FAR EASTONE 遠傳

20th Anniversary

心 · 沒 有 距 離

Stock Code:4904

# Far EasTone Telecommunications Co.,Ltd

## 2016 Annual Report

Corporate Website : http://www.fareastone.com.tw
Disclosed information can be found at : http://mops.twse.com.tw

Far EasTone 4.5G

Super Tri-Band

Super Speed, Stability, Coverage

Printed on April 30, 2017

# 觸動人心

# To the Heart

# 成就偉大

# To the Height


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(1) Luxemburg Stock Exchange / www.bourse.lu

(2) London Stock Exchange / www.londonstockexchange.com

・Rating Agency：

Name：Taiwan Ratings

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Website：www.taiwanratings.com


The paper used for the contents of this Annual Report conforms to the Green Mark certified. PRINTED WITH SOYINK

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# I Letter to Shareholders

Douglas Hsu
Chairman

# Letter to Shareholders

Dear Stakeholders and Investors,

Looking back at 2016, Far EasTone continued to deliver outstanding business performance thanks to the concerted efforts of our entire staff. Far EasTone was proud to be the first telecom operator in Taiwan to start operating 4.5G/LTE on 2,600MHz band, dominating the telecom industry with the highest internet speed. Furthermore, we have worked with the telecom-equipment giant Ericsson to establish the first 5G Lab in Taiwan, accelerating the IoT development of Taiwan industry. In the meantime, Far EasTone also stepped into the field of mobile payment, launched friDay Wallet aiming to create the most convenient mobile payment ecosystem. In regard to corporate social responsibility, Far EasTone has been relentlessly working on corporate governance, environmental protections and charity works, which results in our listing as an index component in Dow Jones Sustainability Emerging Markets Index. This marks a significant milestone for Far EasTone as it has ranked as one of the top performing companies in corporate sustainability internationally.

Far EasTone continued to create value with stable growth prospects for our shareholders in 2016 in which we saw a consolidated revenue of NT$94.3bn, an EBITDA of NT$27.8bn, and an NT$11.4bn profit after tax. The EPS in 2016 was NT$3.5.

## Far EasTone's Innovative Technology made Smart Living Anytime, Anywhere

Gearing up for the next mobile era and ever-changing world, Far EasTone not only spearheaded the innovations of mobile technology and continued to expand 4.5G applications, but also launched multiple innovative services that expand the applications of IoT, setting foot in the mobile payment market. With the launch of friDay Wallet last year, Far EasTone stepped into mobile payment, providing users with more enriched digital experience through an array of value-added services under its digital brand friDay(friDay Video, friDay Shopping, friDay Reading, friDay Omusic and friDay Play). Also, Far EasTone pioneered in introducing the first robot as sales assistant in retail stores by incorporating artificial intelligence and virtual technology, marking a huge leap in innovative service. On the other hand, Far EasTone has invested in enterprise IoT applications and partnered with Tainan City Government to promote 4G Smart City Flagship Project, targeting six sectors including traffic management, smart transportation, disaster prevention, tourism industry, health community, and mobile education. Through big data analysis, Far EasTone deployed a cross-industry network with comprehensive ICT solutions, reinventing the value chain. The success of 4G Smart City Flagship Project made it the only Taiwanese case study introduced in GSMA's (Groupe Speciale Mobile Association) Keys to the Smart City Report. Far EasTone also launched "Smart Home" service that enables users to manage household conveniences through a series of intelligent automation solutions. From fixed internet to mobile, from house to urban life, Far Eastone has embraced a new era of digital living.

## 360° Services Delivered Warmth and Friendliness to Customers

The essence of telecom industry is embodied in customer service. It's only through fulfilled customer satisfactions that unique brand value can be shaped, and made Far EasTone an outstanding brand. During the pursuit of premium service, Far EasTone has established a world-class service learning management system, the first and only operator accredited with the ISO29990 certification. Also, Far EasTone has dedicated to promoting "360° Services" to realize "service without distance." Last year, the brand new online customer service featuring five service categories and personalized services took it even further, enabling users to enjoy convenient services anytime, anywhere. The universally recognized quality services have won several awards in successive years including the "Golden Award of the Best Service in Taiwan" hosted by Commercial Times, the "Top Service Award" hosted by Next Magazine, and the "Best Store Manager Award" presented by the Taiwan Chain Stores and Franchise Association.

**Yvonne Li**
**President**

### "Express your love. Let it be heard" Far EasTone's Brand Spirit Brings Positive Energy across Formosa

Far EasTone has always believed that corporate's social responsibility should build upon the long-term commitment towards the society. With this spirit, we have been promoting "Express your love. Let it be heard" since 2013, an initiative aiming to spread positive sentiments, cherishing and expressing the kindness and beauty of Taiwanese people. Far EasTone has also been working with John Tung Foundation and Teacher Chang Foundation to promote emotion management in hope to change this land for a better future. In addition, for the past four years, Far EasTone has strategically utilized the core competence of mobile connectivity to build up the environmental education from a creative approach. The second "Cherish the Earth, Spread Love Far" campaign, engaging the society to appreciate and take actions to protect Mother Nature's beauty and diversity, received great applause and response from the public.

### Far EasTone's Sustainability Performance Recognized by the International Society

Far EasTone's sustainable development, driven by 4G Sustainability Forces: Go Prosperous, Go Innovative, Go Caring, and Go Inclusive, has been able to ensure the Company's stable development under any changes of external environment. Far EasTone was listed as an index component in Dow Jones Sustainability Emerging Markets Index, indicating the sustainability performance has been recognized by the international community. Apart from this, Far EasTone was rated as one of the top 10 large-scale enterprises of Common Wealth Magazine's Corporate Social Responsibility Excellence Awards and won "The Most Prestigious Sustainability Award" presented by TCSA (Taiwan Corporate Sustainability Awards) for the second consecutive years. In addition, we were named as the, "Best CEO", "Best Managed Company", "Best Corporate Social Responsibility", "Best CFO" and "Best Investor Relations" in Taiwan by FinanceAsia. The Company was ranked top 5% in Corporate Governance Evaluation conducted by TWSE (Taiwan Stock Exchange) for three consecutive years.

### Through Cross-Industry, Border and Domain Transformation, Into A New Digital Age

As the theme of 2016 Mobile World Congress "Mobile is Everything" indicated, mobile will become pervasive and unprecedentedly important while 5G network and IoT will be given significant importance in near future. Looking ahead, as a leading company in telecommunication and digital application services, Far EasTone will take bold steps in cross-industry, cross-border and cross-domain transformation to strengthen the vertical integrations of ICT solutions based on our 4.5G tri-band high speed mobile network. And through segment marketing, we will develop more diversified and intelligent solutions to cater to the needs of customers. While we actively deploy 5G network and IoT solutions, we will continue to deepen business analytics technology and provide products and services catered to customers' intimacy, transforming them into greater business benefits.

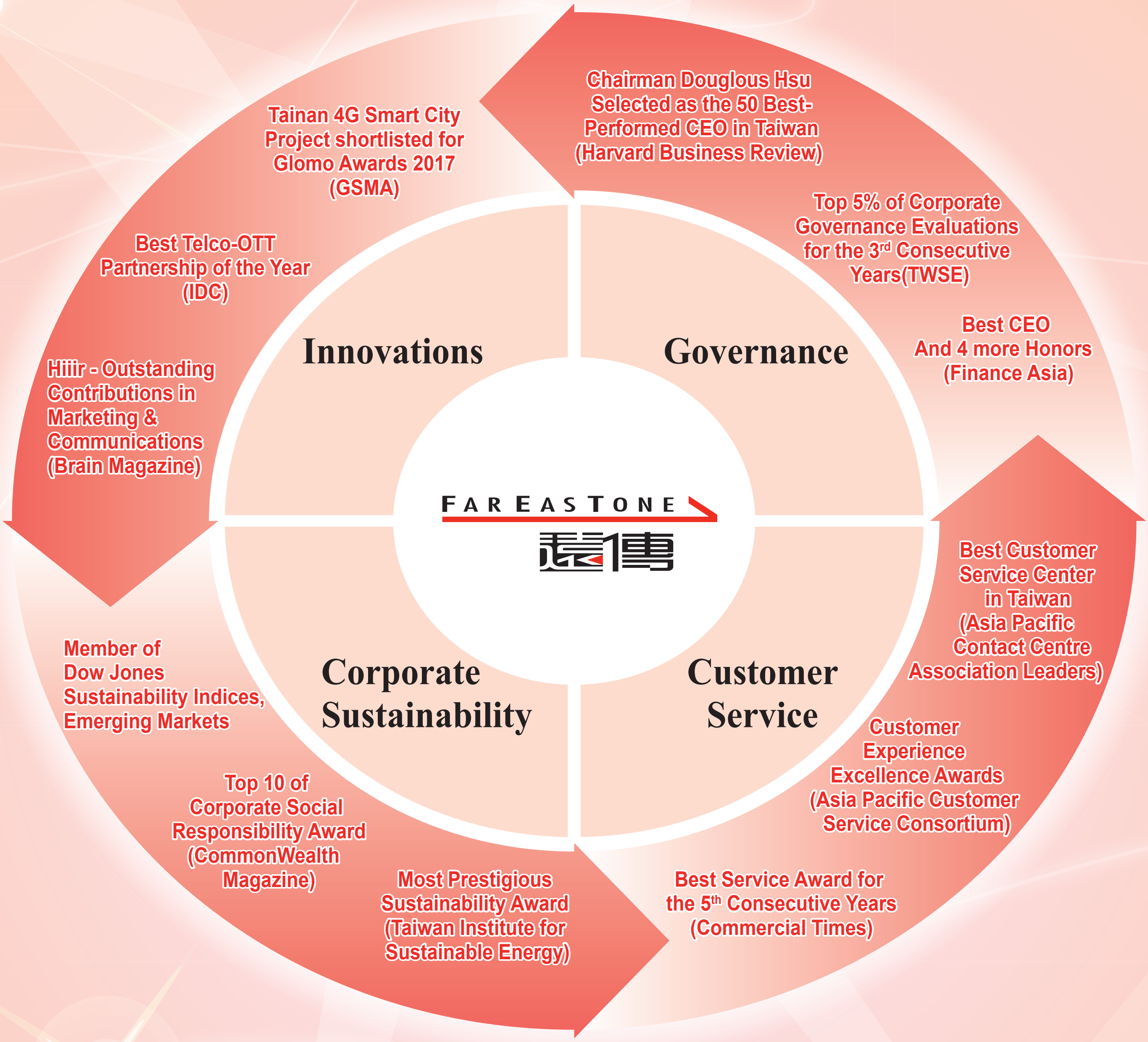
With the rapid development of technology, the world is now confronted with VUCA: Volatility, Uncertainty, Complexity and Ambiguity. The strategies, theories, and practices we used to rely on are no longer applicable in today's business environment. Facing such capricious challenge, Far EasTone will lead organizational transformation to become more agile and apt for changes, bringing operational efficiency up to a new level. Riding on this transformation, we will provide superior customer experience and innovative applications to become the preferred partner in digital life. Most importantly, Far EasTone will continue to pursue sustainable development and growth for our shareholders, employees, the environment and society, fulfilling the vision of "FET Connects and Enriches Life".

