - noncurrent	<u>(1,421,216)</u>
Decrease in assets	<u>\$ (6,522,860)</u>

(Continued)

	<b>June 30, 2018</b>
Decrease in contract liabilities - current	\$ (2,640,862)
Increase in unearned revenue	2,908,579
Decrease in contract liabilities - noncurrent	(220,696)
Increase in deferred revenue - noncurrent	220,696
Decrease in current tax liabilities	<u>(1,166,936)</u>
Decrease in liabilities	<u>\$ (899,219)</u>
Decrease in retained earnings	<u>\$ (5,623,641)</u>
Decrease in equity	<u>\$ (5,623,641)</u>

(Concluded)

Impact on total comprehensive income for current period

	<b>For the Three Months Ended June 30, 2018</b>	<b>For the Six Months Ended June 30, 2018</b>
Increase in operating revenue	\$ 1,301,988	\$ 2,582,056
Increase in operating expenses	739,716	1,650,443
Increase in income tax expense	<u>115,266</u>	<u>190,981</u>
Increase in net profit for the period	<u>447,006</u>	<u>740,632</u>
Increase in total comprehensive income for the period	<u>\$ 447,006</u>	<u>\$ 740,632</u>
Increase in net profit attributable to:		
Owners of Far EasTone	<u>\$ 447,006</u>	<u>\$ 740,632</u>
Increase in total comprehensive income attributable to:		
Owners of Far EasTone	<u>\$ 447,006</u>	<u>\$ 740,632</u>
Impact on earnings per share:		
Increase in basic earnings per share	<u>\$0.14</u>	<u>\$0.23</u>

- 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

<b>New, Amended or Revised Standards and Interpretations (the "New IFRSs")</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 Group 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 and a number of related interpretations.

#### Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets, except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group 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 consolidated 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 consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group may elect to apply IFRS 16 using the full retrospective method or the cumulative catch-up retrospective method.

#### The Group as lessor

The Group 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.

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

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

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



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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### a. Statement of compliance

The interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual consolidated financial statements.

##### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and investment properties that are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

##### c. Basis of consolidation

###### Principles for preparing consolidated financial statements

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of Far EasTone and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

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

See Note 13, Schedule G and Schedule H for detailed information on subsidiaries, including the percentages of ownership and main businesses.

d. Other significant accounting policies

Except for the following, the accounting policies applied in the consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, refer to the consolidated financial statements for the year ended December 31, 2017.

1) Assets related to contract costs

When a sales contract is obtained, commission and subsidies paid to dealers under sale 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 in a manner which is consistent with the recognition of telecommunication service revenue. However, the Group elects not to capitalize the incremental costs of obtaining a contract if the amortization period of such assets, which the Group otherwise would have recognized, is expected to be one year or less.

2) Impairment of tangible and intangible assets other than goodwill

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

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

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 Group 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. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group 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.

### 3) Financial instruments

Financial assets and financial liabilities are recognized when a group entity 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 an 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.

##### i. Measurement categories

###### 2018

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

##### i) Financial assets at FVTPL

A financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include mutual funds held by the Group.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such financial assets. Fair value is determined in the manner described in Note 32.

##### ii) Financial assets at amortized cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 by 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:

- 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
- Financial assets that 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.

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.

### iii) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation 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, they will be transferred to retained earnings.

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

## 2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 32.

ii) Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

iii) Loans and receivables

Loans and receivables (including accounts receivable, cash and cash equivalents, debt investments with no active market, and other financial assets) are measured using the effective interest method at amortized cost 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.

ii. Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable), as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for accounts receivable and contract assets. For all other financial instruments, the Group 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 Group 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 a default occurring reflected in 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 Group 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

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

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

For a financial asset at amortized cost, the amount of the impairment loss recognized is the difference between such an 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 available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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 re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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

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

For financial assets that are 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 the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of 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.

iii. Derecognition of financial assets

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

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

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

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

c) Financial liabilities

i. Subsequent measurement

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

ii. Derecognition of financial liabilities

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

#### d) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts and foreign exchange swap contracts.

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

#### 4) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, as either fair value hedges or cash flow hedges.

##### a) Fair value hedges

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

Before 2018, hedge accounting was discontinued prospectively when the Group 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. From 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised.

##### b) Cash flow hedges

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

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. 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 Group 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. From 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. 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.

## 5) Revenue recognition

### 2018

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

#### a) Revenue from sale of goods

Revenue from the sale of goods comes from sales of mobile telecommunication devices and accessories and internet sales of goods. 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 over the price to sell the goods, has primary responsibility for sales to future customers, and bears the risks of obsolescence. Accounts receivable are recognized concurrently. For internet sales of goods, revenue is recognized when the goods are delivered to the customer's specific location. When the customer initially purchases the goods online, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

A bundle sale contract consists of the rendering of air time services and sales of goods. The rendering of services and sales of goods are accounted for as distinct performance obligations. The Group allocates the transaction price to each performance obligation identified in a bundle sale contract on a relative stand-alone selling price basis.

Under the Group's Customer Loyalty Programme, the Group offers award credits when customers purchase goods. The award credits provide a material right to customers. 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.

#### b) Revenue from rendering of services

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

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

Other 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 Group provides telecommunication value-added services, the customer simultaneously receives and consumes the benefits provided by the Group'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 Group measures progress on the basis of costs incurred relative to the total expected costs. The Group 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.

## 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 revenue is recognized as follows:

### a) Services revenue

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

Other revenue is 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:

- i. Far EasTone has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ii. Far EasTone retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- iii. The amount of revenue can be measured reliably;
- iv. It is probable that the economic benefits associated with the transaction will flow to Far EasTone; and
- v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

c) Dividend and interest income

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

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

6) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

7) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized in a manner which is consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

## **5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

Except for the following, the same critical accounting judgments and key sources of estimation uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2017.

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 Group uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, based on the Group's past history, 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 11. 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 Group takes into consideration the estimation of 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.

## 6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	\$ 14,571	\$ 18,029	\$ 13,669
Checking and demand deposits	8,535,516	6,701,223	5,834,356
Cash equivalents			
Commercial paper purchased under resale agreements	1,134,993	1,544,093	611,658
Certificates of deposits	<u>4,639,682</u>	<u>83,959</u>	<u>6,016,876</u>
	<u>\$ 14,324,762</u>	<u>\$ 8,347,304</u>	<u>\$ 12,476,559</u>

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

**June 30, 2018**

### Noncurrent

Investments in equity instruments at FVTOCI \$ 196,929

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 Group'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 Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

## 8. FINANCIAL ASSETS AT AMORTIZED COST - 2018

**June 30, 2018**

### Current

Certificates of deposits with original maturities of more than 3 months \$ 507,085

The certificates of deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 9 for information relating to their reclassification and comparative information for 2017.

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET- 2017

	December 31, 2017	June 30, 2017
<u>Current</u>		
Certificates of deposits with original maturities of more than 3 months	<u>\$ 658,765</u>	<u>\$ 618,734</u>

## 10. FINANCIAL ASSETS MEASURED AT COST- 2017

	December 31, 2017	June 30, 2017
<u>Noncurrent</u>		
Domestic unlisted common stock	<u>\$ 263,308</u>	<u>\$ 263,308</u>
<u>Distinguish from the type of measure</u>		
Available-for-sale	<u>\$ 263,308</u>	<u>\$ 263,308</u>

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

## 11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Notes receivable</u>			
Notes receivable - operating	\$ 55,721	\$ 70,321	\$ 56,728
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 55,721</u>	<u>\$ 70,321</u>	<u>\$ 56,728</u>
<u>Accounts receivable (including other noncurrent assets and related parties)</u>			
At amortized cost			
Gross carrying amount	\$ 8,267,009	\$ 8,965,990	\$ 7,842,513
Less: Allowance for doubtful accounts	(737,303)	(952,244)	(952,495)
Less: Unrealized interest income	<u>(2,902)</u>	<u>(3,373)</u>	<u>-</u>
	<u>\$ 7,526,804</u>	<u>\$ 8,010,373</u>	<u>\$ 6,890,018</u>

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

	June 30, 2018	December 31, 2017	June 30, 2017
Gross amounts of accounts receivable	\$ 59,322	\$ 64,068	\$ -
Unrealized interest income	<u>(2,902)</u>	<u>(3,373)</u>	<u>-</u>
	<u>\$ 56,420</u>	<u>\$ 60,695</u>	<u>\$ -</u>

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

## Accounts Receivable

For the six months ended June 30, 2018

The Group's average credit period for the sale of inventories is 30 to 45 days, and the average credit period for telecommunications services is 30 to 60 days.

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 Group 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 Group's credit risk was significantly reduced.

The Group applies the simplified approach to allowances for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected losses 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 Group'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 Group's customer base.

The Group recognizes an allowance for doubtful accounts 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 account receivable is over 120 days past due, whichever occurs earlier. For accounts receivable that have been written off, the Group 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 Group's expected credit loss rate of receivables which are not overdue and receivables which are overdue were 0.05%-5.00% and 8.60%-100%, respectively.

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

June 30, 2018

	<b>Not Overdue</b>	<b>Overdue Less than 60 Days</b>	<b>Overdue 60 Days or More</b>	<b>Total</b>
Gross carrying amount	\$ 7,466,842	\$ 428,879	\$ 424,107	\$ 8,319,828
Loss allowance (lifetime ECLs)	<u>(336,459)</u>	<u>(73,024)</u>	<u>(327,820)</u>	<u>(737,303)</u>
Amortized cost	<u>\$ 7,130,383</u>	<u>\$ 355,855</u>	<u>\$ 96,287</u>	<u>\$ 7,582,525</u>

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

	<b>For the Six Months Ended June 30, 2018</b>
Balance at January 1, 2018 per IAS 39	\$ 952,244
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	952,244
Add: Amounts recovered	136,207
Add: Net remeasurement of loss allowance	(30,939)
Less: Amounts written off	<u>(320,209)</u>
 Balance at June 30, 2018	 <u>\$ 737,303</u>

For the six months ended June 30, 2017

The Group applied the same credit policy in 2018 and 2017. When deciding the recoverability of notes receivable and accounts receivable, the Group considers any change in the credit quality from the date credit was initially granted up to the end of the reporting period. The Group has recognized an allowance for doubtful accounts of 100% against all receivables past due 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 counterparties and an analysis of their current financial positions.

The aging of receivables was as follows:

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Not overdue	\$ 7,424,209	\$ 6,442,419
Overdue		
0-60 days	414,342	360,684
61 days or more	<u>242,143</u>	<u>143,643</u>
	<u>\$ 8,080,694</u>	<u>\$ 6,946,746</u>

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

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

Movements of the allowance for doubtful accounts were as follows:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2017	\$ 1,554	\$ 898,023	\$ 899,577
Add: Accounts recovered during the period	-	122,922	122,922
Add: Impairment losses/bad debts (reversed)	(818)	243,439	242,621
Less: Amounts written off during the period as uncollectable	<u>(269)</u>	<u>(312,356)</u>	<u>(312,625)</u>
 Balance at June 30, 2017	 <u>\$ 467</u>	 <u>\$ 952,028</u>	 <u>\$ 952,495</u>

## 12. INVENTORIES

	June 30, 2018	December 31, 2017	June 30, 2017
Cellular phone equipment and accessories	\$ 2,792,326	\$ 4,180,175	\$ 2,675,985
Others	<u>607,124</u>	<u>596,372</u>	<u>354,684</u>
	<u>\$ 3,399,450</u>	<u>\$ 4,776,547</u>	<u>\$ 3,030,669</u>

Costs of inventories sold were \$7,129,638 thousand, \$5,494,694 thousand, \$14,799,529 thousand and \$11,650,723 thousand, respectively, for the three months and six months ended June 30, 2018 and 2017.

The inventory write-downs reversed amounting to \$28,839 thousand, \$3,064 thousand, \$16,932 thousand and \$3,736 thousand were included in the cost of sales for the three months and six months ended June 30, 2018 and 2017, respectively.

## 13. SUBSIDIARIES

### Entities Included in the Consolidated Financial Statements

Intercompany relationships and percentages of ownership are shown as follows:

Investor Company	Investee Company	Main Businesses and Products	Percentage of Ownership (%)			Note
			June 30, 2018	December 31, 2017	June 30, 2017	
Far EasTone	NCIC	Type I, II telecommunications services	100.00	100.00	100.00	
	ARCOA	Sales of communications products and office equipment	61.63	61.63	61.63	
	KGEx.com	Type II telecommunications services	99.99	99.99	99.99	
	YSDT (former name was Hiiir Inc.)	Electronic information providing services	86.41	86.41	93.28	
	Yuan Cing	Call center services	100.00	100.00	100.00	
	FEIS	Investment	100.00	100.00	100.00	
	Omusic	Electronic information providing services	50.00	50.00	50.00	
	Qware	Type II telecommunications services	-	81.46	81.46	
FEIS	FETI	Computer software, data processing and network information providing services	41.67	41.67	41.67	Dissolved on June 30, 2018 due to the merger with Far EasTone
NCIC	ISSDU	Security and monitoring service via Internet	100.00	100.00	100.00	
New Diligent	DU (Cayman)	Investment	100.00	100.00	100.00	
	New Diligent	Investment	100.00	100.00	100.00	
	YSDT (former name was Hiiir Inc.)	Electronic information providing services	2.40	2.40	-	
	FEND	Investment	100.00	100.00	100.00	
New Diligent	Sino Lead	Telecommunications services	100.00	100.00	100.00	
	New Diligent Hong Kong	Investment	100.00	100.00	-	
	FEND	FETI	Computer software, data processing and network information providing services	58.33	58.33	
FEND	FENCIT	Electronic information providing services	-	89.56	89.56	Dissolved on February 9, 2018 with the approval of the local government
	FETI	FENCIT	Electronic information providing services	-	0.96	
DU (Cayman)	DUIT	Design, research, installment and maintenance of computer software and system	100.00	100.00	100.00	
	ARCOA	DataExpress	Sale of communications products	70.00	70.00	
DataExpress	Linkwell	Sale of communications products	100.00	100.00	100.00	
	Home Master	Sale of communications products	100.00	100.00	100.00	



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

Except for NCIC's and ARCOA's financial statements as of and for the six months ended June 30, 2018 and 2017, the financial statements of all other investees were unreviewed.

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

##### Investments in Associates

	June 30, 2018	December 31, 2017	June 30, 2017
Material associate			
Far Eastern Electronic Toll Collection Co., Ltd.	\$ 867,434	\$ 816,685	\$ 719,167
Associates that are not individually material	<u>354,686</u>	<u>388,330</u>	<u>300,156</u>
	<u>\$ 1,222,120</u>	<u>\$ 1,205,015</u>	<u>\$ 1,019,323</u>

Material associates:

Company	Nature of Business	Main Place	Interests and the Voting Rights		
			June 30, 2018	December 31, 2017	June 30, 2017
Far Eastern Electronic Toll Collection Co., Ltd.	Electronic information services	Taiwan	39.42%	39.42%	39.42%

##### Far Eastern Electronic Toll Collection Co., Ltd. (FETC)

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

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

The financial statements used as bases for calculating the carrying values of equity method investments and equity in the Group's profits and losses and other comprehensive income had not been reviewed.

#### 15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Building	Operating Equipment	Computer Equipment	Other Equipment	Construction-in-progress	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 5,250,776	\$ 7,910,971	\$ 85,211,653	\$ 14,628,610	\$ 7,281,029	\$ 2,623,257	\$ 122,906,296
Additions	-	1,119	41,549	1,660	20,329	2,781,550	2,846,207
Disposals	-	(13,920)	(2,833,778)	(294,790)	(502,548)	(11,456)	(3,656,492)
Adjustments and reclassification	<u>1,749,577</u>	<u>69,572</u>	<u>1,671,951</u>	<u>470,592</u>	<u>108,391</u>	<u>(4,070,083)</u>	<u>-</u>
Balance at June 30, 2018	<u>\$ 7,000,353</u>	<u>\$ 7,967,742</u>	<u>\$ 84,091,375</u>	<u>\$ 14,806,072</u>	<u>\$ 6,907,201</u>	<u>\$ 1,323,268</u>	<u>\$ 122,096,011</u>

(Continued)

	Freehold Land	Building	Operating Equipment	Computer Equipment	Other Equipment	Construction-in-progress	Total
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2018	\$ (95,894)	\$ (3,905,177)	\$ (53,948,462)	\$ (12,499,174)	\$ (6,223,882)	\$ -	\$ (76,672,589)
Depreciation expense	-	(115,970)	(4,154,869)	(607,475)	(243,508)	-	(5,121,822)
Disposals	-	13,726	2,573,701	294,743	473,549	-	3,355,719
Adjustments and reclassification	-	-	176,436	(176,436)	-	-	-
Balance at June 30, 2018	<u>\$ (95,894)</u>	<u>\$ (4,007,421)</u>	<u>\$ (55,353,194)</u>	<u>\$ (12,988,342)</u>	<u>\$ (5,993,841)</u>	<u>\$ -</u>	<u>\$ (78,438,692)</u>
Carrying amount at January 1, 2018	<u>\$ 5,154,882</u>	<u>\$ 4,005,794</u>	<u>\$ 31,263,191</u>	<u>\$ 2,129,436</u>	<u>\$ 1,057,147</u>	<u>\$ 2,623,257</u>	<u>\$ 46,233,707</u>
Carrying amount at June 30, 2018	<u>\$ 6,904,459</u>	<u>\$ 3,960,321</u>	<u>\$ 28,738,181</u>	<u>\$ 1,817,730</u>	<u>\$ 913,360</u>	<u>\$ 1,323,268</u>	<u>\$ 43,657,319</u>
<u>Cost</u>							
Balance at January 1, 2017	\$ 5,320,000	\$ 7,881,263	\$ 127,746,451	\$ 15,005,139	\$ 7,423,816	\$ 2,112,641	\$ 165,489,310
Additions	-	649	16,146	5,293	17,380	3,504,101	3,543,569
Disposals	-	(5,349)	(1,954,880)	(66,805)	(96,926)	(12,845)	(2,136,805)
Effect of foreign currency exchange difference	-	-	(3)	(129)	(36)	-	(168)
Adjustments and reclassification	-	42,052	3,034,489	679,490	131,336	(3,881,733)	5,634
Balance at June 30, 2017	<u>\$ 5,320,000</u>	<u>\$ 7,918,615</u>	<u>\$ 128,842,203</u>	<u>\$ 15,622,988</u>	<u>\$ 7,475,570</u>	<u>\$ 1,722,164</u>	<u>\$ 166,901,540</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2017	\$ (96,557)	\$ (3,677,699)	\$ (93,153,282)	\$ (12,648,310)	\$ (6,063,890)	\$ -	\$ (115,639,738)
Depreciation expense	-	(123,511)	(3,931,727)	(605,643)	(278,499)	-	(4,939,380)
Disposals	-	5,293	1,562,201	65,425	72,047	-	1,704,966
Effect of foreign currency exchange difference	-	-	3	83	28	-	114
Adjustments and reclassification	-	-	(5,666)	-	87	-	(5,579)
Balance at June 30, 2017	<u>\$ (96,557)</u>	<u>\$ (3,795,917)</u>	<u>\$ (95,528,471)</u>	<u>\$ (13,188,445)</u>	<u>\$ (6,270,227)</u>	<u>\$ -</u>	<u>\$ (118,879,617)</u>
Carrying amount at June 30, 2017	<u>\$ 5,223,443</u>	<u>\$ 4,122,698</u>	<u>\$ 33,313,732</u>	<u>\$ 2,434,543</u>	<u>\$ 1,205,343</u>	<u>\$ 1,722,164</u>	<u>\$ 48,021,923</u>

(Concluded)

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

Buildings	
Main buildings	41-55 years
Other building equipment	3-18 years
Operating equipment	2-25 years
Computer equipment	3-10 years
Other equipment	2-11 years

## 16. INVESTMENT PROPERTIES

Balance at June 30, 2018 and December 31, 2017	<u>\$ 1,082,453</u>
Balance at June 30, 2017	<u>\$ 1,041,406</u>

The lease terms of investments properties were 1-6 years. The rights of lease term extension contain clauses for market rental reviews. The lessee does not have a bargain purchase option to acquire the investment property at the expiry of the lease period.

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

	June 30, 2018	December 31, 2017	June 30, 2017
No later than 1 year	\$ 20,877	\$ 24,745	\$ 25,705
Later than 1 year and not later than 5 years	54,431	64,141	51,366
Later than 5 years	<u>114</u>	<u>1,486</u>	<u>2,744</u>
	<u>\$ 75,422</u>	<u>\$ 90,372</u>	<u>\$ 79,815</u>

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Independent valuation	<u>\$ 1,082,453</u>	<u>\$ 1,082,453</u>	<u>\$ 1,041,406</u>

The fair value of the investment properties as of December 31, 2017 and 2016 was based on the valuations carried out at January 2, 2018 and January 17, 2017, respectively, by independent qualified professional valuers, Ms. Chun-Chun Hu and Mr. Chia-ho Tsai from DTZ, Cushman & Wakefield, a member of certified ROC real estate appraisers.

In consultation with the appraisers, the Group determined that the fair values reported as of December 31, 2017 and 2016 were still valid as of June 30, 2018 and 2017, respectively.

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.

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Expected future cash inflows	\$ 1,756,230	\$ 1,756,230	\$ 1,685,023
Expected future cash outflows	<u>(52,861)</u>	<u>(52,861)</u>	<u>(48,936)</u>
Expected future cash inflows, net	<u>\$ 1,703,369</u>	<u>\$ 1,703,369</u>	<u>\$ 1,636,087</u>
Discount rate	2.00%-2.235%	2.00%-2.235%	1.845%-2.33%

The market rentals in the area where the investment properties are located were between \$1 thousand and \$18 thousand per ping per month (i.e. 1 ping = 3.3 square meters). The market rentals for comparable properties were between \$1 thousand and \$15 thousand per ping per month.

All of the investment properties have been leased out under operating leases. The rental income generated for the three months and six months ended June 30, 2018 and 2017 were \$6,375 thousand, \$6,375 thousand, \$12,811 thousand and \$12,647 thousand, respectively.

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

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

## 17. INTANGIBLE ASSETS

	Concessions	Goodwill	Computer Software	Other Intangible Assets	Total
<u>Cost</u>					
Balance at January 1, 2018	\$ 57,129,000	\$ 10,883,789	\$ 17,173,627	\$ 871,368	\$ 86,057,784
Additions	-	-	469,910	-	469,910
Disposals	-	(57,615)	(434,943)	(132,641)	(625,199)
Balance at June 30, 2018	<u>\$ 57,129,000</u>	<u>\$ 10,826,174</u>	<u>\$ 17,208,594</u>	<u>\$ 738,727</u>	<u>\$ 85,902,495</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2018	\$(15,308,490)	\$ (74,888)	\$(14,040,823)	\$ (524,212)	\$(29,948,413)
Amortization	(1,566,129)	-	(419,186)	(21,363)	(2,006,678)
Disposals	-	57,615	434,250	132,641	624,506
Balance at June 30, 2018	<u>\$(16,874,619)</u>	<u>\$ (17,273)</u>	<u>\$(14,025,759)</u>	<u>\$ (412,934)</u>	<u>\$(31,330,585)</u>
Carrying amount at January 1, 2018	<u>\$ 41,820,510</u>	<u>\$ 10,808,901</u>	<u>\$ 3,132,804</u>	<u>\$ 347,156</u>	<u>\$ 56,109,371</u>
Carrying amount at June 30, 2018	<u>\$ 40,254,381</u>	<u>\$ 10,808,901</u>	<u>\$ 3,182,835</u>	<u>\$ 325,793</u>	<u>\$ 54,571,910</u>
<u>Cost</u>					
Balance at January 1, 2017	\$ 50,614,000	\$ 10,883,789	\$ 16,304,182	\$ 1,180,722	\$ 78,982,693
Additions	-	-	435,709	-	435,709
Disposals	-	-	(73,120)	(13,964)	(87,084)
Adjustments and reclassification	-	-	-	(5,752)	(5,752)
Balance at June 30, 2017	<u>\$ 50,614,000</u>	<u>\$ 10,883,789</u>	<u>\$ 16,666,771</u>	<u>\$ 1,161,006</u>	<u>\$ 79,325,566</u>
<u>Accumulated amortization and impairment</u>					
Balance at January 1, 2017	\$(12,230,469)	\$ (74,888)	\$(13,438,409)	\$ (780,470)	\$(26,524,236)
Amortization	(1,511,893)	-	(384,562)	(27,136)	(1,923,591)
Disposals	-	-	73,064	13,964	87,028
Adjustments and reclassification	-	-	-	5,697	5,697
Balance at June 30, 2017	<u>\$(13,742,362)</u>	<u>\$ (74,888)</u>	<u>\$(13,749,907)</u>	<u>\$ (787,945)</u>	<u>\$(28,355,102)</u>
Carrying amount at June 30, 2017	<u>\$ 36,871,638</u>	<u>\$ 10,808,901</u>	<u>\$ 2,916,864</u>	<u>\$ 373,061</u>	<u>\$ 50,970,464</u>

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

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

Refer to Note 16 of the consolidated financial statement for the year ended December 31, 2017 for the related information of goodwill.