Lastly, our most sincere appreciation to all the shareholders and investors. Please keep your suggestions coming and help us excel and improve. Wish all of you good health and great success.

**Douglas Hsu**
**Chairman**

**Yvonne Li**
**President**

# Major Honors and Awards




## FET Garnered over 40 Recognitions in 2016

FET Connects and Enriches Life

# II Company Profile

1. Date of Incorporation
2. Company History

## 1. Date of Incorporation

**Far EasTone Telecommunications Co., Ltd. (the "Company")was incorporated on April 11, 1997.**

## 2. Company History

### 2-1. Milestones:

2017/04 Ranked top 5% of the 3rd "Corporate Governance Evaluation" hosted by Taiwan Stock Exchange in 2017.

2017/03 FET garnered " Best CEO", "Best Managed Company", " Best at Corporate Social Responsibility", " Best CFO" and "Best Investor Relations" in Taiwan from FinanceAsia. Among them, FET ranked No.1 in Corporate Social Responsibility.

2017/02 FET Tainan 4G Smart City Project, a joint effort by FET and Tainan City Government, was the only case from Taiwan shortlisted for the "Glomo Awards 2017" held by GSMA (Groupe Speciale Mobile Association).

2017/01 FET launched the 20th anniversary brand campaign "Connect with Heart. Spread the Love".

2016/12 FET launched friDay Wallet, the electronic payment service with 11 affiliated companies of Far Eastern Group and 9 international consortiums.

2016/12 At the Taiwan Chain Stores and Franchise Association's 2016 Customer Service Awards, 13 FET store managers were recognized as outstanding, and 5 FET store managers were recognized with special distinction.

2016/11 FET's Direct Carrier Billing Service was awarded the International Data Corporation (IDC) 2016 Best Telco-OTT Partnership, that supports both Android and iOS operating systems.

2016/11 FET garnered five awards at the "2016 Taiwan Corporate Sustainability Awards", including the highest commendation "The Top 10 Sustainability Model Companies Award ", which we also won last year, along with "Growth through Innovation Award", "Creativity in Communication Award", "People Development Award" and "Taiwan Top 50 Corporate Sustainability Report ITC Golden Award".

2016/11 FET ranked No.1 in "Top Service Award-Mobile and Communication category" hosted by Next Magazine for 4 consecutive years.

2016/10 FET received an Excellence Award in the 5th Environment Education Award hosted by Taipei City Government.

2016/10 FET Brand campaign won the gold award of Internet, Telecom and Service from the the Greater China Effie Award.

2016/09 FET set up the first 5G laboratory in Taiwan.

2016/09 FET was included for the first time in the Dow Jones Sustainability Indices, a leading benchmark for sustainability initiatives.

2016/08 FET was rated among top 10 large-scale enterprises of CommonWealth Magazine's Excellence in Corporate Social Responsibility Awards in 2016.

2016/08 FET launched the first robot telecom clerk in Taiwan.

2016/07 FET was awarded with the gold medal in Service Survey in Taiwan by Commercial Times five years in a row.

2016/06 With comprehensive and detail-oriented customer services, FET earned " the Best Customer Experience Management" of the Year, "Customer Experience Center of the Year", and "Customer Satisfaction Quality System of the Year" in 2016 Asia Pacific Customer Service Consortium (APCSC) Customer Relationship Excellent (CRE) Awards.

2016/05 As part of the campaign "Cherish the Earth, Spread the Love", FET invited students to create artistic gas masks and participated in the world's first Children's Environmental Summit. This creative effort has won us a Gold Pencil, the ultimate symbol of achievement, in the category of Public Relations at The One Show and Creative Week in New York.

2016/04 Chairman, Douglas Hsu was selected as the 2016 Top 50 of Best Performing CEOs in the Taiwan, according to the Harvard Business Review.

2016/04 Ranked top 5% of the 2nd "Corporate Governance Evaluation" hosted by Taiwan Stock Exchange in 2016.

| | |
|---|---|
| 2016/03 | FET started operating 4.5G/LTE on 2,600MHz bands and became the first 4G operator with 700MHz, 1800 MHz and 2600MHz tri-band in Asia. |
| 2015/11 | FET garnered 4 awards at "2015 Taiwan Corporate Sustainability Awards", hosted by the Taiwan Institute for Sustainable Energy. Awards included "Top 10 Most Sustainable Company Award", "Growth Through Innovation Award", "Social Inclusion Award", and "Taiwan Top 50 Corporate Sustainability Report Silver Award". |
| 2015/11 | FET retail stores obtained ISD 10002-Quality Management-Customer Satisfaction Certification and, offered diversified complaints management to fullill customers' needs. |
| 2015/10 | FET ranked No.1 in "Top Service Award 2015-Mobile and Communication" from Next Media Magazine. |
| 2015/06 | Ranked top 5% of the 1st Corporate Governance Evaluation hosted by Taiwan Stock Exchange in 2015. |
| 2015/06 | FET was the first company in Taiwan to issue integrated reports, and has sought to carry out sustainable 4G growth. |
| 2015/06 | FET was awarded with the gold medal in Service Survey in Taiwan by Commercial Times four years in a row. Upholding its commitment to offering customer service that comes from the heart, FET continues to exceed expectations with 360° Service and always puts customers first. |
| 2015/04 | FET garnered the SGS BS 8477 Code of Practice for Customer Service Certification and become the first and only authenticate carrier in Asia. |
| 2014/06 | FET launched 4G mobile services, with 4G services covering 75% of the area in Taiwan, creating a more expansive 4G coverage than all the other carriers in the industry. In August, FET launched 4G service in 1800MHz spectrum and becomes the first 4G carrier with 700MHz and 1800 MHz dual band in the world. |
| 2012/01 | The online edition of FET's first CSR report, based on the concept of "Eco-Fashion and Creative - Responsibility", was published, signaling that FET is heading towards combining corporate sustainable development with social responsibility |
| 2006/10 | Launched Taiwan's first 3.6 Mbps HSPA technology-based services, ushering in the age of 3.5G mobile communications. |
| 2005/07 | Launched 3G multimedia services, becoming the first 3G/WCMDA provider in Taiwan |
| 2004/01 | A merger and acquisition with KGT was approved by the Executive Yuan's Fair Trade Commission. FET officially merged with KGT, creating Taiwan's largest mobile operator in the private sector |
| 1997/01 | FET was awarded with two 2G licenses (GSM1800-whole region & GSM900-Northern region frequency band) from Ministry of Transportation and Communication R.O.C. (MOTC). |


2600MHz has launched on 2016/3/31, FET officially strodes into 4.5G/LTE era with intergrated tri-band network (700 MHz, 1800 MHz and 2600 MHz ).

## 2-2 2016 Honors held until the Annual Report being Published

| Date | Honors & Recognition |
|---|---|
| 2017/04 | FET ranked top 5% of the 3rd "Corporate Governance Evaluation" hosted by Taiwan Stock Exchange in 2017 and won the award for 3 consecutive years. |
| 2017/03 | FET garnered " Best CEO", "Best Managed Company", " Best at Corporate Social Responsibility", " Best CFO" and "Best at Investor Relations" in Taiwan from FinanceAsia. Among them, FET ranked No.1 in Corporate Social Responsibility. |
| 2017/02 | FET Tainan 4G Smart City Project, the only representative case from Taiwan, was shortlisted for "Glomo Awards 2017" held by GSMA (Groupe Speciale Mobile Association). |
| 2016/11 | FET won the highest honor "Top 10 Most Model Sustainability Company" in the Taiwan Corporate Sustainability Awards. Meanwhile, FET also garnered recognition with four other awards including "Growth Through Innovation Award", "Creative in Communication Award", " People Development Award ", and "Top 50 Corporate Sustainability Report Golden Award". |
| 2016/09 | FET was included for the first time in the DJSI-Emerging Markets (Dow Jones Sustainability Index), a leading benchmark for sustainability initiatives. |
| 2016/08 | FET was rated the top 8 large-scale enterprises of CommonWealth Magazine's Excellence in "Corporate Social Responsibility Awards" in 2016. |
| 2016/07 | FET won " Golden Award of the Best Service in Taiwan" from Commercial Times for 5 consecutive years. |
| 2016/05 | FET's environmental educations activities: " Cherish the Earth, Spread Love Far", garnered international recognitions including the highest honor "Golden Pencil" from One Show Creativity Festival (New York) |
| 2016/04 | Chairman, Douglas Hsu was selected as the 2016 Top 50 of Best Performing CEOs in the Taiwan, according to the Harvard Business Review. |
| 2016/03 | FET launched 4.5G/LTE on 2,600MHz bands and become the first 4G operator with 700MHz, 1800 MHz and 2600MHz tri-band in Asia. |
| 2016/03 | FET garnered " Best Managed Company", " Most Committed to Corporate Governance", " Best at Investor Relations", " Best at Corporate Social Responsibility" and "Best CFO" in Taiwan from FinanceAsia. |

## 2-3. Status of the Affiliated Company from last year up to the Annual Report being Published：

2017/3/31

| Investor Company | Affiliated Company | | |
|---|---|---|---|
| | Company Name | Share | % |
| Far EasTone Telecommunications Co., Ltd. | New Century InfoComm Tech Co., Ltd. | 2,100,000,000 | 100.00 |
| | Far Eastern Electronic Toll Collection Co., Ltd. | 118,250,967 | 39.42 |
| | ARCOA Communications Co., Ltd. | 82,762,221 | 61.63 |
| | KGEx.com Co., Ltd. | 78,895,760 | 99.99 |
| | Hiiir Inc. | 53,726,000 | 89.54 |
| | Q-ware Communications Co., Ltd. | 33,982,812 | 81.46 |
| | Yuan Hsin Digital Payment Co., Ltd. | 32,658,426 | 30.00 |
| | Ding Ding Integrated Marketing Service Co., Ltd. | 10,408,200 | 15.00 |
| | Far Eastern Electronic Commerce Co., Ltd. | 6,691,000 | 14.85 |
| | Alliance Digital Technology Co., Ltd. | 6,000,000 | 14.40 |
| | Omusic Co., Ltd. | 2,500,000 | 50.00 |
| | Yuan Cing Co., Ltd. | 2,000,000 | 100.00 |
| | Far Eastern Info Service (Holding) Ltd. | 1,200 | 100.00 |
| New Century InfoComm Tech Co., Ltd. | New Diligent Co., Ltd. | 106,000,000 | 100.00 |
| | Information Security Service Digital United Inc. | 10,249,047 | 100.00 |
| | Digital United (Cayman) Ltd. | 4,320,000 | 100.00 |
| | Ding Ding Integrated Marketing Service Co., Ltd. | 3,469,400 | 5.00 |
| | Far Eastern Electronic Commerce Co., Ltd. | 2,392,000 | 5.31 |
| ARCOA Communication Co., Ltd. | DataExpress Infotech Co., Ltd. | 12,866,353 | 70.00 |
| New Diligent Co., Ltd. | Sino Lead Enterprise Limited | 30,000 | 100.00 |
| | FarEastern New Diligent Company Ltd. | - | 100.00* |
| | New Diligent Hong Kong Company Ltd. (Note 1) | - | 0* |
| DataExpress Infotech Co., Ltd. | Linkwell Tech. Ltd. | - | 100.00* |
| | Home Master Technology Ltd. | - | 100.00* |
| Far Eastern Tech-info Ltd. (Shanghai) | FarEastern New Century Information Technology (Beijing) Limited | - | 0.96* |
| FarEastern New Diligent Company Ltd. | FarEastern New Century Information Technology (Beijing) Limited | - | 89.56* |
| | Far Eastern Tech-info Ltd. (Shanghai) | - | 58.33* |
| Digital United (Cayman) Ltd. | New Diligence Corporation (Shanghai) | - | 100.00* |
| Far Eastern Info Service (Holding) Ltd. | Far Eastern Tech-info Ltd. (Shanghai) | - | 41.67* |

* The ratio is based on the proportion of investor Company's contribution to the registered capital.
Note 1:Establishment completed on December 4, 2014, but the investment amount had not been remitted to the investee as of March 31, 2017.