## 18. OTHER NONCURRENT ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Refundable deposits	\$ 773,911	\$ 699,385	\$ 678,137
Others	<u>64,786</u>	<u>69,054</u>	<u>39,344</u>
	<u>\$ 838,697</u>	<u>\$ 768,439</u>	<u>\$ 717,481</u>

## 19. BORROWINGS

### a. Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Unsecured bank loans</u>			
Credit loans	<u>\$ 346,000</u>	<u>\$ 864,000</u>	<u>\$ 234,000</u>
Credit loans interest rate	1.12%-1.80%	0.76%-1.80%	1.12%-1.80%

### b. Short-term bills payable

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial paper payable	\$ 320,000	\$ 300,000	\$ 350,000
Less: Unamortized discount	<u>258</u>	<u>319</u>	<u>327</u>
	<u>\$ 319,742</u>	<u>\$ 299,681</u>	<u>\$ 349,673</u>
Interest rate	1.148%-1.538%	1.150%-1.170%	1.150%-1.500%

### c. Long-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Unsecured bank loans</u>			
Credit loans	\$ 2,500,000	\$ 10,100,000	\$ 4,200,000
Long-term commercial paper payables	-	-	400,000
Less: Unamortized discount on commercial paper	-	-	355
Less: Current portion	<u>2,500,000</u>	<u>2,500,000</u>	<u>-</u>
Long-term borrowings	<u>\$ -</u>	<u>\$ 7,600,000</u>	<u>\$ 4,599,645</u>
Credit loans interest rate	1.13%	0.72%-1.13%	0.73%-1.13%
Commercial paper payables interest rate	-	-	1.0043%- 1.0460%

- 1) The credit loans are payable in New Taiwan dollars. The repayment of the principal will be made once when it's due with interest payment. Under some contracts, loans are treated revolving credit facilities, and the maturity dates of the loans are based on terms under the contracts. The loans are all repayable by December 2018.
- 2) The long-term commercial paper payables are treated as revolving credit facilities under contracts. The last repayment date is in December 2018. The long-term commercial paper payables were repaid in advance in 2017.

## 20. BONDS PAYABLE

	June 30, 2018	December 31, 2017	June 30, 2017
4th unsecured domestic bonds	\$ 2,497,334	\$ 4,996,723	\$ 4,996,065
5th unsecured domestic bonds	3,999,534	3,998,855	4,997,996
6th unsecured domestic bonds	3,198,658	3,198,205	8,396,693
2016 1st unsecured domestic bonds	5,194,110	5,193,271	5,192,432
2017 1st unsecured domestic bonds	4,494,430	4,493,701	4,492,972
2017 2nd unsecured domestic bonds	1,996,866	1,996,612	-
2017 3rd unsecured domestic bonds	2,995,395	2,994,986	-
2018 1st unsecured domestic bonds	<u>4,993,399</u>	<u>-</u>	<u>-</u>
	29,369,726	26,872,353	28,076,158
Less: Current portion	<u>3,999,534</u>	<u>6,498,533</u>	<u>8,698,160</u>
	<u>\$ 25,370,192</u>	<u>\$ 20,373,820</u>	<u>\$ 19,377,998</u>

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

On April 26, 2017, Far EasTone issued the first five-year unsecured domestic bonds of 2017, with an aggregate principal amount of \$4,500,000 thousand and a par value of \$10,000 thousand and a coupon interest rate of 1.17%, with simple interest due annually. Repayment will be made in full at maturity.

On May 7, 2018, Far EasTone 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 coupon interest rates of 0.85% and 1.01%, respectively, with simple interest due annually. Repayment will be made in full at maturity.

Far EasTone repaid \$2,500,000 thousand of the 4th unsecured domestic bonds due in June 2018.

## 21. OTHER LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Current</u>			
Other payables			
Dividends	\$ 12,265,603	\$ -	\$ 12,281,597
Commission	1,553,214	2,008,639	2,255,326
Salary and bonuses	983,043	1,313,784	1,047,994
Acquisition of properties	860,640	991,207	938,547
Employees' compensation and remuneration of directors	288,500	368,299	305,555
Other	<u>2,576,948</u>	<u>2,849,101</u>	<u>2,823,050</u>
	<u>\$ 18,527,948</u>	<u>\$ 7,531,030</u>	<u>\$ 19,652,069</u>
<u>Noncurrent</u>			
Deferred revenue			
Cable and lease line service fees	<u>\$ -</u>	<u>\$ 185,766</u>	<u>\$ 181,214</u>

Cable and lease line service fees previously recognized in deferred revenue under IAS 18 were classified at contract liabilities - noncurrent under IFRS 15. As of June 30, 2018, cable and lease line service fees were \$220,696 thousand.

## 22. PROVISIONS

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Current</u>			
Dismantling obligation	\$ 189,815	\$ 134,571	\$ 114,693
Product warranty	<u>98,911</u>	<u>92,965</u>	<u>100,691</u>
	<u>\$ 288,726</u>	<u>\$ 227,536</u>	<u>\$ 215,384</u>
<u>Noncurrent</u>			
Dismantling obligation	<u>\$ 842,862</u>	<u>\$ 887,441</u>	<u>\$ 868,540</u>
		<b>Dismantling Obligation</b>	<b>Product Warranty</b>
Balance at January 1, 2018		\$ 1,022,012	\$ 92,965
Additional provisions recognized		49,309	15,558
Reductions arising from payments		<u>(38,644)</u>	<u>(9,612)</u>
Balance at June 30, 2018		<u>\$ 1,032,677</u>	<u>\$ 98,911</u>
Balance at January 1, 2017		\$ 975,571	\$ 103,937
Additional provisions recognized		21,289	18,675
Reductions arising from payments		<u>(13,627)</u>	<u>(21,921)</u>
Balance at June 30, 2017		<u>\$ 983,233</u>	<u>\$ 100,691</u>

## 23. RETIREMENT BENEFIT PLANS

For defined benefit plans, employee benefit expenses as of and for the three months and six months ended June 30, 2018 and 2017 were calculated as \$5,268 thousand, \$5,480 thousand, \$10,537 thousand and \$10,959 thousand by the actuarially determined pension cost discount rate as of December 31, 2017 and 2016, respectively.

## 24. EQUITY

### a. Share capital

#### 1) Common stock

	June 30, 2018	December 31, 2017	June 30, 2017
Stock authorized (in thousands)	<u>4,200,000</u>	<u>4,200,000</u>	<u>4,200,000</u>
Capital authorized	<u>\$ 42,000,000</u>	<u>\$ 42,000,000</u>	<u>\$ 42,000,000</u>
Issued and fully paid stock (in thousands)	<u>3,258,501</u>	<u>3,258,501</u>	<u>3,258,501</u>
Issued capital	<u>\$ 32,585,008</u>	<u>\$ 32,585,008</u>	<u>\$ 32,585,008</u>

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

#### 2) Global depository receipts

Far EasTone's global depository receipts (GDRs) as of June 30, 2018 were as follows:

		GDRs (In Thousand Units)	Equivalent Common Stock (In Thousand Shares)
Initial offering	a)	10,000	150,000
Converted from overseas unsecured convertible bonds	b)	165	2,473
Net decrease due to capital increase or capital reduction	c)	(362)	(5,426)
Reissued within authorized units	d)	24,838	372,563
GDRs transferred to common stock		<u>(34,221)</u>	<u>(513,308)</u>
Outstanding GDRs issued		<u>420</u>	<u>6,302</u>

- a) On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EasTone's request to sell to foreign investors 150,000 thousand shares of Far EasTone's common stock in the form of 10,000 thousand units of GDRs. One GDR unit represents 15 shares of Far EasTone's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US\$13.219 per unit.
- b) On July 20, 2004, the SFB approved Far EasTone's request to issue new common stock in the form of GDRs amounting to US\$114,500 thousand to be used for the conversion of overseas convertible bonds. As of June 30, 2018, there had been 165 thousand units of GDRs issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common stock.



- c) In 2003, Far EasTone issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand common stock. Furthermore, in 2008, Far EasTone canceled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represent 9,874 thousand common stock.
- d) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR re-issuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of June 30, 2018, Far EasTone had reissued 24,838 thousand units of GDRs representing 372,563 thousand common stock.

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

- a) Exercise voting rights;
- b) Convert the GDRs into common stocks; and
- c) Receive dividends and exercise preemptive rights or other rights and interests.

b. Capital surplus

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
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	\$ 8,143,345
<u>May be used to offset a deficit only</u>			
Share of changes in equities of associates	<u>7</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,820,041</u>	<u>\$ 8,143,345</u>	<u>\$ 8,143,345</u>

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

c. Retained earnings and dividend policy

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

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

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

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

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

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
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 board of directors and stockholders resolved and 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, Far EasTone's stockholders received NT\$3.75 per share in 2018 and 2017, respectively. As of June 30, 2018 and 2017, cash dividends of \$12,219,378 have been included in other payables with July 17, 2018 and July 18, 2017, respectively, as the ex-right record dates for cash dividend distribution.

d. Special reserve

	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 783,467	\$ 769,907
Appropriation (reversal) in respect of		
Application of the fair value method for investment properties	(23,659)	5,293
Debit (reversal of the debit) to other equity items	<u>(133,480)</u>	<u>8,267</u>
Ending balance	<u>\$ 626,328</u>	<u>\$ 783,467</u>

e. Other equity items

Other adjustment for the six months ended June 30, 2018 and 2017 are summarized as follows:

	Exchange Differences on Translating 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 Hedge	Gains and Losses on Hedging Instruments	Total
<u>For the six months ended June 30, 2018</u>						
Beginning balance (IAS 39)	\$ 4,122	\$ -	\$ -	\$ 14,010	\$ -	\$ 18,132
Effects of retrospective application in 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	213	-	8,287	-	-	8,500
Share of other comprehensive income of associates	44	-	-	-	9,234	9,278
Ending balance	<u>\$ 4,379</u>	<u>\$ -</u>	<u>\$ (3,446)</u>	<u>\$ -</u>	<u>\$ 23,244</u>	<u>\$ 24,177</u>
<u>For the six months ended June 30, 2017</u>						
Beginning balance	\$ 4,638	\$ (45,872)	\$ -	\$ (92,245)	\$ -	\$ (133,479)
Recorded as adjustments to stockholders' equity	(1,103)	10,749	-	26,271	-	35,917
Recorded as profit or loss	-	-	-	39,015	-	39,015
Share of other comprehensive income of associates	32	-	-	28,784	-	28,816
Ending balance	<u>\$ 3,567</u>	<u>\$ (35,123)</u>	<u>\$ -</u>	<u>\$ 1,825</u>	<u>\$ -</u>	<u>\$ (29,731)</u>

f. Noncontrolling interests

	<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 687,801	\$ 716,583
Attributable to noncontrolling interests		
Share of profit	9,400	8,542
Exchange differences on translating foreign operations	179	84
Subsidiary's cash dividends	(46,235)	(62,228)
Remittance of cash due to liquidation of subsidiary	(360)	-
Equity transaction	<u>33,576</u>	<u>33,217</u>
Ending balance	<u>\$ 684,361</u>	<u>\$ 696,198</u>

## 25. REVENUE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Contract revenue				
Sales of inventories	\$ 6,802,366	\$ 4,650,712	\$ 13,939,181	\$ 9,642,496
Telecommunications service revenue	<u>12,817,704</u>	<u>15,962,339</u>	<u>26,013,330</u>	<u>32,056,096</u>
	<u>19,620,070</u>	<u>20,613,051</u>	<u>39,952,511</u>	<u>41,698,592</u>
Other operating revenue	<u>2,000,543</u>	<u>1,322,790</u>	<u>3,334,662</u>	<u>2,717,636</u>
	<u>\$ 21,620,613</u>	<u>\$ 21,935,841</u>	<u>\$ 43,287,173</u>	<u>\$ 44,416,228</u>

### a. Contract information

Refer to Note 4 d. 5) for information on revenue recognition for contracts.

### b. Contract balances

	<b>June 30, 2018</b>
Contract assets	
Bundle sale of goods	\$ 5,254,351
Less: Allowance for impairment loss	<u>(152,707)</u>
	<u>\$ 5,101,644</u>
Contract assets - current	\$ 3,519,357
Contract assets - noncurrent	<u>1,582,287</u>
	<u>\$ 5,101,644</u>
Contract liabilities	
Goods	\$ 580,358
Services	<u>2,281,200</u>
	<u>\$ 2,861,558</u>
Contract liabilities - current	\$ 2,640,862
Contract liabilities - noncurrent	<u>220,696</u>
	<u>\$ 2,861,558</u>

For details of notes receivable and accounts receivable, refer to Note 11.

For the six months ended June 30, 2018, the changes in contract asset and contract liability balances primarily resulted from the timing difference between the Group's performance of obligations and the respective customer's payment. Except for the above changes, there are no other significant changes.

c. Assets related to contract costs

**June 30, 2018**

Noncurrent

Incremental costs of obtaining a contract \$ 1,421,216

The Group considered its past experience and believes the commission and subsidies paid for obtaining contracts are wholly recoverable. Amortization recognized in the three months and six months ended June 30, 2018 is \$491,464 thousand and \$951,946 thousand, respectively.

d. Disaggregation of revenue

Refer to Note 39 for information about the disaggregation of revenue.

**26. CONSOLIDATED NET INCOME**

a. Finance costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Interest on financial liabilities measured at amortized cost	\$ 95,889	\$ 92,211	\$ 184,862	\$ 173,979
Interest expense on bank loans and commercial paper	12,117	13,586	24,265	31,172
Other finance costs	<u>5,889</u>	<u>9,075</u>	<u>11,745</u>	<u>17,699</u>
	<u>\$ 113,895</u>	<u>\$ 114,872</u>	<u>\$ 220,872</u>	<u>\$ 222,850</u>

b. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Property, plant and equipment	\$ 2,559,848	\$ 2,491,902	\$ 5,121,822	\$ 4,939,380
Intangible asset	<u>226,979</u>	<u>208,703</u>	<u>440,549</u>	<u>411,698</u>
	<u>\$ 2,786,827</u>	<u>\$ 2,700,605</u>	<u>\$ 5,562,371</u>	<u>\$ 5,351,078</u>
Depreciation expense categorized by function				
Operating costs	\$ 2,278,078	\$ 2,186,287	\$ 4,545,244	\$ 4,338,033
Operating expenses	<u>281,770</u>	<u>305,615</u>	<u>576,578</u>	<u>601,347</u>
	<u>\$ 2,559,848</u>	<u>\$ 2,491,902</u>	<u>\$ 5,121,822</u>	<u>\$ 4,939,380</u>

(Continued)

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Amortization expense categorized by function				
Operating costs	\$ 71,520	\$ 72,552	\$ 144,915	\$ 144,661
Marketing expenses	34,595	29,815	67,054	61,820
General and administrative expenses	<u>120,864</u>	<u>106,336</u>	<u>228,580</u>	<u>205,217</u>
	<u>\$ 226,979</u>	<u>\$ 208,703</u>	<u>\$ 440,549</u>	<u>\$ 411,698</u>

(Concluded)

c. Employee benefits expense

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Retirement benefits				
Defined contribution plans	\$ 56,501	\$ 79,915	\$ 120,034	\$ 160,408
Defined benefit plans	<u>5,268</u>	<u>5,480</u>	<u>10,537</u>	<u>10,959</u>
	<u>61,769</u>	<u>85,395</u>	<u>130,571</u>	<u>171,367</u>
Other employee benefits				
Salary	1,540,238	1,507,289	3,011,971	3,035,177
Insurance	134,141	136,563	272,140	275,528
Other	<u>85,898</u>	<u>90,684</u>	<u>175,659</u>	<u>176,666</u>
	<u>1,760,277</u>	<u>1,734,536</u>	<u>3,459,770</u>	<u>3,487,371</u>
	<u>\$ 1,822,046</u>	<u>\$ 1,819,931</u>	<u>\$ 3,590,341</u>	<u>\$ 3,658,738</u>
Categorized by function				
Operating cost	\$ 309,117	\$ 309,411	\$ 617,038	\$ 615,550
Operating expense	<u>1,512,929</u>	<u>1,510,520</u>	<u>2,973,303</u>	<u>3,043,188</u>
	<u>\$ 1,822,046</u>	<u>\$ 1,819,931</u>	<u>\$ 3,590,341</u>	<u>\$ 3,658,738</u>

d. Employees' compensation and remuneration of directors

Far EasTone decides the distribution of employees' compensation and remuneration of directors at the rates of 1% to 2% and no higher than 1%, respectively, of net profit before income tax, employees' compensation and remuneration of directors. For the three months and six months ended June 30, 2018 and 2017, the employees' compensation and the remuneration of directors represented 2% and 0.72%, respectively, of the foregoing basis.

The accrued employees' compensation and remuneration of directors for the three months and six months ended June 30, 2018 and 2017 were as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Employees' compensation	<u>\$ 66,207</u>	<u>\$ 69,982</u>	<u>\$ 128,412</u>	<u>\$ 138,285</u>
Remuneration to directors	<u>\$ 23,834</u>	<u>\$ 25,194</u>	<u>\$ 46,228</u>	<u>\$ 49,783</u>

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

The appropriations of employees' compensation and remuneration of directors for 2017 and 2016 resolved by the board of directors on February 23, 2018 and February 15, 2017, respectively, are stated below:

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

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

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

## 27. INCOME TAX

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

The major components of tax expense were as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current tax	\$ 640,542	\$ 558,928	\$ 1,057,332	\$ 1,109,584
Deferred tax	<u>51,309</u>	<u>60,142</u>	<u>268,257</u>	<u>112,685</u>
Income tax recognized in profit or loss	<u>\$ 691,851</u>	<u>\$ 619,070</u>	<u>\$ 1,325,589</u>	<u>\$ 1,222,269</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax expense recognized in other comprehensive income

	<u>For the Three Months Ended</u> <u>June 30</u>		<u>For the Six Months Ended</u> <u>June 30</u>	
	2018	2017	2018	2017
<u>Deferred tax</u>				
In respect of the current period				
Effect of change in tax rate - remeasurement of defined benefit plan	\$ 10,790	\$ -	\$ 10,790	\$ -
Effect of change in tax rate - financial assets at fair value through other comprehensive income	1,604	-	1,604	-
Unrealized gains (losses) on available-for-sale financial assets	-	(3,860)	-	(2,202)
Fair value changes of hedging instruments for cash flow hedges	<u>-</u>	<u>(9,901)</u>	<u>-</u>	<u>(13,372)</u>
Income tax recognized in other comprehensive income	<u>\$ 12,394</u>	<u>\$ (13,761)</u>	<u>\$ 12,394</u>	<u>\$ (15,574)</u>

c. Income tax assessments

Income tax returns through 2015 of Far EasTone had been assessed by the tax authorities.

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

Income tax return through 2014 of NCIC has been assessed and cleared by the tax authorities. However, NCIC disagreed with the tax authorities' assessment of its 2013 and 2014 return and thus applied for administrative remedies. Nevertheless, NCIC accrued the related tax. Income tax return through 2015 of ARCOA, DataExpress, Qware.com, and Simple Infocomm had been assessed and cleared by the tax authorities. Income tax return through 2016 of ISSDU, Omusic, KGEx.com, Linkwell, YSDT, Yuan Cing, New Diligent and Home Master had been assessed and cleared by the tax authorities.



## 28. EARNINGS PER SHARE

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

### Net Income for the Period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Net income for the period attributable to Far EasTone	\$ 2,678,110	\$ 2,917,335	\$ 5,131,298	\$ 5,753,581
Effect of dilutive potential common stock:				
Employees' compensation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings used in the calculation of diluted earnings per share	<u>\$ 2,678,110</u>	<u>\$ 2,917,335</u>	<u>\$ 5,131,298</u>	<u>\$ 5,753,581</u>

### Weighted Average Number of Common Stock Outstanding

(In Thousand Shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of common stock used in the calculation of basic earnings per share	3,258,501	3,258,501	3,258,501	3,258,501
Effect of potentially dilutive common stock:				
Employees' compensation	<u>1,630</u>	<u>1,784</u>	<u>2,694</u>	<u>2,703</u>
Weighted average number of common stock used in the calculation of diluted earnings per share	<u>3,260,131</u>	<u>3,260,285</u>	<u>3,261,195</u>	<u>3,261,204</u>

Since Far EasTone offered to settle compensation paid to employees in cash or stock, Far EasTone 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 common stock outstanding used in the calculation of diluted earnings per share, if the effect was dilutive. Such dilutive effect of the potential stock was included in the calculation of diluted earnings per share until the number of stock to be distributed to employees is resolved in the following year.

## 29. EQUITY TRANSACTION WITH NONCONTROLLING INTERESTS

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

The Group subscribed for new common stock 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 transactions were accounted for as equity transactions since the Group did not lose control over these subsidiaries.

	Hiir	Qware
Cash consideration paid	\$ 348,909	\$ 5,398
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from noncontrolling interests	<u>(316,783)</u>	<u>28,576</u>
Difference arising from equity transaction	<u>\$ 32,126</u>	<u>\$ 33,974</u>
<u>Line item adjusted for equity transaction</u>		
Unappropriated earnings	<u>\$ (32,126)</u>	<u>\$ (33,974)</u>

### 30. NONCASH TRANSACTIONS

#### Noncash Transactions Arising from Investing and Financing Activities

The cash dividends approved in the shareholders' meetings were not yet distributed as of June 30, 2018 and 2017, respectively (refer to Notes 21 and 24).

### 31. OPERATING LEASE ARRANGEMENTS

#### a. The Group as lessee

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

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

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than 1 year	\$ 3,199,547	\$ 3,179,189	\$ 3,165,648
Later than 1 year and not later than 5 years	5,390,121	5,246,511	5,043,499
Later than 5 years	<u>33,097</u>	<u>36,457</u>	<u>95,547</u>
	<u>\$ 8,622,765</u>	<u>\$ 8,462,157</u>	<u>\$ 8,304,694</u>

The lease payments recognized as expenses were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Minimum lease payment	<u>\$ 960,896</u>	<u>\$ 950,696</u>	<u>\$ 1,927,474</u>	<u>\$ 1,910,584</u>

#### b. The Group as lessor

Operating leases relate to the investment properties owned by the Group with lease terms; refer to Note 16.

## 32. FINANCIAL INSTRUMENTS

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

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

	<u>June 30, 2018</u>		<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial assets</u>						
Refundable deposits	\$ 773,911	\$ 770,977	\$ 712,567	\$ 711,260	\$ 678,137	\$ 676,318
<u>Financial liabilities</u>						
Bonds payable	29,369,726	29,570,769	26,872,353	27,105,492	28,076,158	28,262,031

### 2) Fair value hierarchy

#### June 30, 2018

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets</u>				
Refundable deposits	\$ -	\$ -	\$ 770,977	\$ 770,977
<u>Financial liabilities</u>				
Bonds payable	\$ 29,570,769	\$ -	\$ -	\$ 29,570,769

#### December 31, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets</u>				
Refundable deposits	\$ -	\$ -	\$ 711,260	\$ 711,260
<u>Financial liabilities</u>				
Bonds payable	\$ 27,105,492	\$ -	\$ -	\$ 27,105,492

#### June 30, 2017

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets</u>				
Refundable deposits	\$ -	\$ -	\$ 676,318	\$ 676,318
<u>Financial liabilities</u>				
Bonds payable	\$ 28,262,031	\$ -	\$ -	\$ 28,262,031

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

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

1) Fair value hierarchy

	<b>June 30, 2018</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<u>Financial assets at fair value through profit or loss</u>				
Mutual funds	<u>\$ 150,065</u>	<u>\$ 599,192</u>	<u>\$ -</u>	<u>\$ 749,257</u>
<u>Financial assets measured at fair value through other comprehensive income</u>				
Domestic unlisted common stock	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,929</u>	<u>\$ 196,929</u>
<u>Financial assets for hedging</u>				
Fair value hedges - foreign exchange swap contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,013</u>	<u>\$ 4,013</u>
	<b>December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at fair value through profit or loss</u>				
Overseas funds	<u>\$ -</u>	<u>\$ 595,200</u>	<u>\$ -</u>	<u>\$ 595,200</u>
<u>Derivative financial assets for hedging</u>				
Fair value hedges - foreign exchange swap contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,700</u>	<u>\$ 1,700</u>

	<b>June 30, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Available-for-sale financial assets</u>				
Overseas funds	\$ -	\$ 611,083	\$ -	\$ 611,083
<u>Derivative financial assets for hedging</u>				
Cash flow hedges - forward exchange contracts	\$ -	\$ -	\$ 6,338	\$ 6,338
<u>Derivative financial liabilities for hedging</u>				
Cash flow hedges - forward exchange contracts	\$ -	\$ -	\$ 2,437	\$ 2,437
Cash flow hedges - foreign exchange swap contracts	-	-	3,650	3,650
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,087</u>	<u>\$ 6,087</u>

There were no transfers of financial assets and liabilities between Level 1 and Level 2 for the six months ended June 30, 2018 and 2017.

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

	<b>For the Six Months Ended June 30, 2018</b>	
	<b>Hedging Financial Instruments</b>	<b>Financial Assets Measured at Fair Value Through Other Comprehensive Income</b>
Beginning balance	\$ 1,700	\$ 251,575
Recognized in profit or loss (included in other gains and losses)	(5,713)	-
Recognized in other comprehensive income	-	6,854
Proceeds of capital reduction	-	(61,500)
Ending balance	<u>\$ (4,013)</u>	<u>\$ 196,929</u>

**For the Six  
Months Ended  
June 30, 2017**

	<b>Hedging Derivative Financial Instruments</b>
Beginning balance	\$ (45,694)
Recognized in profit or loss (included in other gains and losses)	47,006
Recognized in other comprehensive income	<u>(1,061)</u>
Ending balance	<u>\$ 251</u>

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

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

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

<b>Financial Instrument</b>	<b>Valuation Techniques and Inputs</b>
Domestic unlisted common stock	<p>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.</p> <p>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.</p>
Forward exchange contracts	Cash flow is discounted. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates are discounted at a rate that reflect the credit risk of various counterparties.
Foreign exchange swap contracts	Cash flow is discounted. Future cash flows are estimated based on observable spot exchange rates at the end of the reporting period and contract rates, discounted at a 0% rate; the counterparties' high credit ratings and short contract terms indicate a low credit risk of counterparties.

c. Financial instruments

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets</u>			
Derivative financial assets for hedging	\$ -	\$ 1,700	\$ 6,338
Loans and receivables (Note 1)	-	20,684,670	25,103,025
Financial assets at fair value through profit or loss	749,257	595,200	-
Available-for-sale financial assets (Note 2)	-	263,308	874,391
Financial assets at amortized cost (Note 3)	25,096,331	-	-
Financial assets at fair value through other comprehensive income	196,929	-	-
<u>Financial liabilities</u>			
Derivative financial liabilities for hedging	-	-	6,087
Financial liabilities for hedging	4,013	-	-
Measured at amortized cost (Note 4)	56,948,800	53,014,548	58,197,422

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

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

Note 3: The balances included the carrying amount of cash and cash equivalents, debt investments, notes receivable, accounts receivable (including related parties), other receivables (including related parties), refundable deposits, and other financial assets, which were measured at amortized cost.