## 2-4. Status of the Reorganization of the Company from last year up to the Annual Report being published:
None.

## 2-5. Changes in Directors, Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares from last year up to the Annual Report being published: None.

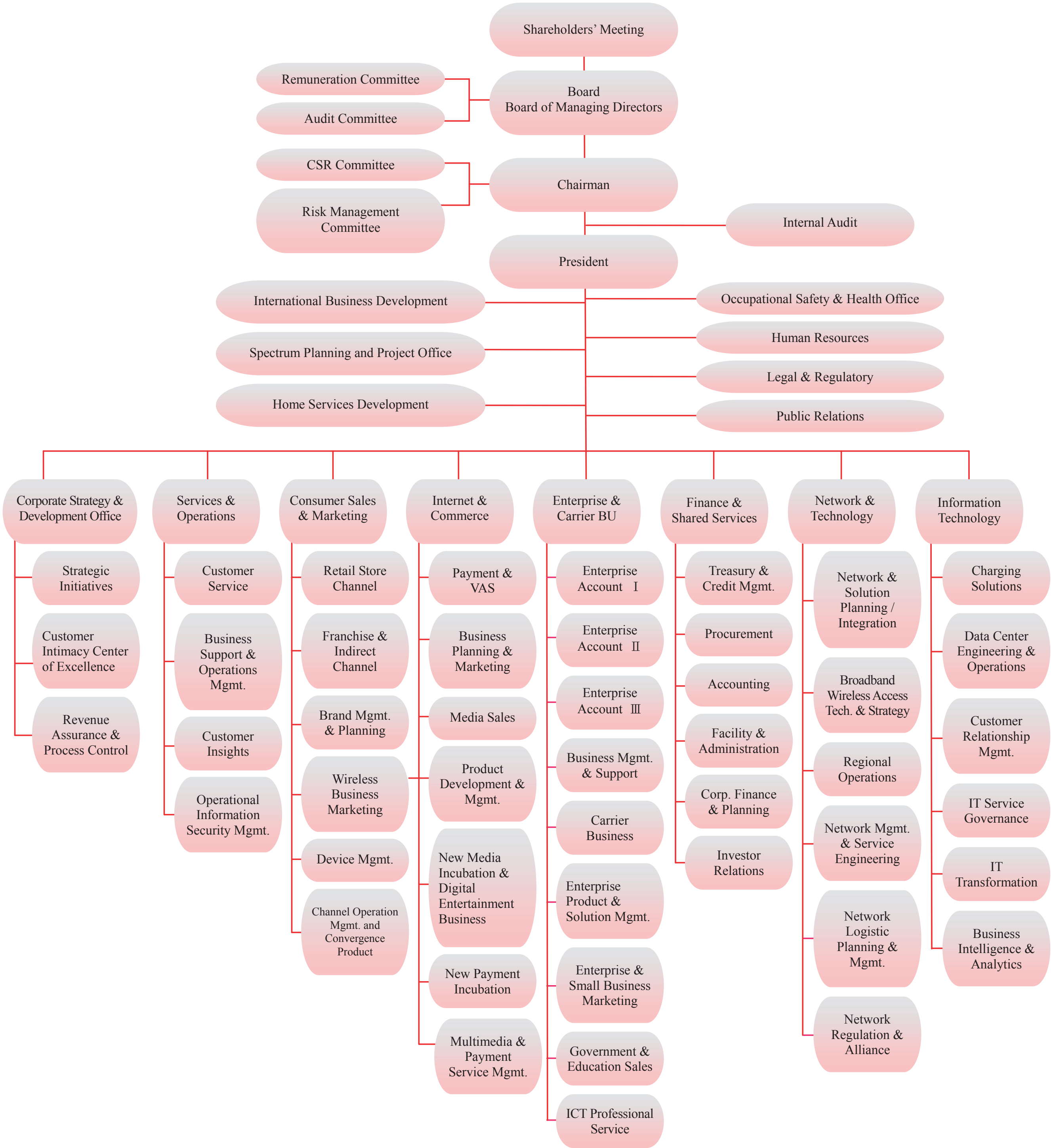
## 2-6. Material Impact Event on the Shareholders' Equity and Company from Change of Ownership, Business Operating, Business Content and Others from last year up to the Annual Report being Published: None.

# III Corporate Governance

1. Organization Structure
2. Directors, President, Executive Vice Presidents, Vice Presidents, Senior Directors and Department Heads
3. Operation of Corporate Governance
4. Certified Public Accountant(CPA) Professional Fee Information
5. Change of Certified Public Accountant (CPA)
6. The Company's Chairman, President and Managers Responsible for Finance or Accounting Who Have Held a Post in Company's Audit Firm or its Affiliations in the Last Year
7. Shares Transferred by Directors, Management and Major Shareholders from last year up to the Annual Report being Published
8. Relationship between Top Ten Shareholders defined as Related Parties, Spouse or a Relative within Two Degree
9. Comprehensive Shareholding Information Relating to Company, Directors, Management, and Companies Affiliated through Direct and Indirect Investment

# 1. Organization Structure

## 1-1.Organization Chart



## 1-2. Roles and Responsibilities

2017/4/30

| Department | Name | Title | Job Description |
|---|---|---|---|
| President Office | Yvonne Li | President | Responsible for implementing the Board's decisions, developing material strategies and directions for the Company, and supervising overall operation and organization. |
| International Business Development | Mike Lee | Executive Vice President | Responsible for international new business promotion. |
| Spectrum Planning and Project Office | Dick Lin | Vice President | Responsible for spectrum management and special projects assigned by the President. |
| Home Services Development | Jennifer Liu | Vice President | Responsible for formulating directions for FET's business development of the Home Services department, and for planning and developing Home services and products. |
| Human Resources | Joann Chang | Vice President | Responsible for Human Resources management, development and training, internal communications, recruitment, employee relations, compensation and benefits management, health and safety, and the Human Resources Information System. |
| Legal & Regulatory | Jessica Chen | Vice President | Responsible for legal litigation, IP, regulatory issues, contract management, and public affairs. |
| Public Relations | Yaling Lang | Senior Director | Responsible for corporate communications, the public relations for corporate and corporate image. |
| Corporate Strategy & Development Office | Sherman Lee | Chief Advisor | Responsible for promoting the formulation and implementation of the Company's short and long-term strategy, revenue assurance & process control and developing new business. |
| Services&Operations | Eton Shu | Executive Vice President | Responsible for providing logistical support to individual users' services, operational information security management, as well as for overall customer services planning. |
| Consumer Sales & Marketing | Maxwell Cheng | Executive Vice President and Chief Sales & Marketing Officer | Responsible for marketing of individual client service telecommunications products and the Group's products, planning sales channel positioning, developing new sales channels, and formulating expansion strategy for new stores. |
| Internet & Commerce | Magdalina Lin | Executive Vice President | Responsible for promoting e-commerce synergy and developing Internet and commerce related business. |
| Enterprise & Carrier BU | Philip Tseng | Executive Vice President | Responsible for the business planning and sales of Enterprise BU. |
| Finance & Shared Services | T.Y. Yin | Executive Vice President & CFO | Responsible for finance, accounting, investor relations, procurement, general administration and collection. |
| Network &Technology | Herman Rao | Executive Vice President | Responsible for Mobile/ Broadband/ ISP Network planning, development and operation, technology strategy, planning and development. |
| Information Technology | Eton Shu (Acting) | Executive Vice President | Responsible for strategic planning, developing and operating of Company information technology strategy and system. To provide IT services for store, customer care, billing, financial and decision analysis information. |
| Internal Audit | Iris Su | Chief Auditor | Responsible for assisting the Board and management team to identify deficiencies in the internal control system, to assess the effectiveness and efficiency of the operation, and to provide appropriate improvement suggestions to ensure the effectiveness of internal control systems, as well as to drive continuous improvement. |

## 2. Directors, President, Executive Vice Presidents, Vice Presidents, Senior Directors and Department Heads

### 2-1. Directors

2017/4/25

| Title | Nationality | Name | Gender | Election Date | Tenure (year) | First Election Date | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding in the Name of Others | | Major Education & Experience | Current Position with Other Company | Manager is a Spouse or consanguinity within 2 degrees to each other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Chairman | R.O.C. | Douglas Hsu, Representative of Yuan Ding Investment Co., Ltd. | Male | 2015/6/18 | 3 | 1997/4/11<br>*1997/4/11 | 1,066,657,614<br>*0 | 32.73<br>*0 | 1,066,657,614<br>*0 | 32.73<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | M.S., University of Notre Dame, U.S.A.<br>M.S., Economics, Columbia University, USA;<br>Honor Ph. D., Management , National Chiao Tung University;<br>President of Far Eastern New Century Corporation | Chairman of Far Eastern New Century Corporation<br>Chairman of Asia Cement Co., Ltd.<br>Chairman of Far Eastern Department Stores Ltd.<br>Chairman of Oriental Union Chemical Corp.<br>Chairman of U-Ming Marine Transport Corp.<br>Chairman of New Century InfoComm Tech Co., Ltd.<br>Vice Chairman of Far Eastern International Bank | Director<br>Director | Peter Hsu<br>Jeff Hsu | Brother<br>Father and Son |
| Managing Director | R.O.C. | Peter Hsu, Representative of Yuan Ding Investment Co., Ltd. | Male | 2015/6/18 | 3 | 1997/4/11<br>*1997/4/11 | 1,066,657,614<br>*0 | 32.73<br>*0 | 1,066,657,614<br>*0 | 32.73<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | M.S., Operations Research, Stanford University, USA;<br>Vice President of Ding & Ding Management Consultants Co. Ltd. | Vice Chairman of Far Eastern New Century Corporation<br>Director of Asia Cement Co., Ltd.<br>Supervisor of U-Ming Marine Transport Corp. | Chairman | Douglas Hsu | Brother |
| Managing Director | Sweden | Jan Nilsson, Representative of Yuan Ding Investment Co., Ltd. | Male | 2015/6/18 | 3 | 1997/4/11<br>*2003/5/26 | 1,066,657,614<br>*0 | 32.73<br>*0 | 1,066,657,614<br>*0 | 32.73<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | Vice Chairman of Far Eastone Telecommunications Co., Ltd.;<br>President of Far Eastone Telecommunications Co., Ltd.;<br>Sr. Executive VP of Satelindo Telecom Indonesia;<br>M.S., Industrial and Management Engineering, Linkoping University, Sweden | None | None | None | None |