Note 4: The balances included the carrying amount of short-term borrowings, short-term bills payable, notes payable, accounts payable (including related parties), other payables (including related parties), long-term borrowings (including current portion), financial lease payables, bonds payable (including current portion), and guarantee deposits received, which were measured at amortized cost.

d. Financial risk management objectives and policies

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

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

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

#### 1) Market risk

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

##### a) Foreign currency risk

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

##### Sensitivity analysis

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

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

	<b>Impact</b>	
	<b>For the Six Months Ended</b>	
	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
Profit or loss		
USD	<u>\$ (32,645)</u>	<u>\$ (18,000)</u>
EUR	<u>\$ (157)</u>	<u>\$ 2,035</u>



## Hedge accounting

### For the six months ended June 30, 2018

The Group used foreign exchange swap contracts to manage its exposure to the exchange gains or losses of identified foreign currency-denominated assets.

The following tables summarize the information relating to the hedges of foreign currency risk.

### June 30, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount		Change in Value Used for Calculating Hedge Ineffectiveness
						Asset	Liability	
Fair value hedge Foreign exchange swap contracts	US\$ to NT\$	US\$10,000 thousand	2018.08.20-2018.09.28	\$29.7815/30.255	Financial assets (liabilities) for hedging	\$ -	\$ 4,013	\$ -

  

Hedged Items	Carrying Amount		Accumulated Amount of Fair Value Hedge Adjustments		Change in Value Used for Calculating Hedge Ineffectiveness	Accumulated Amount of Fair Value Hedge Adjustments for Hedged Items That Have Ceased to Be Adjusted for Hedging Gains And Losses
	Asset	Liability	Asset	Liability		
Fair value hedge Overseas mutual funds	\$ 299,596	\$ -	\$ (5,300 )	\$ -	\$ -	\$ -

The Group invested in overseas mutual funds, whose fair value are exposed to the changes of net asset value and exchange rates. Thus, the Group used foreign exchange swap contracts to manage the risk due to foreign exchange rate fluctuations.

### December 31, 2017

The hedging policy for foreign currency risk is the same in 2018 and December 2017 which used the following hedging instruments.

**December 31,  
2017**

### Derivative financial assets under hedge accounting - current

Fair value hedges - foreign exchange swap contracts \$ 1,700

These contracts were negotiated in accordance with contracts on hedged items. The outstanding contracts of the Group at December 31, 2017 were as follow:

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

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

For the six months ended June 30, 2017

The Group used foreign exchange swap contracts to hedge against adverse cash flow fluctuation on its foreign currency-denominated assets. Those foreign exchange swap contracts were designated as cash flow hedges, the Group also signed foreign exchange forward contracts to avoid exchange rate exposure to expected future purchase transactions. Those foreign exchange forward contracts were designated as cash flow hedges. The hedging instruments used by the Group were as follow:

**June 30, 2017**

Financial assets - current

Cash flow hedge	
Forward exchange contracts	<u>\$ 6,338</u>

Financial liabilities - current

Cash flow hedge	\$ 2,437
Forward exchange contracts	<u>3,650</u>
Foreign exchange swap contracts	<u>\$ 6,087</u>

These contracts were negotiated in accordance with the contracts on the hedged items. The outstanding contracts of the Group at the end of the reporting period were as follows:

	Currency	Maturity Date/Period	Contract Amount (In Thousands)
<u>June 30, 2017</u>			
Forward exchange contracts	NT\$ to EUR	2017.07.25-2017.10.25	EUR 10,000
Foreign exchange swap contracts	US\$ to NT\$	2017.07.10-2017.07.31	US\$ 20,000

For the three months and six months ended June 30, 2017, expected future trading exposures on the above contracts, amounting to \$48,344 thousand and \$65,286 thousand, were recognized in other comprehensive income. The expected cash flows occur when the hedge target is sold or expected future purchase transactions take place, and such cash flows will be reclassified from equity to profit or loss.

For the three months and six months June 30, 2017, gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	<b>For the Three Months Ended June 30, 2017</b>	<b>For the Six Months Ended June 30, 2017</b>
Other gains and losses	<u>\$ (25,754)</u>	<u>\$ 47,006</u>

b) Interest rate risk

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

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Fair value risk			
Financial assets	\$ 8,369,308	\$ 5,252,519	\$ 11,691,660
Financial liabilities	33,110,241	36,794,604	33,436,450
Cash flow risk			
Financial assets	9,056,435	7,269,264	6,312,277
Financial liabilities	20,000	2,000,000	469,583

Sensitivity analysis

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

Had interest rates been 25 basis points higher/lower and all other variables been held constant, the income before income tax for the six months ended June 30, 2018 and 2017 would have increased (decreased) by \$11,296 thousand and \$7,303 thousand, respectively, which would have been mainly affected by bank deposits and borrowings with floating interest rates.

c) Other price risks

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

### Sensitivity analysis

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

If equity prices had been 5% higher/lower, pre-tax profit for the six months ended June 30, 2018 would have increased/decreased by \$37,463 thousand as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the six months ended June 30, 2018 would have increased/decreased by \$9,846 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 5% higher/lower, the pre-tax other comprehensive income for the six months ended June 30, 2017 would have increased/decreased by \$30,554 thousand, as a result of the changes in fair value of available-for-sale investments.

#### 2) Credit risk

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

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

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

#### 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. The Group's unutilized overdraft and bank loan facilities amounted to \$41,191,787 thousand, \$27,156,792 thousand and \$50,288,965 thousand as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

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

	<b>Book Value</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>1-5 Years</b>	<b>More than 5 Years</b>
<u>June 30, 2018</u>					
Short-term borrowings	\$ 346,000	\$ 347,195	\$ 347,195	\$ -	\$ -
Short-term bills payable	319,742	320,000	320,000	-	-
Long-term borrowings	2,500,000	2,514,086	2,514,086	-	-
Bonds payable	<u>29,369,726</u>	<u>30,752,605</u>	<u>4,362,600</u>	<u>19,239,805</u>	<u>7,150,200</u>
	<u>\$ 32,535,468</u>	<u>\$ 33,933,886</u>	<u>\$ 7,543,881</u>	<u>\$ 19,239,805</u>	<u>\$ 7,150,200</u>
<u>December 31, 2017</u>					
Short-term borrowings	\$ 864,000	\$ 866,963	\$ 866,963	\$ -	\$ -
Short-term bills payable	299,681	300,000	300,000	-	-
Long-term borrowings	10,100,000	10,246,970	2,587,455	7,659,515	-
Bonds payable	<u>26,872,353</u>	<u>28,121,395</u>	<u>6,847,750</u>	<u>16,187,020</u>	<u>5,086,625</u>
	<u>\$ 38,136,034</u>	<u>\$ 39,535,328</u>	<u>\$ 10,602,168</u>	<u>\$ 23,846,535</u>	<u>\$ 5,086,625</u>
<u>June 30, 2017</u>					
Short-term borrowings	\$ 234,000	\$ 235,421	\$ 235,421	\$ -	\$ -
Short-term bills payable	349,673	350,000	350,000	-	-
Long-term borrowings	4,599,645	4,667,057	40,716	4,626,341	-
Bonds payable	<u>28,076,158</u>	<u>29,159,170</u>	<u>9,074,390</u>	<u>20,084,780</u>	<u>-</u>
	<u>\$ 33,259,476</u>	<u>\$ 34,411,648</u>	<u>\$ 9,700,527</u>	<u>\$ 24,711,121</u>	<u>\$ -</u>

### 33. TRANSACTIONS WITH RELATED PARTIES

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

a. The Group's related parties and their relationships

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

(Continued)

<b>Related Party</b>	<b>Relationship with the Group</b>
Pacific Sogo Department Stores Co., Ltd.	Other related parties (same chairman as parent company's)
Far Eastern Big City Shopping Malls Co., Ltd.	Other related parties (subsidiary of SOGO)
Far Eastern Citysuper Co., Ltd.	Other related parties (same chairman as parent company's)
Ya Tung Department Store Co., Ltd.	Other related parties (same chairman as parent company's)
Fu Dar Transportation Corporation	Other related parties (same chairman as parent company's)
Fu-Ming Transportation Co., Ltd.	Other related parties (same chairman as parent company's)
YDT Technology International Co., Ltd.	Subsidiaries of FENC
Nan Hwa Cement Corporation	Other related parties (same chairman as parent company's)
Ya Tung Ready Mixed Concrete Co., Ltd.	Other related parties (same chairman as parent company's)
Oriental Securities Corporation Ltd.	Other related parties (Equity-method investee of FENC)
Yuan Ding Co., Ltd.	Subsidiaries of FENC
Far Eastern Department Stores Co., Ltd.	Other related parties (same chairman as Far EasTone's)
Asia Cement Co., Ltd.	Other related parties (same chairman as Far EasTone's)
Oriental Union Chemical Corporation	Other related parties (same chairman as Far EasTone's)
Far Eastern Ai Mai CO., Ltd.	Other related parties (same chairman as Far EasTone's)
Far Eastern Hospital	Other related parties (same chairman as Far EasTone's)
Oriental Institute of Technology	Other related parties (same chairman as Far EasTone's)
Far Eastern Plaza Hotel	Subsidiaries of FENC
Yuan-Ze University	Other related parties (same chairman as Far EasTone's)
U-Ming Marine Transport Corporation	Other related parties (same chairman as Far EasTone's)
Chiahui Power Corporation	Other related parties (same chairman as Far EasTone's)
Far Eastern Medical Foundation	Other related parties (same chairman as Far EasTone's)
Far Eastern International Bank (FEIB)	Other related parties (Far EasTone's chairman is FEIB's vice chairman)
Far Eastern Construction Co., Ltd.	Subsidiaries of FENC
Fu Kwok Garment Manufacturing Co., Ltd.	Subsidiaries of FENC
Oriental Petrochemical (Taiwan) Co., Ltd.	Subsidiaries of FENC
Air Liquide Far Eastern Co., Ltd.	Other related parties (Equity-method investee of FENC)
Far Eastern General Contractor Inc.	Subsidiaries of FENC
Oriental Resources Development Limited	Subsidiaries of FENC

(Continued)

<b>Related Party</b>	<b>Relationship with the Group</b>
Far Eastern Fibertech Co., Ltd.	Subsidiaries of FENC
Far Eastern Realty Management Co., Ltd.	Subsidiaries of FENC
Ding & Ding Management Consultant Co., Ltd.	Other related parties (Equity-method investee of FENC)
Yuan Hsin Digital Payment Co., Ltd.	Subsidiaries of FENC
Alliance Digital Technology Co., Ltd.	Associate
Far Eastern Memorial Foundation	Other related parties (same chairman as Far EasTone's)
OPAS Fund Segregated Portfolio Company	Other related parties (substantive related party)
Far Eastern Polyclinic of Far Eastern Medical Foundation	Other related parties (same chairman as Far EasTone's)
FETC International Co., Ltd.	Subsidiaries of FENC
Far Eastern Polytex (Vietnam) Ltd.	Subsidiaries of FENC
U-Ming Marine Transport (Hong Kong) Ltd.	Other related parties (substantive related party)
U-Ming Marine Transport (Singapore) Pte. Ltd.	Other related parties (substantive related party)
Far Eastern Investment (Holding) Ltd.	Subsidiaries of FENC
Deutsche Far Eastern Asset Management Co., Ltd. (DFEAMC)	Other related parties (substantive related party)

(Concluded)

b. Operating revenue

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
FENC	\$ 14,002	\$ 12,316	\$ 22,891	\$ 28,150
Subsidiaries of FENC	66,404	97,718	114,014	187,411
Other related parties	<u>69,868</u>	<u>62,822</u>	<u>122,473</u>	<u>118,084</u>
	<u>\$ 150,274</u>	<u>\$ 172,856</u>	<u>\$ 259,378</u>	<u>\$ 333,645</u>

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

c. Operating costs and expenses

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Cost of telecommunications services				
Subsidiaries of FENC	\$ 460	\$ 624	\$ 13,668	\$ 1,164
Other related parties	<u>7,407</u>	<u>80</u>	<u>21,161</u>	<u>307</u>
	<u>\$ 7,867</u>	<u>\$ 704</u>	<u>\$ 34,829</u>	<u>\$ 1,471</u>

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Rental (including in operating costs)				
FENC	\$ 375	\$ 339	\$ 715	\$ 716
Subsidiaries of FENC	2,515	2,407	4,579	4,604
Other related parties	<u>5,304</u>	<u>5,117</u>	<u>10,406</u>	<u>10,500</u>
	<u>\$ 8,194</u>	<u>\$ 7,863</u>	<u>\$ 15,700</u>	<u>\$ 15,820</u>
Rental (including in operating expense)				
FENC	\$ 745	\$ 733	\$ 1,486	\$ 1,452
Subsidiaries of FENC	14,917	14,917	29,879	29,884
Other related parties	<u>24,633</u>	<u>21,079</u>	<u>51,398</u>	<u>44,120</u>
	<u>\$ 40,295</u>	<u>\$ 36,729</u>	<u>\$ 82,763</u>	<u>\$ 75,456</u>
Marketing expenses				
Subsidiaries of FENC	\$ 8,993	\$ 15,406	\$ 17,693	\$ 23,739
Other related parties	<u>4,036</u>	<u>4,057</u>	<u>7,115</u>	<u>6,180</u>
	<u>\$ 13,029</u>	<u>\$ 19,463</u>	<u>\$ 24,808</u>	<u>\$ 29,919</u>
Service fees				
FENC	<u>\$ 141</u>	<u>\$ 282</u>	<u>\$ 285</u>	<u>\$ 301</u>
Subsidiaries of FENC				
FCHRC	37,989	35,917	75,872	71,202
Other	<u>2,056</u>	<u>-</u>	<u>2,056</u>	<u>-</u>
	<u>40,045</u>	<u>35,917</u>	<u>77,928</u>	<u>71,202</u>
Other related parties	<u>59</u>	<u>40</u>	<u>99</u>	<u>79</u>
	<u>\$ 40,245</u>	<u>\$ 36,239</u>	<u>\$ 78,312</u>	<u>\$ 71,582</u>
Other expenses				
FENC	\$ 25,767	\$ 27,064	\$ 57,141	\$ 60,747
Subsidiaries of FENC	2,796	4,709	3,585	6,358
Other related parties	<u>3,277</u>	<u>3,593</u>	<u>5,425</u>	<u>17,276</u>
	<u>\$ 31,840</u>	<u>\$ 35,366</u>	<u>\$ 66,151</u>	<u>\$ 84,381</u>

(Concluded)

The above companies provide telecommunications services to the Group. The terms and conditions conformed to normal business practice.