| Title | Nationality | Name | Gender | Election Date | Tenure (year) | First Election Date | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding in the Name of Others | | Major Education & Experience | Current Position with Other Company | Manager is a Spouse or consanguinity within 2 degrees to each other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Independent Director | Hong Kong (China) | Lawrence Juen-Yee LAU | Male | 2015/6/18 | 3 | 2005/5/20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Academician, Academia Sinica, 1982; Kwoh-Ting Li Professor in Economic Development, Stanford University; Vice-Chancellor (President) of The Chinese University of Hong Kong; Chairman of CIC International (Hong Kong) Co., Limited; B.S. in Physics, Stanford University U.S.A.; M.A. and Ph.D. in Economics, University of California at Berkeley, U.S.A. | Ralph and Claire Landau Professor of Economics, The Chinese University of Hong Kong; Independent Non-executive Director, CNOOC Limited in Hong Kong; Independent Non-executive Director, AIA Group Limited in Hong Kong; Independent Non-executive Director, Hysan Development Company Limited in Hong Kong; Member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee, member of its Currency Board and Investment Sub-Committees and Chairman of its Governance Sub-Committee; Vice-Chairman, Our Hong Kong Foundation; Member and Chairman of the Prize Recommendation Committee, the LUI Che Woo Prize Company; Chairman, Board of Directors, The Chinese University of Hong Kong (Shenzhen) Finance Institute, aka Shenzhen Finance Institute | None | None | None |
| Independent Director | Sweden | Kurt Roland Hellström | Male | 2015/6/18 | 3 | 2005/5/20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | President and CEO of Ericsson Group; M.S., Electronics, Royal Institute of Technology; MBA, Stockholm School of Economics | Director of the European Institute for Japanese Studies (Sweden) Director of International Advisory Board of Altimo (Russia) | None | None | None |
| Independent Director | R.O.C. | Chung Laung Liu | Male | 2015/6/18 | 3 | 2015/6/18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Sc. D., Massachusetts Institute of Technology President and Mei Yi Che Honorary Chair Professor of National Tsing Hua University, Taiwan Professor Emeritus of University of Illinois at Urbana-Champaign, U.S.A. | William M. W. Mong Honorary Chair Professor, National Tsing Hua University, Taiwan Independent Director of United Microelectronics Corporation Independent Director of Richtek Technology Corporation Independent Director of Microelectronics Technology Inc. Director of Macronix International Co., Ltd. Director of UBI Pharma Inc. Supervisor of Andes Technology Corporation | None | None | None |
| Director | R.O.C. | Champion Lee, Representative of Yuan Ding Co., Ltd. | Male | 2015/6/18 | 3 | 2003/5/23 *1997/4/11 | 4,163,500 *0 | 0.13 *0 | 4,163,500 *0 | 0.13 *0 | 0 *0 | 0 *0 | 0 *0 | 0 *0 | MBA, Texas A&I University, USA; President of Yuan Ding Co., Ltd.; Sr. EVP of Far Eastern New Century Corporation | Supervisor of Far Eastern New Century Corporation Supervisor of Asia Cement Co., Ltd. Director of U-Ming Marine Transport Corp. | None | None | None |
| Director | U.S.A. | Jeff Hsu Representative of Yuan Ding Co., Ltd. | Male | 2015/6/18 | 3 | 2003/5/23 *2015/6/18 | 4,163,500 *0 | 0.13 *0 | 4,163,500 *0 | 0.13 *0 | 0 *0 | 0 *0 | 0 *0 | 0 *0 | Master's degree in Design and Innovation Methods, Institute of Design, Illinois Institute of Technology, U.S.A. MBA, University of Notre Dame , U.S.A.; Worked as a Strategy and Design Consultant in the United States with clients ranging from hi-tech startups to Nestle, Denso Automotive, Kia Motors, and Target. Captain's commission in the United States Marine Corps | Chief Innovation Officer of Far Eastern Group Director and Vice President of U-Ming Marine Transport Corp. | Chairman | Douglas | Father and Son |

| Title | Nationality | Name | Gender | Election Date | Tenure (year) | First Election Date | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding in the Name of Others | | Major Education & Experience | Current Position with Other Company | Manager is a Spouse or consanguinity within 2 degrees to each other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Director | Japan | Keisuke Yoshizawa, Representative of U-Ming Marine Transport Corp. | Male | 2015/6/18 | 3 | 2012/6/13<br>*2014/7/16 | 331,000<br>*0 | 0.01<br>*0 | 331,000<br>*0 | 0.01<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | MIT Sloan School of Management Master of Business Administration (Class of 2004);<br>General Manager, AOMORI Branch, NTT DOCOMO, INC. | Executive Director, Strategic Alliance, Global Business Division, NTT DOCOMO, INC. | None | None | None |
| Director | R.O.C. | Bonnie Peng, Representative of Asia Investment Corp. | Female | 2015/6/18 | 3 | 2006/5/26<br>*2012/6/13 | 986,303<br>*0 | 0.03<br>*0 | 1,426,303<br>*0 | 0.04<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | Doctor of Journalism, Southern Illinois University, Carbondale, U.S.A.;<br>Chairperson of the 2nd term of National Communication Commission;<br>Professor, Department of Journalism (Graduate program), National Chengchi University, Taiwan | Professor, Department of Social and Policy Sciences, and Department of Information Communication (Graduate program), Yuan Zu University;<br>Independent Director of XPEC Art Center Inc. | None | None | None |
| Director | Singapore | Toon Lim, Representative of Ding Yuan International Investment Co., Ltd. | Male | 2015/6/18 | 3 | 2012/6/13<br>*2008/1/10 | 919,653<br>*0 | 0.03<br>*0 | 919,653<br>*0 | 0.03<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 | Postgraduate Diploma in Business Administration University of Singapore;<br>BE(Hons), University of Canterbury, NZ<br>Chief Operating Officer, SingTel Group | Advisor, SingTel Group<br>Board Director, APT Satellite HK | None | None | None |

*Number of shares and percentage of shares currently held and first election date by the individual

Note: For all directors and shareholders are corporate entities, the company registry is R.O.C.

## 2-2. Information of Directors

2017/4/25

| Condition / Name | With work experience of more than 5 years and the following professional qualifications | | | Conform to Independent (Note) | | | | | | | | | | No. of Public companies in which he/she serves as Director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | An instructor or higher in a department of commerce, law, finance, accounting, or other academic department related to company operations at a public or private junior college, college, university. | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a specialty needed for company operations. | Having work experience in the area of commerce, law, finance, or accounting, or other experience needed for company operations | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Douglas Hsu | | | V | | | V | | | | V | | V | | None |
| Peter Hsu | | | V | | | V | | | | V | | V | | None |
| Jan Nilsson | | | V | | | V | V | V | | V | V | V | | None |
| Lawrence Juen-Yee LAU | V | | V | V | V | V | V | V | V | V | V | V | V | None |
| Kurt Roland Hellström | | | V | V | V | V | V | V | V | V | V | V | V | None |
| Chung Laung Liu | V | | V | V | V | V | V | V | V | V | V | V | V | 3 |
| Champion Lee | | | V | | | V | V | | | V | V | V | | None |
| Jeff Hsu | | | V | | | V | | | | V | | V | | None |
| Keisuke Yoshizawa | | | V | V | V | V | V | V | V | V | V | V | | None |
| Bonnie Peng | V | | V | | V | V | V | V | V | V | V | V | | 1 |
| Toon Lim | | | V | V | V | V | V | V | V | V | V | V | | None |

Note: V indicates qualified Directors during the two years before being elected or during the term of the appointment.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the company or any of its affiliates. (Unless the person is an independent director of the company, its' parent company or its subsidiaries of which are required to set up independent director according to "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" or local law.)

(3) Not an individual shareholder who holds shares, together with those held by the person's spouse, minor children, or held under others' names, in an aggregate amount of one percent or more of the total outstanding shares of the company or ranks among the top ten shareholders who are natural persons in terms of the share volume held.

(4) Not a spouse, or relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total outstanding shares of the company or ranks among the top five corporate shareholders in term of share volume held.

(6) Not a director, supervisor, executive officer, or shareholder holding five percent or more shares of a specific company or institution and who also has financial or business dealings with the company.

(7) Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the company or to any affiliates of the company. (Unless a member of the remuneration committee who has exercised Article 7 of the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter")

(8) Not a spouse or relative within the second degree of kinship of any directors.

(9) Not have any of the circumstance in the subparagraphs of Article 30 of the Company Act.

(10)Not elected in the capacity of a government agency, a juristic person, or a representative thereof, as provided in Article 27 of the Company Act.

## 2-3. Major shareholders of FET's Board Directors those are institutional shareholders

2016/12/31

| Institutional Shareholders | Major Shareholders of the Institutional Shareholders |
|---|---|
| Yuan Ding Investment Co., Ltd. | Far Eastern New Century Corporation(99.40%), Ta Juh Chemical Fibers Co., Ltd. (0.3%), An Ho Garment Co., Ltd. (0.3%) |

| Institutional Shareholders | Major Shareholders of the Institutional Shareholders |
|---|---|
| Yuan Ding Co., Ltd. | Far Eastern New Century Corporation (37.13%), Asia Cement Co., Ltd. (35.50%), Der Ching Investment Corp. (14.50%), Yuan Ding Investment Co., Ltd.(12.86%), Yu Ming Trading Co., Ltd.(0.002%), Far Eastern Department Store Co., Ltd.(0.001%), Douglas Hsu(0.001%) |
| U-Ming Marine Transport Corp. | Asia Cement Co., Ltd. (39.25%), Nan Shan Life Insurance Co., Ltd. (2.90%)、Cathay Life Insurance Co., Ltd. (2.84%), Public Service Pension Fund Management Board (2.13%), Fund of Labor Insurance (1.81%), Yuan Ding Investment Co., Ltd. (1.05%), Yue Yuan Investment Co., Ltd. (0.94%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (0.93%), Asia Investment Corp.(0.92%), Ya Li Transportation Co. Ltd. (0.75%) |
| Asia Investment Corp. | Asia Cement Co., Ltd. (100%) |
| Ding Yuan International Co., Ltd. | Far Eastern New Century Corporation (100%) |

Information Sources: Department of Commerce, Ministry of Economic Affairs, R.O.C., public announcements on each company's websites and Ex-rights/Ex-dividend information disclosed by each company.