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



d. Property transactions

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Acquisition of equity-method investments				
Subsidiaries of FENC				
FEEC	\$ <u>-</u>	\$ <u>124,497</u>	\$ <u>-</u>	\$ <u>124,497</u>
Acquisition of property, plant and equipment				
Subsidiaries of FENC				
FERD	\$ 329,505	\$ 437,394	\$ 712,183	\$ 437,394
Other	<u>4,417</u>	<u>4,528</u>	<u>4,417</u>	<u>4,894</u>
	\$ <u>333,922</u>	\$ <u>441,922</u>	\$ <u>716,600</u>	\$ <u>442,288</u>
Acquisition of financial assets at fair value through profit or loss				
Other related parties -				
DFEAMC	\$ <u>150,000</u>	\$ <u>-</u>	\$ <u>150,000</u>	\$ <u>-</u>

The Group subscribed for FEEC's new common stock issued for cash amounting to \$124,497 thousand in April 2017. After the subscription, the Group's ownership of FEEC increased to 20.69%.

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

The Group acquired a mutual fund of DFEAMC with a carrying amount \$150,000 thousand in May 2018.

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

	June 30, 2018	December 31, 2017	June 30, 2017
Other related parties			
FEIB	\$ <u>7,160,873</u>	\$ <u>8,628,732</u>	\$ <u>9,303,622</u>

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

f. Financial liabilities for hedging - current

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Other related parties			
FEIB	\$ <u>(4,013)</u>	\$ <u>-</u>	\$ <u>-</u>

NCIC entered into foreign exchange swap contracts with FEIB to hedge against the exchange gains or losses of its foreign currency-denominated assets. The notional amounts were US\$10,000 thousand as of June 30, 2018. Related expenses were treated as finance costs.

g. Derivative financial assets (liabilities) for hedging - current

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Other related parties			
FEIB	\$ <u>-</u>	\$ <u>1,700</u>	\$ <u>(3,650)</u>

NCIC entered into foreign exchange swap contracts with FEIB to hedge against cash flow fluctuation on its foreign currency-denominated assets. The notional amounts were US\$10,000 thousand and US\$20,000 thousand as of December 31, 2017 and June 30, 2017, respectively. Related expenses were treated as finance costs.

h. Receivables and payables - related parties

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Accounts receivable - related parties			
FENC	\$ 7,787	\$ 4,600	\$ 128
Subsidiaries of FENC	37,075	37,290	52,479
Other related parties	<u>163,343</u>	<u>210,020</u>	<u>126,462</u>
	<u>\$ 208,205</u>	<u>\$ 251,910</u>	<u>\$ 179,069</u>
Other receivables - related parties (included in other current assets)			
Subsidiaries of FENC	5,219	5,376	2,505
Other related parties	<u>12,242</u>	<u>18,525</u>	<u>7,117</u>
	<u>\$ 17,461</u>	<u>\$ 23,901</u>	<u>\$ 9,622</u>
Accounts payable - related parties (included in accounts payable)			
Subsidiaries of FENC	\$ 1,166	\$ 1,156	\$ 5,772
Other related parties	<u>17,206</u>	<u>5,160</u>	<u>1,940</u>
	<u>\$ 18,372</u>	<u>\$ 6,316</u>	<u>\$ 7,712</u>
Other payables - related parties (included in other current liabilities)			
FENC	\$ 24,000	\$ 33,712	\$ 29,344
Subsidiaries of FENC	83,435	84,887	75,238
Other related parties	<u>8,028</u>	<u>9,626</u>	<u>7,349</u>
	<u>\$ 115,463</u>	<u>\$ 128,225</u>	<u>\$ 111,931</u>

i. Refundable deposits

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Subsidiaries of FENC	\$ 67,954	\$ 74,360	\$ 68,834
Other related parties	<u>1,486</u>	<u>1,466</u>	<u>1,466</u>
	<u>\$ 69,440</u>	<u>\$ 75,826</u>	<u>\$ 70,300</u>

j. Others

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Interest revenue				
Subsidiaries of FENC	\$ 5	\$ 6	\$ 11	\$ 15
Other related parties				
FEIB	13,169	5,601	21,361	11,785
Others	<u>1</u>	<u>1</u>	<u>10</u>	<u>7</u>
	<u>13,170</u>	<u>5,602</u>	<u>21,371</u>	<u>11,792</u>
	<u>\$ 13,175</u>	<u>\$ 5,608</u>	<u>\$ 21,382</u>	<u>\$ 11,807</u>
Rent revenue				
Subsidiaries of FENC	<u>\$ 64</u>	<u>\$ 72</u>	<u>\$ 128</u>	<u>\$ 144</u>
Finance costs				
Other related parties	<u>\$ 1,885</u>	<u>\$ 2,176</u>	<u>\$ 3,730</u>	<u>\$ 4,186</u>

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

k. Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the three months and six months ended June 30, 2018 and 2017 were as follows:

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Short-term benefits	\$ 70,748	\$ 72,623	\$ 187,206	\$ 191,838
Post-employment benefits	<u>985</u>	<u>1,293</u>	<u>1,994</u>	<u>2,404</u>
	<u>\$ 71,733</u>	<u>\$ 73,916</u>	<u>\$ 189,200</u>	<u>\$ 194,242</u>

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

### 34. ASSETS PLEDGED OR MORTGAGED

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Other financial assets - current	\$ 806,066	\$ 1,764,065	\$ 3,128,538
Other noncurrent assets	<u>-</u>	<u>2,300</u>	<u>21,291</u>
	<u>\$ 806,066</u>	<u>\$ 1,766,365</u>	<u>\$ 3,149,829</u>

### 35. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group as of June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

a.

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Acquisition of property, plant and equipment under contracts	\$ 6,657,995	\$ 7,841,219	\$ 6,377,641
Less: Payments for acquisition of property, plant and equipment	<u>3,402,349</u>	<u>2,809,176</u>	<u>1,874,996</u>
	<u>\$ 3,255,646</u>	<u>\$ 5,032,043</u>	<u>\$ 4,502,645</u>
Acquisition of inventories under contracts	\$ 10,792,042	\$ 14,004,339	\$ 7,656,553
Less: Payments for acquisition of inventories	<u>5,025,782</u>	<u>5,233,512</u>	<u>3,273,731</u>
	<u>\$ 5,766,260</u>	<u>\$ 8,770,827</u>	<u>\$ 4,382,822</u>

b. The Group provided a \$100,000 thousand bank guarantee for its purchases as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

### 36. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

To fulfill the needs for long-term working capital or the repayment of short-term borrowings, on August 1, 2018, the board of directors of Far EasTone resolved to issue domestic unsecured corporate bonds not exceeding \$5,000,000 thousand and to be issued separately within one year after the date of being approved. The chairman or his appointed deputy is authorized to decide on all matters pertaining to the issuance of bonds or the requirements of the government authority and to amend or to improve the plan.

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

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

(In Thousands, Except Exchange Rate)

	<b>June 30, 2018</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 31,650	30.46	\$ 964,065
EUR	113	35.40	4,007
Nonmonetary items			
USD	19,671	30.46	599,192
<u>Financial liabilities</u>			
Monetary items			
USD	10,215	30.46	311,157
EUR	24	35.40	862
	<b>December 31, 2017</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 24,531	29.76	\$ 730,041
EUR	119	35.57	4,250
Nonmonetary items			
USD	20,000	29.76	595,200
<u>Financial liabilities</u>			
Monetary items			
USD	10,184	29.76	303,089
EUR	42	35.57	1,499

	<b>June 30, 2017</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,058	30.42	\$ 671,008
EUR	725	34.72	25,173
Nonmonetary items			
USD	20,088	30.42	611,083
<u>Financial liabilities</u>			
Monetary items			
USD	10,224	30.42	311,011
EUR	1,897	34.72	65,870

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

	<b>For the Three Months Ended June 30</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gain (Loss)</b>	<b>Exchange Rate</b>
NTD	1 (NTD:NTD)	\$ 814	1 (NTD:NTD)	\$ (5,198)
RMB	4.669 (RMB:NTD)	<u>1,602</u>	4.412 (RMB:NTD)	<u>(398)</u>
		<u>\$ 2,416</u>		<u>\$ (5,596)</u>
	<b>For the Six Months Ended June 30</b>			
	<b>2018</b>		<b>2017</b>	
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gain (Loss)</b>	<b>Exchange Rate</b>
NTD	1 (NTD:NTD)	\$ 8,198	1 (NTD:NTD)	\$ (10,583)
RMB	4.640 (RMB:NTD)	<u>552</u>	4.470 (RMB:NTD)	<u>(828)</u>
		<u>\$ 8,750</u>		<u>\$ (11,411)</u>

### 38. SEPARATELY DISCLOSED ITEMS

#### a. Information about significant transactions and investees

- 1) Financing provided to others: Schedule A
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures): 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 individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: Schedule C
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchase from or sale 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 instruments: Note 32
- 10) Intercompany relationships and significant intercompany transactions: Schedule F
- 11) Information on investees: Schedule G

#### 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 H
- 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: Schedule F
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

- e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
- f) Other transactions that have material effect on profit or loss for the period or on the financial position, such as rendering or receiving of services.

### 39. SEGMENT INFORMATION

Products and services from which reportable segments derive revenue:

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

- a. Mobile services business: Providing mobile telecommunications services;
- b. Fixed-line services business: Providing international direct dial, local network, long-distance network and broadband access services; and
- c. Sales business: Selling cellular phones, computers and accessories.

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

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

	<b>For the Six Months Ended June 30, 2018</b>				
	<b>Mobile Services Business</b>	<b>Fixed-line Services Business</b>	<b>Sales Business</b>	<b>Adjustment and Elimination</b>	<b>Consolidation</b>
Revenue generated from external customers	\$ 25,060,011	\$ 3,921,852	\$ 14,305,310	\$ -	\$ 43,287,173
Revenue generated within the Group (Note)	<u>201,134</u>	<u>1,481,072</u>	<u>5,413</u>	<u>(1,687,619)</u>	<u>-</u>
Total revenue	<u>\$ 25,261,145</u>	<u>\$ 5,402,924</u>	<u>\$ 14,310,723</u>	<u>\$ (1,687,619)</u>	<u>\$ 43,287,173</u>
Segment operating income	<u>\$ 5,243,669</u>	<u>\$ 1,227,136</u>	<u>\$ 1,021,293</u>	<u>\$ (1,025,811)</u>	<u>\$ 6,466,287</u>
	<b>For the Six Months Ended June 30, 2017</b>				
	<b>Mobile Services Business</b>	<b>Fixed-line Services Business</b>	<b>Sales Business</b>	<b>Adjustment and Elimination</b>	<b>Consolidation</b>
Revenue generated from external customers	\$ 30,190,151	\$ 4,158,124	\$ 10,067,953	\$ -	\$ 44,416,228
Revenue generated within the Group (Note)	<u>291,192</u>	<u>1,441,571</u>	<u>2,225</u>	<u>(1,734,988)</u>	<u>-</u>
Total revenue	<u>\$ 30,481,343</u>	<u>\$ 5,599,695</u>	<u>\$ 10,070,178</u>	<u>\$ (1,734,988)</u>	<u>\$ 44,416,228</u>
Segment operating income	<u>\$ 5,839,505</u>	<u>\$ 1,095,346</u>	<u>\$ 972,950</u>	<u>\$ (923,409)</u>	<u>\$ 6,984,392</u>

Note: Represents sales between segments.