## 2-4. Major Shareholders of Institutional Shareholders mentioned in 2-3 section

2016/12/31

| Institutional Shareholders | Major Shareholders of the Institutional Shareholders |
|---|---|
| Far Eastern New Century Corporation | Asia Cement Co., Ltd.(23.77%), Oriental Institute of Technology(4.81%), Far Eastern Medical Foundation (3.61%), Far Eastern Memorial Foundation(3.15%), Yuan-Ze University(2.74%), Cathay Life Insurance Co., Ltd. (2.39%), Shin Kong Life Insurance Co., Ltd.(2.33%), Nan Shan Life Insurance Co., Ltd. (2.32%), Douglas Hsu(1.71%), China Life Insurance Company, Ltd.(1.63%) |
| Ta Juh Chemical Fibers Co., Ltd. | Yuan Ding Investment Co., Ltd. (41.86%), Yue Ding Industry Co., Ltd.(38.76%), Yue Li Investment Corp. (19.38%) |
| An Ho Garment Co., Ltd. | Far Eastern New Century Corporation (100%) |
| Asia Cement Co., Ltd. | Far Eastern New Century Corporation(22.33%), Far Eastern Medical Foundation(5.40%), Fubon Life Insurance Co., Ltd. (4.34%), Far Eastern Department Stores Co., Ltd.(1.81%), The committee of Employee Pension Fund of Far Eastern New Century Corporation (1.51%), Yuan-Ze University (1.41%), Shin Kong Life Insurance Co., Ltd.(1.39%)、Yue Yuan Investment Co., Ltd.(1.29%), Taiwan Post Co., Ltd. (1.20%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.19%) |
| Der-Ching Investment Corp. | Asia Cement Co., Ltd. (99.99%), Asia Investment Corp. (0.001%), Peter Hsu (0.001%) |
| Yuan Ding Investment Co., Ltd. | Far Eastern New Century Corporation (99.40%), Ta Juh Chemical Fibers Co., Ltd. (0.3%), An Ho Garment Co., Ltd. (0.3%) |
| Yu Ming Trading Co., Ltd. | Bai-Ding Investment Co., Ltd.(47%), Yuan Ding Investment Co., Ltd. (45.50%), Yue Ding Industry Co., Ltd. (5%), Ding & Ding Management Consultants Co., Ltd. (1%) |
| Far Eastern Department Stores Co., Ltd. | Far Eastern New Century Corporation (17.06%), Asia Cement Co., Ltd. (5.65%), Yuan-Ze University (4.75%), Yuan Tong Investment Co., Ltd. (2.80%), The committee of Employee Pension Fund of Far Eastern Department Stores Co., Ltd. (2.13%), Yu Yuan Investment Co., Ltd. (2.06%), Oriental Securities Co., Ltd.(1.63%), Kai Yuan International Investment Co., Ltd. (1.46%), Yuan Ding Investment Co., Ltd. (1.44%), The committee of Employee Pension Fund of Far Eastern New Century Corporation (1.40%) |
| Nan Shan Life Insurance Co., Ltd. | First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (76.46%), Ruen Chen Investment Holding Co., Ltd. (14.16%), Y. T. Du (3.25%), Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%), Ruentex Leasing Co., Ltd. (0.15%), Boon-Teik Koay (0.11%), Chi-Pin Investment Company (0.11%), Pou Chi Investments Co., Ltd. (0.05%), Pou Yih Investments Co., Ltd.(0.05%), Pou Huei Investments Co., Ltd. (0.05%), Pou Hwang Investments Co., Ltd. (0.05%), Ernest Chan (0.03%), Walter H.C. Chang (0.0001%), Stan Shih (0.00007%) |
| Cathay Life Insurance Co., Ltd. | Cathay Financial Holding Co., Ltd. (100%) |
| Yue Yuan Investment Co., Ltd. | Asia Cement Co., Ltd. (29.92%), Yuan Ding Co., Ltd. (25.02%), Yuan Ding Investment Company (18.96%), U-Ming Marine Transport Corp. (17.66%), Yue Ding Industry Co., Ltd. (0.1%) |
| Asia Investment Corp. | Asia Cement Co., Ltd. (100%) |
| Ya Li Transportation Co., Ltd. | Asia Cement Co., Ltd. (49.39%), Yue Yuan Investment Co., Ltd. (40%) |

Information Sources: Department of Commerce, Ministry of Economic Affairs, R.O.C., public announcements on each company's websites and Ex-rights/Ex-dividend information disclosed by each company.

## 2-5. President, Executive Vice Presidents, Vice Presidents, Senior Directors and Department Heads

2017/4/25

| Title | Nationality | Name | Gender | Effective Date | Current Shareholding | | Shares held by Spouse & Minor | | Shares held in Name of Others | | Major Education and Experience | Current Position with Other Company | Managers are Spouse or Consanguinity within 2nd Degree to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| President | R.O.C. | Yvonne Li | Female | 2010.09.10 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | CCO of Far Eastone Telecommunications Co., Ltd.; CFO of Far Eastone Telecommunications Co., Ltd.; VP of Citibank Taiwan; M.S., Accounting,University of Illinois at Urbana-Champaign | Director of Far Eastern Department Stores Ltd. Chairwoman & President of Far Eastern Info Service (Holding) Ltd. Chairwoman of Far Eastern Tech-info Ltd.( Shanghai ) Chairwoman of ARCOA Communications Co., Ltd. Chairwoman of Q-ware Communications Co., Ltd. Director & President of New Century InfoComm Tech Co., Ltd. Director of Omusic Co., Ltd. Chairwoman of Far Eastern Electronic Commerce Co., Ltd. Director of Alliance Digital Technology Co., Ltd. Director of Pacific SOGO Department Store Co., Ltd. | None | None | None |
| Executive VP International Business Development | R.O.C. | Mike Lee | Male | 2017.03.20 | 0 | 0.00 | 17,895 | 0.00 | 0 | 0.00 | President of Far Eastern Electronic Toll Collection Co., Ltd. ; Ph.D., E.E., SUNY at Stony Brook, U.S.A. | Chairman of Information Security Service Digital United, Inc. Director of FarEastern New Diligent Company Ltd. Manager of Far EasTone Telecommunications Co., Ltd. System Integration Branch Office Director of Digital United Information Technology Co., Ltd. (Shanghai) Independent Director and Remuneration Committee member of Taiwan Shin Kong Security Co., Ltd. | None | None | None |
| Chief Advisor Corporate Strategy & Development Office | R.O.C. | Sherman Lee | Male | 2014.06.16 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | EVP of Ouanta Cloud Technology; Master of Business Administration, Strategy & Operations, The Wharton School, University of Pennsylvania | Director of Hiiir Inc. Director of New Diligent Hong Kong Company Ltd. | None | None | None |
| Executive VP, Services & Operations | R.O.C. | Eton Shu | Male | 2010.07.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | VP of KG Telecom; M.S., Computer Science and Information Engineering, National Taiwan University | Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) Director of Omusic Co., Ltd. Chairman of Yuan Cing Co., Ltd. Director of Far Eastern New Century Information Technology (Beijing) Limited Supervisor of Far Eastern Electronic Toll Collection Co., Ltd. | None | None | None |
| Executive VP and Chief Sales & Marketing Officer, Consumer Sales & Marketing | R.O.C. | Maxwell Cheng | Male | 2013.01.01 | 1,018 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of Nestle Taiwan Group; M.S., Marketing, University of Michigan | Chairman of DataExpress Infotech Co., Ltd. Director of ARCOA Communications Co., Ltd. Director of Q-ware Communications Co., Ltd. Chairman of Linkwell Tech. Ltd. Chairman of Home Master Technology Ltd. | None | None | None |
| Executive VP, Internet & Commerce | R.O.C. | Magdalina Lin | Female | 2017.03.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Practice Partner of Teradata Inc., Taiwan; B.S., Commercial Mathematics, Providence University., Taiwan. | Chairwoman of Hiiir Inc. Director of Omusic Co., Ltd. Director of Yuan Hsin Digital Payment Co., Ltd. Director of Ding Ding Integrated Marketing Service Co., Ltd. | None | None | None |
| Executive VP, Enterprise & Carrier BU | R.O.C. | Philip Tseng (Note1) | Male | 2017.03.20 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | President of Ericsson Taiwan, Master Degree of Science from Industrial Engineering School, Lehigh University, U.S.A. | Chairman & President of KGEx.com Co., Ltd. Director of New Century InfoComm Tech Co., Ltd. Director of New Diligent Co., Ltd. Director of Q-ware Communications Co., Ltd. Chairman of Digital United (Cayman) Ltd. Director of Sino Lead Enterprise Limited | None | None | None |
| Executive VP & CFO, Finance & Shared Services | R.O.C. | T.Y. Yin | Male | 2010.03.15 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | CFO of KG Telecom; Dell Inc. M.S., Business Administration, Indiana University, U.S.A. | Chairman of YDT Technology International Company Supervisor of KGEx.com Co., Ltd. Supervisor of Omusic Co., Ltd. Supervisor of Yuan Cing Co., Ltd. Supervisor of New Century InfoComm Tech Co., Ltd. Supervisor of Ding Ding Integrated Marketing Service Co., Ltd. Supervisor of New Diligent Co., Ltd. Supervisor of Information Security Service Digital United, Inc. Supervisor of Digital United Information Technology Co., Ltd. (Shanghai) Director of Digital United (Cayman) Ltd. Director of FarEastern New Diligent Company Ltd. Director of Far Eastern New Century Information Technology (Beijing) Limited Director of Far Eastern Info Service (Holding) Ltd. Supervisor of Far Eastern Tech-info Ltd.(Shanghai) Supervisor of Hiiir Inc. Vice Chairman of Far Eastern Electronic Toll Collection Co., Ltd. | None | None | None |
| Executive VP, NT | R.O.C. | Herman Rao | Male | 2008.02.01 | 16,682 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of AT&T Wireless; Ph.D. of Computer Science, Arizona University, U.S.A. | None | None | None | None |
| VP, Spectrum Planning and Project Office | R.O.C. | Dick Lin | Male | 2015.09.07 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Regional General Manager of UTStarcom Inc.; Master of The Grand Canyon University, U.S.A. | President of Q-ware Communications Co., Ltd. | None | None | None |
| VP, Home Services Development | R.O.C. | Jennifer Liu | Female | 2017.03.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Special Assistant to Chairman, Far Eastern Textile Ltd.; MBA, New York University U.S.A. | Chairwoman of Far Eastern New Century Information Technology (Beijing) Limited Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) Director of FarEastern New Diligent Company Ltd. | None | None | None |
| VP, HR | R.O.C. | Joann Chang | Female | 2011.11.07 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | VP of HR of IBM (Taiwan); M.S., HR, Cornell University, U.S.A. | Director of Hiiir Inc. | None | None | None |

| Title | Nationality | Name | Gender | Effective Date | Current Shareholding | | Shares held by Spouse & Minor | | Shares held in Name of Others | | Major Education and Experience | Current Position with Other Company | Managers are Spouse or Consanguinity within 2nd Degree to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| VP, L&R | R.O.C. | Jessica Chen | Female | 2005.04.18 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Lawyer of Lee and Li; Judge of Taipei District Court; Prosecutor of Prosecutors Office; B.S., Department of Law, National Taiwan University | Director of KGEx.com Co., Ltd. Director of Yuan Cing Co., Ltd. Director of Chengdu Yali Cement products Co., Ltd. | None | None | None |
| VP, Services & Operations | R.O.C. | Maggie Mei | Female | 2006.01.01 | 48,419 | 0.00 | 0 | 0.00 | 0 | 0.00 | Assistant Manager, Citibank; International Trade, China University of Technology | Director & President of Yuan Cing Co., Ltd. Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Jessica Sung | Female | 2015.05.18 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | CPA of California, USA MIS Manager of Janssen Cilag Taiwan, Johnson & Johnson; EMBA, National Taiwan University | None | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Samuel Yuan | Male | 2003.07.01 | 0 | 0.00 | 65 | 0.00 | 0 | 0.00 | Director of Alive Networks; B.S., Financial Analysis & Management Information Systems, State University of New York, U.S.A. | Director of Q-ware Communications Co., Ltd. | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Belinda Chen | Female | 2013.04.01 | 5,070 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of Taiwan High Speed Rail Corporation; M.S., Advertising, University of Illinois, U.S.A. | Director of Hiiir Inc. | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Brian Chao | Male | 2013.04.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Sales Supervisor of Shin Kong Life Insurance Co., Ltd.; B.S., Accounting, Feng Chia University, Taiwan. | Director of ARCOA Communications Co., Ltd. Director of DataExpress Infotech Co., Ltd. | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Roger Lin | Male | 2014.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Sales Representative of Carrier Corporation, Taiwan; Master of International Business of CYCU, Taiwan. | None | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Charlene Lin | Female | 2015.05.18 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | VP & CFO of New Century InfoComm Tech Co., Ltd.; VP of Digital United Inc.; Master of Business Administration, National Taiwan University | None | None | None | None |
| VP, Consumer Sales & Marketing | R.O.C. | Andy Tu | Male | 2015.07.13 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Vice President of Samsung Electronics Taiwan & GM of IT & Mobile; MBA Portland State University, Oregon, U.S.A. | President of DataExpress Infotech Co., Ltd. | None | None | None |
| VP, Internet & Commerce | R.O.C. | Terrance Yang (Note 2) | Male | 2016.12.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | CIO, TestRite Group Executive, Global Technology Service, IBM Taiwan; M.S., Engineering Department of National Taiwan University. | None | None | None | None |
| VP, Enterprise & Carrier BU | R.O.C. | Mark Lee | Male | 2014.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of Sales of NCIC; B.S., Information Technology of Chung-Yuen University | Director of Information Security Service Digital United Inc. | None | None | None |
| VP, Enterprise & Carrier BU | R.O.C. | Eric Li | Male | 2010.10.05 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | VP of New Century InfoComm Tech Co., Ltd.; VP of Digital United Inc.; Master of Information Management, National Sun Yat-Set University, Taiwan. | Chairman of New Diligent Co., Ltd. Director of Digital United Information Technology Co., Ltd. (Shanghai) Director of DataExpress Infotech Co., Ltd. Director of Information Security Service Digital United, Inc. | None | None | None |
| VP, Enterprise & Carrier BU | R.O.C. | James Lee | Male | 2007.07.01 | 676 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of KG Telecom; B.S., Electrical Engineering, Feng Chia University, Taiwan. | Director of KGEx.com Co., Ltd. Director of New Diligent Co., Ltd. | None | None | None |
| VP, F&SS | R.O.C. | Sharon Lin | Female | 2007.07.01 | 11,076 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of Vishay General Semiconductor Taiwan Ltd.; M.S, Finance, University of Wisconsin U.S.A. | Supervisor of ARCOA Communications Co., Ltd. Supervisor of Q-ware Communications Co., Ltd. Supervisor of FarEastern New Century Information Technology (Beijing) Limited | None | None | None |
| VP, F&SS | R.O.C. | David Tsai | Male | 2005.07.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of U-Ming Marine Transport Corp.; EMBA of Yuan-Ze University, Taiwan. | Supervisor of ARCOA Communications Co., Ltd. | None | None | None |
| VP, NT | R.O.C. | Bruce Yu | Male | 2013.04.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Telecom engineer of Siemens Telecom Systems Ltd.; B.S., Computer Science, National Chiao Tung University, Taiwan. | None | None | None | None |
| VP | R.O.C. | Jessie Teng | Female | 2015.05.18 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of Taiwan High Speed Rail Corporation; M.S., Business Administration, Southern Methodist University, U.S.A. | Director and President of ARCOA Communications Co., Ltd. | None | None | None |
| VP, IT | R.O.C. | Hae-Shung Ju (Note 3) | Male | 2016.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Senior consultant, NCR; M.S., Computer Science, East Texas State University, U.S.A. | Director of KGEx.com Co., Ltd. | None | None | None |
| Senior Director, PO | R.O.C. | C. J. Lee (Note 3) | Female | 2016.10.01 | 28,452 | 0.00 | 0 | 0.00 | 0 | 0.00 | CFO/COO, Effortel SA Taiwan, Accounting, The Soochow University, Taiwan | None | None | None | None |
| Senior Director, Public Relations | R.O.C. | Yaling Lang | Female | 2015.04.01 | 1,000 | 0.00 | 0 | 0.00 | 0 | 0.00 | Reporter at TTV & United Daily News; Supervisor, Department of public information, Formosa TV; Special assistant to General Manager, Far Eastern Electronic Toll Collection Co. (FETC); M.S. in Media University of Minnesota–Twin Cities U.S.A. | None | None | None | None |
| Senior Director, CSDO | R.O.C. | Joyce Chen (Note 3) | Female | 2016.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Senior consultant of BroadVision, Inc.; MBA, National Taiwan University | None | None | None | None |
| Senior Director, Services & Operations | R.O.C. | Andy Kuo | Male | 2015.05.18 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of Magical Furniture Corporation; B.S., Business Management, Tamsui Oxford University College, Taiwan. | None | None | None | None |

| Title | Nationality | Name | Gender | Effective Date | Current Shareholding | | Shares held by Spouse & Minor | | Shares held in Name of Others | | Major Education and Experience | Current Position with Other Company | Managers are Spouse or Consanguinity within 2nd Degree to Each Other | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation |
| Senior Director, Internet & Commerce | R.O.C. | Elliza Tu (Note 3) | Female | 2016.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | VP & co-Founder of miiiCasa; Director of D-Link; Director of Yahoo (Taiwan); Masters of business, NTU | Director of Omusic Co., Ltd. | None | None | None |
| Senior Director of Sales, Enterprise & Carrier BU | R.O.C. | Andy Kuo | Male | 2013.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of Sales of NCIC; Department of Architecture of Chinese Junior College of Industrial and Commercial Management | None | None | None | None |
| Senior Director, F&SS | R.O.C. | Allan Lee | Male | 2013.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of Chung-Chie Property Management; Ph.D. of Economics, Nankai University, China | None | None | None | None |
| Senior Director, F&SS | R.O.C. | Ann Chang | Female | 2013.10.01 | 13,352 | 0.00 | 0 | 0.00 | 0 | 0.00 | Arthur Andersen CPA firm; M.S., Management science, National Chiao Tung University, Taiwan | Supervisor of DataExpress Infotech Co., Ltd. | None | None | None |
| Senior Director, F&SS | R.O.C. | Gary Lai | Male | 2013.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director of MrTaiwan.com; M.S, Finance, George Washington University U.S.A. | None | None | None | None |
| Senior Director, F&SS | R.O.C. | Andrea Shen | Female | 2016.04.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | FP&A Senior Manager and Accounting Head of PepsiCo Inc. Taiwan Foods; Executive MBA of NCCU | Director of Far Eastern New Century Information Technology (Beijing) Limited | None | None | None |
| Senior Director, F&SS | R.O.C. | Jason Chen | Male | 2015.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of KG Telecom Co. ; M.S., E.E., Polytechnic University U.S.A. | None | None | None | None |
| Senior Director, NT | R.O.C. | Tony Wang | Male | 2013.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of Fareast Land; M.S., Engineering, University of Texas at Austin | None | None | None | None |
| Senior Director, NT | R.O.C. | Vivian Chiang | Female | 2014.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Marketing specialist of MiTAC; Engineer of ABS Telecom Inc.; M.S., Computer Science of University of Texas of U.S.A. | None | None | None | None |
| Senior Director, NT | R.O.C. | Jason Kuo (Note 3) | Male | 2016.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Director, Digital United Inc, Taiwan, Master degree of Science in Electrical Engineering, University of Southern California U.S.A. | None | None | None | None |
| Senior Director, NT | R.O.C. | Dave Lu (Note 3) | Male | 2016.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | LANcom Technologies,Inc; M.S., Naval architecture and Ocean engineering, National Taiwan University | None | None | None | None |
| Senior Director, IT | R.O.C. | Leon Li | Male | 2013.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of KG Telecom Co.; M.S., Computer Science, Monmouth University U.S.A. | None | None | None | None |
| Senior Director, IT | R.O.C. | D.J. Chen | Male | 2014.10.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Supervisor of Taiwan Mobile Communication; M.S., Computer Science, California State University U.S.A. | None | None | None | None |
| Senior Director, IT | R.O.C. | Andy Weng (Note 4) | Male | 2017.04.01 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Senior Director, TDC US; Electronic Computer Science, Soochow University, Taiwan | None | None | None | None |
| Chief Auditor, Internal Audit | R.O.C. | Iris Su | Female | 2015.03.16 | 43,246 | 0.00 | 0 | 0.00 | 0 | 0.00 | Manager of KG Telecom Co.; M.S., Computer Information System, Arizona State University U.S.A | None | None | None | None |

Note: The Company has not issued employee stock options.
Note 1: On board on Mar. 20, 2017
Note 2: On board on Dec. 01, 2016
Note 3: Promoted on Oct. 01, 2016
Note 4: Promoted on Apr. 01, 2017

## 2-6. Remuneration to Directors, President, Executive Vice Presidents and Vice Presidents

### Remuneration to Directors

2016/12/31; NT$'000

| Title | Name | Remuneration to Directors: Compensation (A) The Company | Compensation (A) Consolidated | Pension Fund (B) The Company | Pension Fund (B) Consolidated | Directors remuneration (C) (Note1 ) The Company | Directors remuneration (C) (Note1 ) Consolidated | Operating allowance (D) (Note 2) The Company | Operating allowance (D) (Note 2) Consolidated | (A+B+C+D) Percentage of net income after tax (%) (note 3) The Company | (A+B+C+D) Percentage of net income after tax (%) (note 3) Consolidated | Remuneration to Concurrent Employment: Salary, bonus, special allowance (E) The Company | Salary, bonus, special allowance (E) Consolidated | Pension Fund (F) The Company | Pension Fund (F) Consolidated | Remuneration to employees (G) The Company Cash Amount | Remuneration to employees (G) The Company Stock Amount | Remuneration to employees (G) Consolidated Cash Amount | Remuneration to employees (G) Consolidated Stock Amount | (A+B+C+E+D+F+G) Percentage of net income after tax (%) (note 3) The Company | (A+B+C+E+D+F+G) Percentage of net income after tax (%) (note 3) Consolidated | Other remuneration from investment business except subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chairman | Douglas Hsu, Representative of Yuan Ding Co., Ltd. | 19,434 | 19,434 | 0 | 0 | 94,395 | 94,424 | 7,069 | 7,069 | 1.06% | 1.06% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.06% | 1.06% | 6,380 |
| Managing Director | Peter Hsu, Representative of Ding Yuan International Investment Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| | Jan Nilsson, Representative of Yuan Ding Investment Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| Independent Director | Lawrence Juen-Yee LAU | | | | | | | | | | | | | | | | | | | | | |
| | Kurt Roland Hellström | | | | | | | | | | | | | | | | | | | | | |
| | Chung Laung Liu | | | | | | | | | | | | | | | | | | | | | |
| Director | Champion Lee, Representative of Yuan Ding Investment Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| | Jeff Hsu, Representative of Yuan Ding Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| | Keisuke Yoshizawa, Representative of U-Ming Marine Transport Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| | Bonnie Peng, Representative of Asia Investment Corp. | | | | | | | | | | | | | | | | | | | | | |
| | Toon Lim, Representative of Yuan Ding Investment Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |
| | Johnny Shih, Representative of Yuan Ding Co., Ltd. | | | | | | | | | | | | | | | | | | | | | |

* Remuneration to Directors providing service to entities under the Company's most recent financial report (ex. Serving as non-employee consaltants), in addition to remuneration disclosed in the above table.: None

Note 1：The remuneration from 2016 distribution of earnings is proposed amount, not actual payment amount yet.