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

**FINANCING PROVIDED TO OTHERS  
FOR THE SIX MONTHS ENDED JUNE 30, 2018  
(In Thousands of New Taiwan Dollars)**

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes A and B)	Aggregate Financing Limits (Notes A and B)
													Item	Value		
0	Far EasTone Telecommunications Co., Ltd.	Qware Communications Co., Ltd. (Note C)	Other receivables - related parties	Yes	\$ 250,000	\$ -	\$ -	1.47%-1.58%	Short-term financing	\$ -	For business operations	\$ -	-	\$ -	\$ 6,901,747	\$ 34,508,734
1	New Century InfoComm Tech Co., Ltd.	Qware Communications Co., Ltd. (Note C)	Other receivables - related parties	Yes	150,000	150,000	130,000	1.33%	Short-term financing	-	For business operations	-	-	-	8,207,503	11,725,004
		Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	2,500,000	2,500,000	-	0.83%	Transaction	3,125,076	-	-	-	-	3,125,076	11,725,004
		Far EasTone Telecommunications Co., Ltd.	Other receivables - related parties	Yes	7,500,000	7,500,000	-	0.83%	Short-term financing	-	For business operations	-	-	-	8,207,503	11,725,004

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

Note B: Where New Century InfoComm 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 amount of business transaction amount between two parties. The business transaction amount referred to the estimated amount of the year of loan contract signing or the prior year's actual transaction amount. B) For short-term financing needs, the individual loan amount should not exceed 35% of NCIC's net worth.

Note C: Far EasTone merged with Qware on June 30, 2018. Far EasTone is the surviving company, and Qware is the dissolved company.

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

**MARKETABLE SECURITIES HELD**

**JUNE 30, 2018**

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

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	June 30, 2018				Note
				Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Far Eastone Telecommunications Co., Ltd.	<u>Stocks</u> App Works Fund II Co., Ltd.	-	Financial assets at fair value through other comprehensive income - noncurrent	8,850,000	\$ 95,354	11.11	\$ 95,354	Note B
	CDIB Capital Innovation Accelerator Limited	-	Financial assets at fair value through other comprehensive income - noncurrent	4,500,000	45,000	10.71	45,000	Note B
ARCOA Communication Co., Ltd.	<u>Stocks</u> THI consultants	-	Financial assets at fair value through other comprehensive income - noncurrent	1,213,594	12,190	18.32	12,190	Note B
	Web Point Co., Ltd.	-	Financial assets at fair value through other comprehensive income - noncurrent	160,627	1,618	0.63	1,618	Note B
New Century InfoComm Tech Co., Ltd.	<u>Stocks</u> Kaohsiung Rapid Transit Corporation	-	Financial assets at fair value through other comprehensive income - noncurrent	8,858,191	38,267	3.18	38,267	Note 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	Note B
	<u>Open-end mutual fund</u> DFE DWS Taiwan Money Market Fund	Other related party	Financial assets at fair value through profit or loss - current	12,877,231	150,065	-	150,065	Note A
	<u>Overseas funds</u> Opas Fund Segregated Portfolio Tranche A	Other related party	Financial assets at fair value through profit or loss - current	13,491,781	447,541	-	447,541	Note A
	Opas Fund Segregated Portfolio Tranche B	Other related party	Financial assets at fair value through profit or loss - current	5,000,000	151,651	-	151,651	Note A

Note A: The market values of open-end mutual funds were calculated at their net asset values as of June 30, 2018.

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

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

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE SIX MONTHS ENDED JUNE 30, 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.	Subsidiaries of FENC	Far Eastern New Century Corporation	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 board of directors was determined through the price negotiation based on the valuation reports issued by professional appraisers.	The purpose was to accommodate Banqiao offices and provide spaces for switch room expansion.	None

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

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 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	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Far EasTone Telecommunications Co., Ltd.	ARCOA Communication Co., Ltd.	Subsidiary	Operating revenue	\$ (149,662)	-	Based on agreement	-	-	Accounts receivable	\$ 140,800	2
			Cost of telecommunications services, marketing expenses and cost of sales	4,183,981	15	Based on agreement	-	-	Accounts payable and other payables	(963,662)	(4)
	New Century InfoComm Tech Co., Ltd.	Subsidiary	Operating revenue	(157,976)	(1)	Based on agreement	-	-	Accounts receivable	1,300	-
			Cost of telecommunications services	1,404,562	7	Based on agreement	-	-	Accounts payable and other payables (Note A)	(697,318)	(3)
	DataExpress Infotech Co., Ltd.	Subsidiary of ARCOA Communication Co., Ltd.	Operating revenue	(174,178)	(1)	Based on agreement	-	-	Accounts receivable	35,921	1
	Yuanshi Digital Technology Co., Ltd.	Subsidiary	Operating revenue	(210,973)	(1)	Based on agreement	-	-	Accounts receivable	66,118	1
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(1,404,562)	(25)	Based on agreement	-	-	Accounts receivable (Note B)	697,318	43
			Operating costs	157,976	4	Based on agreement	-	-	Accounts payable	(1,300)	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating revenue	(4,183,981)	(51)	Based on agreement	-	-	Accounts receivable	963,662	58
			Operating costs	149,662	2	Based on agreement	-	-	Accounts payable	(140,800)	(8)
	Home Master Technology Ltd.	Subsidiary of DataExpress Infotech Co., Ltd.	Operating revenue	(294,960)	(4)	Based on agreement	-	-	Accounts receivable	116,989	7
DataExpress Infotech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating costs	174,178	8	Based on agreement	-	-	Accounts payable	(35,921)	(14)
			Home Master Technology Ltd.	Subsidiary	Operating revenue	(404,498)	(17)	Based on agreement	-	-	Accounts receivable
Yuanshi Digital Technology Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Operating costs	210,973	16	Based on agreement	-	-	Accounts payable	(66,118)	(21)
Home Master Technology Ltd.	ARCOA Communication Co., Ltd.	Parent company	Operating costs	294,960	40	Based on agreement	-	-	Accounts payable	(116,989)	(46)
			DataExpress Infotech Co., Ltd.	Parent company	Operating costs	404,498	55	Based on agreement	-	-	Accounts payable

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

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

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**JUNE 30, 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.	New Century InfoComm Tech Co., Ltd.	Subsidiary	\$ 104,098	(Note A)	\$ -	-	\$ 86,483	\$ -
	ARCOA Communication Co., Ltd.	Subsidiary	142,807	13.15	-	-	108,083	-
New Century InfoComm Tech Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	902,893	(Note B)	-	-	473,716	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	963,662	6.59	-	-	633,841	-
	Home Master Technology Ltd.	Subsidiary of DataExpress Infotech Co., Ltd.	117,064	8.83	-	-	66,241	-
DataExpress Infotech Co., Ltd.	Home Master Technology Ltd.	Subsidiary	128,174	8.11	-	-	27,608	-

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

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2018  
(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details					
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)		
0	Far EasTone Telecommunications Co., Ltd.	New Century InfoComm Tech Co., Ltd.	1	Accounts receivable - related parties	\$ 1,300	Note F	-		
				Other receivables - related parties	102,798	Note F	-		
				Refundable deposits	4,232	Note F	-		
				Accounts payable - related parties	34,044	Note F	-		
				Other payables - related parties	868,849	Note F	1		
				Contract liabilities	5,454	Note F	-		
				Telecommunications service revenue	157,976	Note F	-		
				Cost of telecommunications services	1,404,514	Note F	3		
				Cost of sales	48	Note F	-		
				Operating expense	36,731	Note F	-		
				Nonoperating income and gains	38,435	Note F	-		
				Nonoperating expenses	20,875	Note F	-		
				ARCOA Communication Co., Ltd.	1	Accounts receivable - related parties	140,800	Note F	-
						Other receivables - related parties	2,007	Note F	-
						Accounts payable - related parties	919,542	Note F	1
		Other payables - related parties	44,120			Note F	-		
		Contract liabilities	23,589			Note F	-		
		Guarantee deposits received	148			Note F	-		
		Telecommunications service revenue	1,849			Note F	-		
		Sales of inventories	147,813			Note F	-		
		Cost of telecommunications services	28,320			Note F	-		
		Cost of sales	3,891,751			Note F	9		
		Operating expense	270,409			Note F	1		
		Nonoperating income and gains	725			Note F	-		
		KGEx.com Co., Ltd.	1			Accounts receivable - related parties	16,583	Note F	-
						Refundable deposits	898	Note F	-
						Other payables - related parties	8,284	Note F	-
				Contract liabilities	56	Note F	-		
				Telecommunications service revenue	35,480	Note F	-		
				Cost of telecommunications services	8,086	Note F	-		
Operating expense	23,778			Note F	-				
Nonoperating income and gains	636	Note F	-						

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		Yuan Cing Co., Ltd.	1	Other receivables - related parties	\$ 3,237	Note F	-
				Other payables - related parties	11,284	Note F	-
				Operating expense	17,336	Note F	-
				Nonoperating income and gains	142	Note F	-
		Qware Communications Co., Ltd.	1	Telecommunications service revenue	1,643	Note F	-
				Cost of telecommunications services	20,571	Note F	-
				Nonoperating income and gains	1,377	Note F	-
		DataExpress Infotech Co., Ltd.	1	Accounts receivable - related parties	35,921	Note F	-
				Other receivables - related parties	2,079	Note F	-
				Accounts payable - related parties	1,743	Note F	-
				Other payables - related parties	3,406	Note F	-
				Telecommunications service revenue	304	Note F	-
				Sales of inventories	173,874	Note F	-
				Cost of sales	265	Note F	-
				Cost of telecommunications services	3,901	Note F	-
				Operating expense	7,880	Note F	-
				Nonoperating income and gains	221	Note F	-
		Omusic Co., Ltd.	1	Accounts receivable - related parties	215	Note F	-
				Accounts payable - related parties	28,653	Note F	-
				Telecommunications service revenue	283	Note F	-
				Sales of inventories	12	Note F	-
				Cost of telecommunications services	83,300	Note F	-
				Cost of sales	11	Note F	-
				Nonoperating income and gains	48	Note F	-
		Linkwell Tech. Ltd.	1	Accounts receivable - related parties	13	Note F	-
				Other payables - related parties	1,340	Note F	-
				Sales of inventories	26	Note F	-
				Telecommunications service revenue	132	Note F	-
				Operating expense	2,708	Note F	-
		Home Master Technology Ltd.	1	Accounts receivable - related parties	5	Note F	-
				Other payables - related parties	10,686	Note F	-
				Telecommunications service revenue	29	Note F	-
				Operating expense	12,812	Note F	-
				Nonoperating income and gains	1	Note F	-
		New Diligent Hong Kong Co., Ltd.	1	Other receivables - related parties	201	Note F	-
				Accounts payable - related parties	6	Note F	-
		Information Security Service Digital United Inc.	1	Accounts receivable - related parties	89	Note F	-
				Other receivables - related parties	1,556	Note F	-
				Accounts payable - related parties	981	Note F	-
				Other payables - related parties	1,175	Note F	-
				Telecommunications service revenue	524	Note F	-
				Cost of telecommunications services	4,729	Note F	-
				Cost of sales	923	Note F	-
				Operating expense	3,770	Note F	-
				Nonoperating income and gains	173	Note F	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		Yuanshi Digital Technology Co., Ltd.	1	Accounts receivable - related parties	\$ 66,118	Note F	-
				Other receivables - related parties	6,556	Note F	-
				Accounts payable - related parties	7,675	Note F	-
				Other payables - related parties	3,088	Note F	-
				Telecommunications service revenue	6,961	Note F	-
				Sales of inventories	204,012	Note F	-
				Operating expense	739	Note F	-
				Nonoperating income and gains	351	Note F	-
		Sino Lead Enterprise Limited	1	Other payables - related parties	5,102	Note F	-
1	New Century InfoComm Tech Co., Ltd.	ARCOA Communication Co., Ltd.	3	Accounts receivable - related parties	98	Note F	-
				Accounts payable - related parties	60	Note F	-
				Other payables - related parties	22	Note F	-
				Telecommunications service revenue	563	Note F	-
				Cost of sales	48	Note F	-
				Cost of telecommunications services	126	Note F	-
				Operating expense	57	Note F	-
		KGEx.com Co., Ltd.	3	Accounts receivable - related parties	2,998	Note F	-
				Accounts payable - related parties	11,136	Note F	-
				Other payables - related parties	9,793	Note F	-
				Telecommunications service revenue	15,905	Note F	-
				Cost of telecommunications services	43,055	Note F	-
				Operating expense	6,738	Note F	-
		Qware Communications Co., Ltd.	3	Telecommunications service revenue	5,291	Note F	-
				Cost of telecommunications services	4,666	Note F	-
				Nonoperating income and gains	1,175	Note F	-
		Omusic Co., Ltd.	3	Accounts receivable - related parties	11	Note F	-
				Other receivables - related parties	162	Note F	-
				Contract liabilities	69	Note F	-
				Telecommunications service revenue	65	Note F	-
				Nonoperating income and gains	719	Note F	-
		Sino Lead Enterprise Limited	3	Refundable deposits	1,224	Note F	-
				Accounts payable - related parties	21,414	Note F	-
				Cost of telecommunications services	54,932	Note F	-
		Yuan Cing Co., Ltd.	3	Accounts receivable - related parties	1	Note F	-
				Accounts payable - related parties	46	Note F	-
				Other payables - related parties	813	Note F	-
				Operating expense	2,503	Note F	-