Note 2：Including salary,　position compensation, bonus, transporting allowance, other compensatiorecent yn, other allowance, accommodation allowance and business vehicle etc.

Note 3 : The net incomes after tax is the net incomes after tax of the recent year; if the Company adopts International Financial Report Standards, net incomes after tax is based on the stand-alone financial report.

### Escalation for Remuneration to Directors

2016/12/31

| Escalation for remuneration paid to individual directors of the Company (NTD)(Note1) | Name of Directors: Total of (A+B+C+D) The Company | Total of (A+B+C+D) All companies in the consolidated statement(H) | Total of (A+B+C+D+E+F+G) The Company | Total of (A+B+C+D+E+F+G) All Affiliated Companies(I) |
|---|---|---|---|---|
| Less than 2,000,000 | Bonnie Peng,<br>Representative of Asia Investment Corp<br>Toon Lim,<br>Representative of Ding Yuan International Investment Co., Ltd. | Bonnie Peng,<br>Representative of Asia Investment Corp<br>Toon Lim,<br>Representative of Ding Yuan International Investment Co., Ltd. | Bonnie Peng,<br>Representative of Asia Investment Corp<br>Toon Lim,<br>Representative of Ding Yuan International Investment Co., Ltd. | Bonnie Peng,<br>Representative of Asia Investment Corp<br>Toon Lim,<br>Representative of Ding Yuan International Investment Co., Ltd. |
| 2,000,000～5,000,000<br>（inclusive of 2,000,000） | Chung Laung Liu<br>Kurt Roland Hellström<br>Lawrence Juen-Yee LAU<br><br>Jeff Hsu,<br>Representative of Yuan Ding Co., Ltd.<br>Champion Lee,<br>Representative of Yuan Ding Co., Ltd.<br>Keisuke Yoshizawa<br>Representative of U-Ming Marine Transport Corp. | Chung Laung Liu<br>Kurt Roland Hellström<br>Lawrence Juen-Yee LAU<br><br>Jeff Hsu,<br>Representative of Yuan Ding Co., Ltd.<br>Champion Lee,<br>Representative of Yuan Ding Co., Ltd.<br>Keisuke Yoshizawa<br>Representative of U-Ming Marine Transport Corp. | Chung Laung Liu<br>Kurt Roland Hellström<br>Lawrence Juen-Yee LAU<br><br>Jeff Hsu,<br>Representative of Yuan Ding Co., Ltd.<br>Champion Lee,<br>Representative of Yuan Ding Co., Ltd.<br>Keisuke Yoshizawa<br>Representative of U-Ming Marine Transport Corp. | Chung Laung Liu<br>Kurt Roland Hellström<br>Lawrence Juen-Yee LAU<br><br>Jeff Hsu,<br>Representative of Yuan Ding Co., Ltd.<br>Champion Lee,<br>Representative of Yuan Ding Co., Ltd.<br>Keisuke Yoshizawa<br>Representative of U-Ming Marine Transport Corp. |
| 5,000,000～10,000,000<br>（inclusive of 5,000,000） | None | None | None | None |
| 10,000,000～15,000,000<br>（inclusive of 10,000,000） | None | None | None | None |
| 15,000,000～30,000,000<br>（inclusive of 15,000,000） | Jan Nilsson,<br>Representative of Yuan Ding Investment Co., Ltd.<br>Peter Hsu,<br>Representative of Yuan Ding Co., Ltd. | Jan Nilsson,<br>Representative of Yuan Ding Investment Co., Ltd.<br>Peter Hsu,<br>Representative of Yuan Ding Co., Ltd. | Jan Nilsson,<br>Representative of Yuan Ding Investment Co., Ltd.<br>Peter Hsu,<br>Representative of Yuan Ding Co., Ltd. | Jan Nilsson,<br>Representative of Yuan Ding Investment Co., Ltd.<br>Peter Hsu,<br>Representative of Yuan Ding Co., Ltd. |
| 30,000,000～50,000,000<br>（inclusive of 30,000,000） | Douglas Hsu,<br>Representative of Yuan Ding Investment Co., Ltd. | Douglas Hsu,<br>Representative ofYuan Ding Investment Co., Ltd. | Douglas Hsu,<br>Representative of Yuan Ding Investment Co., Ltd. | Douglas Hsu,<br>Representative of Yuan Ding Investment Co., Ltd. |
| 50,000,000～100,000,000<br>(inclusive of 50,000,000） | None | None | None | None |
| More than 100,000,000 | None | None | None | None |
| Total | 11 | 11 | 11 | 11 |

Note 1: The aforementioned remuneration for Institutional Representative is proposed amount of remuneration (not an actual amount), and is assumed to be equally allocated to institutional representatives.

### The percentage of remuneration paid to the Board of Directors over net income after tax in recent 2 years:

| Year | The Company | All companies in the consolidated statement |
|---|---|---|
| 2015 | 1.09% | 1.09% |
| 2016 | 1.06% | 1.06% |

**<u>The policy, criteria, composition and process to set remuneration for the Board of Directors and the correlation with operational performance and future risk:</u>**

There are three kinds of remuneration: compensation, remuneration paid from distribution of earnings, and operating allowance. According to Item 5 of Article 15 of the Articles of Incorporation of the Company, the Remuneration Committee and the Board of Directors shall submit recommendations in connection with remuneration for Directors and for resolution. For remuneration paid from the distribution of earnings, the standard is set according to Article 26 of the Articles of Incorporation of the Company. If there is profit for that year, the Company shall set aside 1%-2% of it as compensation for employees and not more than 1% of it as compensation for Directors. If there is accumulated loss on the books of the Company, a portion of the profit equaling the loss shall first be set aside to cover the latter. The employees' compensation may be distributed by shares or by cash. The Company shall, by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of Directors, determine the actual profit ratio of distribution, amount, methods, and number of shares, and shall report decisions at the Shareholders' meeting. The Board of Directors shall also determine the ratio of distribution of the Directors compensation, as well as the amount, and shall report to the Shareholders' meeting. If the closing accounts at the end of the fiscal year indicate that the Company discloses profit, the Company, when allocating its profit, after paying all taxes, making good all losses of previous year(s), shall first set aside 10 % of said profit in balance as statutory surplus reserve, and then set aside special surplus reserve as required by the Articles of Incorporation or by a resolution at a Shareholders' meeting. The rest of the surplus, if any, shall be consolidated with the unallocated earnings accumulated in the preceding year(s) as distributable earnings, as determined by the Shareholders' meeting to be allocated equally according to all shares held by Shareholders in the form of dividends, or will be retained. Since the remuneration is taken as a certain limited percentage of the annual earnings, its amount is highly correlated with the operational performance of the Company. Travel allowance is a major component of operating expenses, and these are benchmarked against other high tech industry companies and approved by the Board of Directors. The remuneration is determined and adjusted in terms of criteria and structure, and is based not only on the historical operational performance but also on future risk factors, i.e. during an economic downturn or where the operational risk for the Company is rising, the remuneration for the Board of Directors will be lowered accordingly. The remuneration of the Company's Directors is distributed in accordance with the Articles of Incorporation of the Company and based on the shareholding that each director represents. Moreover, the contribution of each Director to the Company's affairs is also carefully considered in the remuneration arrangement. In addition, the Remuneration Committee of the Company will also periodically review and evaluate the salary and remuneration for Directors and submit suggestions to the Board of Directors in order to achieve a balance between immortal business and risk control.

## Remuneration Paid to President, Executive Vice Presidents and Vice Presidents

2016/12/31; NT$'000

| Title | Name | Salary (A) | | Pension Fund (B) (Note 3) | | Bonus and special allowance (C) (Note 4) | | Bonus to employees from distribution of earnings (D) (Note 5) | | | | (A+B+C+D) Percentage of net income after tax (%) | | Other remuneration from investment business except subsidiary |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | The Company | Consolidated | The Company | Consolidated | The Company | Consolidated | The Company | | Consolidated | | The Company | Consolidated | |
| | | | | | | | | Cash bonus | Stock bonus | Cash bonus | Stock bonus | | | |
| President | Yvonne Li | 115,407 | 115,407 | 2,736 | 2,736 | 27,956 | 27,956 | 41,539 | 0 | 41,539 | 0 | 1.65% | 1.65% | 80 |
| Executive VP | Mike Lee | | | | | | | | | | | | | |
| Chief Advisor | Sherman Lee | | | | | | | | | | | | | |
| Executive VP | Eton Shu | | | | | | | | | | | | | |
| Executive VP ,Chief Sales & Marketing Officer | Maxwell Cheng | | | | | | | | | | | | | |
| Executive VP | Magdalina Lin | | | | | | | | | | | | | |
| Executive VP & CFO | T.Y. Yin | | | | | | | | | | | | | |
| Executive VP | Herman Rao | | | | | | | | | | | | | |
| VP | Dick Lin | | | | | | | | | | | | | |
| VP | Jennifer Liu | | | | | | | | | | | | | |
| VP | Joann Chang | | | | | | | | | | | | | |
| VP | Jessica Chen | | | | | | | | | | | | | |
| VP | Maggie Mei | | | | | | | | | | | | | |
| VP | Jessica Sung | | | | | | | | | | | | | |
| VP | Samuel Yuan | | | | | | | | | | | | | |
| VP | Belinda Chen | | | | | | | | | | | | | |
| VP | Brian Chao | | | | | | | | | | | | | |
| VP | Roger Lin | | | | | | | | | | | | | |
| VP | Charlene Lin | | | | | | | | | | | | | |
| VP | Andy Tu | | | | | | | | | | | | | |
| VP | Terrance Yang (Note 1) | | | | | | | | | | | | | |
| VP | Mark Lee | | | | | | | | | | | | | |
| VP | Eric Li | | | | | | | | | | | | | |
| VP | James Lee | | | | | | | | | | | | | |
| VP | Sharon Lin | | | | | | | | | | | | | |
| VP | David Tsai | | | | | | | | | | | | | |
| VP | Bruce Yu | | | | | | | | | | | | | |
| VP | Jessie Teng | | | | | | | | | | | | | |
| VP | Hae-Shung Ju (Note 2) | | | | | | | | | | | | | |

Note 1：On board on Dec. 01, 2016
Note 2：Promoted on Oct. 01, 2016
Note 3：The figures shown in the table include actual payment for pension fund and pension fund contribution in 2016.
Note 4：Including bonus, special allowance, transporting allowance, other allowance, accommodation allowance, business vehicle…and etc, business vehicle is NT$7,508 thousand for car rental. In addition, the compensation paid to the driver is NT$638 thousand in total but is excluded from aboved mentioned remuneration.
Note 5：The remuneration from 2016 distribution of earnings is the proposed amount and not actual payment amount yet.