(Continued)



Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		Information Security Service Digital United Inc.	3	Accounts receivable - related parties	\$ 87	Note F	-
				Other receivables - related parties	1,214	Note F	-
				Accounts payable - related parties	29,320	Note F	-
				Other payables - related parties	144	Note F	-
				Contract liabilities	69	Note F	-
				Guarantee deposits received	990	Note F	-
				Telecommunications service revenue	619	Note F	-
				Cost of sales	7,209	Note F	-
				Other operating costs	18,299	Note F	-
				Operating expense	1,868	Note F	-
				Nonoperating income and gains	2,670	Note F	-
		Yuanshi Digital Technology Co., Ltd.	3	Accounts receivable - related parties	1,163	Note F	-
				Other receivables - related parties	1,628	Note F	-
				Telecommunications service revenue	3,478	Note F	-
				Sales of inventories	17	Note F	-
				Operating expense	365	Note F	-
				Nonoperating income and gains	6,540	Note F	-
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties	73	Note F	-
				Other receivables - related parties	436	Note F	-
				Accounts payable - related parties	56	Note F	-
				Guarantee deposits received	588	Note F	-
				Telecommunications service revenue	1,006	Note F	-
				Cost of sales	1	Note F	-
				Nonoperating income and gains	1,752	Note F	-
		Linkwell Tech. Ltd.	3	Accounts receivable - related parties	6	Note F	-
				Telecommunications service revenue	89	Note F	-
		Home Master Technology Ltd.	3	Accounts receivable - related parties	11	Note F	-
				Telecommunications service revenue	74	Note F	-
2	ARCOA Communication Co., Ltd.	KGEx.com Co., Ltd.	3	Other payables - related parties	182	Note F	-
				Operating expense	516	Note F	-
		Yuan Cing Co., Ltd.	3	Other payables - related parties	415	Note F	-
				Operating expense	803	Note F	-
		Yuanshi Digital Technology Co., Ltd.	3	Accounts receivable - related parties	4,712	Note F	-
				Other payables - related parties	28	Note F	-
				Telecommunications service revenue	2	Note F	-
				Sales of inventories	25,857	Note F	-
				Operating expense	48	Note F	-
		Qware Communications Co., Ltd.	3	Sales of inventories	112	Note F	-
		DataExpress Infotech Co., Ltd.	3	Accounts receivable - related parties	1,452	Note F	-
				Other receivables - related parties	22,832	Note F	-
				Accounts payable - related parties	125	Note F	-
				Sales of inventories	189	Note F	-
				Cost of sales	1,042	Note F	-
				Other operating revenue	2,684	Note F	-
				Other operating costs	249	Note F	-
				Nonoperating income and gains	520	Note F	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
		Linkwell Tech. Ltd.	3	Accounts receivable - related parties	\$ 167	Note F	-
		Home Master Technology Ltd.	3	Sales of inventories	302	Note F	-
				Other operating revenue	307	Note F	-
				Accounts receivable - related parties	116,989	Note F	-
				Other receivables - related parties	75	Note F	-
				Sales of inventories	294,499	Note F	1
				Other operating revenue	461	Note F	-
				Nonoperating income and gains	180	Note F	-
		Omusic Co., Ltd.	3	Sales of inventories	39	Note F	-
		Information Security Service Digital United Inc.	3	Accounts payable - related parties	76	Note F	-
				Sales of inventories	8	Note F	-
				Operating expense	73	Note F	-
3	KGEx.com Co., Ltd. (Note E)	Qware Communications Co., Ltd.	3	Telecommunications service revenue	72	Note F	-
4	Yuan Cing Co., Ltd. (Note E)	Yuanshi Digital Technology Co., Ltd.	3	Accounts receivable - related parties	3,747	Note F	-
		DataExpress Infotech Co., Ltd.	3	Other operating revenue	11,866	Note F	-
				Accounts receivable - related parties	91	Note F	-
				Other operating revenue	268	Note F	-
5	DataExpress Infotech Co., Ltd. (Note E)	Linkwell Tech. Ltd.	3	Accounts receivable - related parties	5,716	Note F	-
				Other receivables - related parties	2,393	Note F	-
				Accounts payable - related parties	10,006	Note F	-
				Other payables - related parties	20	Note F	-
				Sales of inventories	34,298	Note F	-
				Cost of sales	80,348	Note F	-
				Nonoperating income and gains	2,393	Note F	-
		Home Master Technology Ltd.	3	Accounts receivable - related parties	126,126	Note F	-
				Other receivables - related parties	2,048	Note F	-
				Accounts payable - related parties	3,073	Note F	-
				Other payables - related parties	54	Note F	-
				Sales of inventories	404,498	Note F	1
				Cost of sales	14,045	Note F	-
				Nonoperating income and gains	2,012	Note F	-
		Yuanshi Digital Technology Co., Ltd.	3	Accounts receivable - related parties	1,578	Note F	-
				Sales of inventories	1,503	Note F	-
		Omusic Co., Ltd.	3	Accounts payable - related parties	2	Note F	-
				Other operating revenue	1	Note F	-
6	Linkwell Tech. Ltd. (Note E)	Home Master Technology Ltd.	3	Accounts receivable - related parties	796	Note F	-
				Other receivables - related parties	9	Note F	-
				Accounts payable - related parties	18	Note F	-
				Sales of inventories	8,210	Note F	-
				Cost of sales	154	Note F	-

(Continued)

Number (Note A)	Company Name	Counterparty	Flow of Transactions (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Assets/Revenue (Note C)
7	Yuanshi Digital Technology Co., Ltd. (Note E)	Omusic Co., Ltd.	3	Sales of inventories	\$ 5	Note F	-
				Cost of sales	2	Note F	-
		Qware Communications Co., Ltd.	3	Other operating costs	45	Note F	-
		Information Security Service Digital United Inc.	3	Other payables - related parties	1,202	Note F	-
				Sales of inventories	11	Note F	-
		Operating expense		1,200	Note F	-	

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

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

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

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

Note C: For assets and liabilities, the amount is shown as a percentage to consolidated total assets as of June 30, 2018; while revenue, costs and expenses are shown as a percentage of consolidated total operating revenue for the six months ended June 30, 2018.

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

Note E: The information was based on unreviewed financial statements as of June 30, 2018.

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

(Concluded)

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

INFORMATION ON INVESTEEES  
FOR THE SIX MONTHS ENDED JUNE 30, 2018  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of June 30, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				June 30, 2018	December 31, 2017	Shares	Percentage of Ownership (%)	Carrying Amount			
Far EasTone Telecommunications Co., Ltd.	New Century InfoComm Tech Co., Ltd. ARCOA Communication Co., Ltd.	Taiwan	Type I, II telecommunications services	\$ 22,249,283	\$ 22,249,283	2,100,000,000	100.00	\$ 26,193,180	\$ 1,036,965	\$ 989,749	Notes A and B
		Taiwan	Sales of communications products and office equipment	1,305,802	1,305,802	82,762,221	61.63	999,496	65,602	56,667	Notes A and B
	KGEx.com Co., Ltd. Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	Taiwan	Type II telecommunications services	2,340,472	2,340,472	68,897,234	99.99	746,979	34,431	34,426	Notes A and D
		Taiwan	Electronic information providing services	886,169	886,169	90,014,424	86.41	(296,586)	(209,970)	(181,441)	Notes A, D and H
	Yuan Cing Co., Ltd.	Taiwan	Call center services	-	-	2,000,000	100.00	29,648	7,238	7,238	Notes A, D and G
	Far Eastern Info Service (Holding) Ltd. Omusic Co., Ltd.	Bermuda	Investments	92,616	92,616	1,200	100.00	5,135	(37,539)	52,423	Notes A and D
		Taiwan	Electronic information providing services	25,000	25,000	2,500,000	50.00	9,371	(189)	(95)	Notes A and D
	Qware Communications Co., Ltd.	Taiwan	Type II telecommunications services	-	832,038	-	-	-	(19,602)	(17,509)	Notes A, D and I
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic information providing services and electronic toll collection service	2,542,396	2,542,396	118,250,967	39.42	867,434	99,840	41,515	Notes C and D
	Ding Ding Integrated Marketing Service Co., Ltd. Alliance Digital Technology Co., Ltd.	Taiwan	Marketing	139,500	139,500	5,098,200	15.00	53,106	15,774	2,381	Notes C and D
Taiwan		Electronic information providing services	60,000	60,000	6,000,000	14.40	13,232	(34,489)	(1,220)	Notes C and D	
Yuan Hsin Digital Payment Co., Ltd.	Taiwan	Other financing and supporting services	600,000	600,000	37,432,782	30.00	270,646	(118,731)	(35,643)	Notes 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	174,375	24,686	-	Notes D and E
New Century InfoComm Tech Co., Ltd.	New Diligent Co., Ltd.	Taiwan	Investments	540,000	540,000	54,000,000	100.00	87,044	(52,989)	-	Notes D and E
		Taiwan	Information Security Service Digital United Inc.	148,777	148,777	10,249,047	100.00	115,353	10,750	-	Notes D and E
	Cayman Islands	Digital United (Cayman) Ltd.	132,406	132,406	4,320,000	100.00	14,113	61	-	Notes D and E	
	Taiwan	Yuanshi Digital Technology Co., Ltd. (formerly Hiiir Inc.)	20,000	20,000	2,499,617	2.40	(8,236)	(209,970)	-	Notes A, D and H	
	Taiwan	Ding Ding Integrated Marketing Service Co., Ltd.	46,500	46,500	1,699,400	5.00	17,702	15,774	-	Notes C and D	
New Diligent Co., Ltd.	Sino Lead Enterprise Limited	Hong Kong	Telecommunications services	125	125	30,000	100.00	254	28	-	Notes D and E
	Far Eastern New Diligent Company Ltd.	British Virgin Islands	Investments	330,598	330,598	-	100.00	25,046	(53,286)	-	Notes D and E
	New Diligent Hong Kong Co., Ltd.	Hong Kong	Investments	3,051	3,051	-	100.00	2,932	67	-	Notes D and E
DataExpress Infotech Co., Ltd.	Linkwell Tech. Ltd. Home Master Technology Ltd.	Taiwan	Sale of communications products	10,000	10,000	-	100.00	42,722	1,047	-	Notes D and E
		Taiwan	Sale of communications products	10,000	10,000	-	100.00	18,373	19,747	-	Notes D and E

Note A: Subsidiary.

Note B: The calculation was based on reviewed financial statements as of June 30, 2018.

Note C: Equity-method investee of Far EasTone.

Note D: The calculation was based on unreviewed financial statements as of June 30, 2018.

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

Note F: For investments in mainland China, refer to Schedule H.

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

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

Note I: Far EasTone merged with Qware on June 30, 2018. Far EasTone is the surviving company, and Qware is the dissolved company.

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

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE SIX MONTHS ENDED JUNE 30, 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	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of June 30, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of June 30, 2018	Accumulated Repatriation of Investment Income as of June 30, 2018
					Outward	Inward						
Digital United Information Technologies (Shanghai) Ltd. (Note G)	Design, research, installment and maintenance of computer software and system	\$ 94,426 (US\$ 3,100,000)	2	\$ 94,426 (US\$ 3,100,000)	\$ -	\$ -	\$ 94,426 (US\$ 3,100,000)	\$ (96)	100.00	\$ (96)	\$ 2,018 (RMB 441,000)	\$ -
Far Eastern New Century Information Technology (Beijing) Limited (Notes G and H)	Electronic information providing services	350,290 (US\$ 11,500,000)	2	313,738 (US\$ 10,300,000)	-	-	313,738 (US\$ 10,300,000)	(1,035)	90.52 (Note B)	(937) (Note B)	- (Note B)	-
Far Eastern Tech-info Ltd. (Shanghai) (Note G)	Computer software, data processing and provision of network information	182,760 (US\$ 6,000,000)	2	199,226 (Note F)	-	-	199,226 (Note F)	(90,103)	100.00 (Note C)	(90,103) (Note C)	11,877 (RMB 2,595,000) (Note C)	-

Company Name	Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note D)
Far EasTone Telecommunications Co., Ltd.	\$ 92,616	\$ 92,616	\$ 41,410,481
New Century InfoComm Tech Co., Ltd.	94,426 (US\$ 3,100,000)	94,426 (US\$ 3,100,000)	14,070,005
New Diligent Co., Ltd.	454,676 (US\$14,927,000) (Note E)	454,676 (US\$14,927,000) (Note E)	52,226

Note A: Investment type as follows:

- The Group made the investment directly.
- 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., respectively.
- Other.

Note B: The amount includes Far Eastern New Diligent Company Ltd.'s 89.56% of ownership and Far Eastern Tech-Info Ltd. (Shanghai)'s 0.96% of ownership.

Note C: The amount includes Far Eastern New Diligent Company Ltd.'s 58.33% of ownership and Far Eastern Info Service (Holding) Ltd.'s 41.67% of ownership.

Note D: The limit is based on the limit of 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 written off in the same amount on June 27, 2012.

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

Note G: The calculation was based on unreviewed financial statements as of June 30, 2018.

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