**Escalation for remuneration to President, Executive Vice Presidents and Vice Presidents** 2016/12/31

| Escalation for remuneration paid to Presidents and Vice Presidents of the Company (NTD) | Name of President and Vice Presidents | |
|---|---|---|
| | The Company | All investment business companies |
| Less than 2,000,000 | Terrance Yang (Note 1) | Terrance Yang (Note 1) |
| 2,000,000～5,000,000（inclusive of 2,000,000） | Hae-Shung Ju, Jessica Sung, Bruce Yu, Mark Lee, James Lee, Eric Li , Roger Lin, Charlene Lin, Samuel Yuan, Belinda Chen, Jessica Chen, Brian Chao, David Tsai, Jessie Teng | Hae-Shung Ju, Jessica Sung, Bruce Yu, Mark Lee, James Lee, Eric Li, Roger Lin, Charlene Lin, Samuel Yuan, Belinda Chen, Jessica Chen, Brian Chao, David Tsai, Jessie Teng |
| 5,000,000～10,000,000（inclusive of 5,000,000） | Andy Tu, Sharon Lin, Dick Lin, Joann Chang, Maggie Mei, Jennifer Liu, Sherman Lee, Mike Lee, Eton Shu, Magdalina Lin, Maxwell Cheng, Herman Rao | Andy Tu, Sharon Lin, Dick Lin, Joann Chang, Maggie Mei, Jennifer Liu, Sherman Lee, Mike Lee, Eton Shu, Magdalina Lin, Maxwell Cheng, Herman Rao |
| 10,000,000～15,000,000（inclusive of 10,000,000） | TY Yin | TY Yin |
| 15,000,000～30,000,000（inclusive of 15,000,000） | Yvonne Li | Yvonne Li |
| 30,000,000～50,000,000（inclusive of 30,000,000） | None | None |
| 50,000,000～100,000,000（inclusive of 50,000,000） | None | None |
| More than 100,000,000 | None | None |
| Total | 29 | 29 |

* Names of employees with the same position are in order of Chinese last name.
Note 1：On board on December 01, 2016.

**The percentage of remuneration paid to President, Executive Vice Presidents and Vice Presidents over net income after tax:**

| Year | The Company | All companies in the consolidated statement |
|---|---|---|
| 2015 | 1.58% | 1.58% |
| 2016 | 1.65% | 1.65% |

**The policy, criteria, composition and process to set the remuneration for President, Executive Vice Presidents and Vice Presidents and the correlation with operational performance and future risk:**

There are three kinds of remuneration paid to the President, Executive Vice Presidents and Vice Presidents: salary, bonuses and special allowances, and Employees' Compensation. As salary is compensation based on the Company Act, it is paid according to tasks performed, the general economic situation, and market standards. Travel allowances are a major component of bonuses, and special allowances are divided into three options offered: fixed amount allowance, rental cars, or allowance by mileage. As bonuses to employees are paid according to Article 26 of the Articles of Incorporation, if there is profit for that year, the Company shall set aside 1% - 2% of it as compensation for employees and not more than 1% of it as compensation for Directors. If there is accumulated loss on the books of the Company, a portion of the profit equaling the loss shall first be set aside to cover the latter. The employees' compensation may be distributed by shares or by cash. The Company shall, by a resolution adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of Directors, determine the actual profit ratio of distribution, amount, methods, and number of shares, and shall report decisions at the Shareholders' meeting. The Board of Directors shall also determine the ratio of distribution of the Directors compensation, as well as the amount, and shall report to the Shareholders' meeting. If the closing accounts at the end of the fiscal year indicate that the Company discloses profit, the Company, when allocating its profit, after paying all taxes, making good all losses of previous year(s), shall first set aside 10% of said profit in balance as statutory surplus reserve, and then set aside special surplus reserve as required by the Articles of Incorporation or by a resolution at a Shareholders' meeting. The rest of the surplus, if any, shall be consolidated with the unallocated earnings accumulated in the preceding year(s) as distributable earnings, as determined by the Shareholders' meeting to be allocated equally according to all shares held by Shareholders in the form of dividends, or will be retained. Since the remuneration is taken as a certain limited percentage of the annual earnings, its amount is highly correlated with the operational performance of the Company. The remuneration is determined and flexibly adjusted in terms of multiple criteria; and its structure is based not only on industry standards and historical operational performance but also the actual operating situation and laws / regulations and amendments. It shall not guide the managerial officers to bring risk to the Company solely for higher remuneration. In addition, the Remuneration Committee of the Company will evaluate the salary and remuneration for President, Executive Vice Presidents and Vice Presidents periodically and submit suggestions to the Board of Directors in order to achieve the balance between immortal business and risk control.

**The comparison of the remuneration paid to Directors, President, Executive Vice Presidents and Vice Presidents for both the standalone and consolidated basis of the Company in recent 2 years:**

The percentage of net income paid to Directors, President, Executive Vice Presidents and Vice Presidents as the remuneration for both the standalone and consolidated basis of the Company in the last two years have no significant changes. 2.71% of the net income has been paid to Directors, President, and Vice Presidents as the remuneration for both the standalone and consolidated basis in 2016. These figures were 2.70 % for both the standalone and consolidated basis of the Company in 2015.

### Remuneration to President, Vice President and Senior Director

2016/12/31; Unit: NT$'000

| | Title | Name | Stock bonus | Cash bonus (Note 4) | Total | Percentage of Net income after tax (%) |
|---|---|---|---|---|---|---|
| Managers | President | Yvonne Li | 0 | 51,194 | 51,194 | 0.45% |
| | Executive VP | Mike Lee | | | | |
| | Chief Advisor | Sherman Lee | | | | |
| | Executive VP | Eton Shu | | | | |
| | Executive VP, Chief Sales & Marketing Officer, | Maxwell Cheng | | | | |
| | Executive VP | Magdalina Lin | | | | |
| | Executive VP & CFO | T.Y. Yin | | | | |
| | Executive VP | Herman Rao | | | | |
| | VP | Dick Lin | | | | |
| | VP | Jennifer Liu | | | | |
| | VP | Joann Chang | | | | |
| | VP | Jessica Chen | | | | |
| | VP | Maggie Mei | | | | |
| | VP | Jessica Sung | | | | |
| | VP | Samuel Yuan | | | | |
| | VP | Belinda Chen | | | | |
| | VP | Brian Chao | | | | |
| | VP | Roger Lin | | | | |
| | VP | Charlene Lin | | | | |
| | VP | Andy Tu | | | | |
| | VP | Terrance Yang (Note 1) | | | | |
| | VP | Mark Lee | | | | |
| | VP | Eric Li | | | | |
| | VP | James Lee | | | | |
| | VP | Sharon Lin | | | | |
| | VP | David Tsai | | | | |
| | VP | Bruce Yu | | | | |
| | VP | Jessie Teng | | | | |
| | VP | Hae-Shung Ju ( Note 2) | | | | |
| | Senior Director | C. J. Lee (Note 2) | | | | |
| | Senior Director | Yaling Lang | | | | |
| | Senior Director | Joyce Chen (Note 2) | | | | |
| | Senior Director | Andy Kuo | | | | |
| | Senior Director | Elliza Tu (Note 2) | | | | |
| | Senior Director of Sales | Andy Kuo | | | | |
| | Senior Director | Allan Lee | | | | |
| | Senior Director | Ann Chang | | | | |
| | Senior Director | Gary Lai | | | | |
| | Senior Director | Andrea Shen | | | | |
| | Senior Director | Jason Chen | | | | |
| | Senior Director | Tony Wang | | | | |
| | Senior Director | Vivian Chiang | | | | |
| | Senior Director | Jason Kuo(Note 2) | | | | |
| | Senior Director | Dave Lu (Note 2) | | | | |
| | Senior Director | Leon Li | | | | |
| | Senior Director | D.J. Chen | | | | |
| | Senior Director | Andy Weng (Note 3) | | | | |
| | Chief Auditor | Iris Su | | | | |

Note 1: On board on Dec. 01, 2016
Note 2: Promoted on Oct. 01, 2016
Note 3: Promoted on Apr. 01, 2017
Note 4: Remuneration of 2016 earnings distribution has not been resolved by the Shareholders' meeting yet, and it's a proposed amount.

## 2-7. Name, Position and Bonuses Amount of Top Ten Recipients of Employees' Compensation:

2016/12/31; Unit: NT$'000

| Name (Note 1) | Position | Bonuses Amount (Note 2) | | | |
|---|---|---|---|---|---|
| | | Cash Dividend | Stock dividend | | |
| | | | Shares | Market Price | Amount |
| Yvonne Li | President | 22,893 | 0 | Not Applicable | 0 |
| T.Y. Yin | Executive VP & CFO | | | | |
| Mike Lee | Executive VP | | | | |
| Sherman Lee | Chief Advisor | | | | |
| Eton Shu | Executive VP | | | | |
| Magdalina Lin | Executive VP | | | | |
| Maxwell Cheng | Executive VP & Chief Sales & Marketing Officer | | | | |
| Herman Rao | Executive VP | | | | |
| Joann Chang | VP | | | | |
| Jennifer Liu | VP | | | | |

Note 1: Names of employees with the same position are in alphabetic order based on the Chinese last name.

Note 2: Indicated the actual distributing amounts of 2015 earnings.

## 3. Operation of Corporate Governance

### 3-1. Operation of Board of Director:

**Holding 6 times (A) of the Board Meeting, and the attendance status of Board of Directors from last year up to the Annual Report being published：**

2017/4/30

| Title | Name | Times of Attendance ( B ) | Times of by Attendance by Proxy ( C ) | Actual Percentage of Attendance (%) ( B / A ) | Percentage of Attendance (%) (Proxy included) (( B + C ) / A ) | Remark |
|---|---|---|---|---|---|---|
| Chairman | Douglas Hsu, Representative of Yuan Ding Investment Co., Ltd. | 6 | 0 | 100 | 100 | |
| Managing Director | Peter Hsu, Representative of Yuan Ding Investment Co., Ltd. | 4 | 2 | 67 | 100 | |
| Managing Director | Jan Nilsson, Representative of Yuan Ding Investment Co., Ltd. | 5 | 1 | 83 | 100 | |
| Independent Director | Lawrence Juen-Yee LAU | 4 | 2 | 67 | 100 | |
| Independent Director | Kurt Roland Hellström | 5 | 1 | 83 | 100 | |
| Independent Director | Chung Laung Liu | 6 | 0 | 100 | 100 | |
| Director | Champion Lee, Representative of Yuan Ding Co., Ltd. | 5 | 1 | 83 | 100 | |
| Director | Jeff Hsu, Representative of Yuan Ding Co., Ltd. | 5 | 1 | 83 | 100 | |
| Director | Keisuke Yoshizawa, Representative of U-Ming Marine Transport Co., Ltd. | 5 | 1 | 83 | 100 | |
| Director | Bonnie Peng, Representative of Asia investment Corp. | 5 | 0 | 83 | 83 | |
| Director | Toon Lim, Representative of Yuan Ding Investment Co., Ltd. | 5 | 1 | 83 | 100 | |

**Other matters of importance**:

1. If any of below listed-circumstances of operation of Board Meeting occours, it's necessary to be disclosured, including dates of board meetings, sessions, the contents of motions, all independent opinions from Independent Directors and the Company's response to such Independent Directors' opinions :
   1.1 The issues of Article14-3 of the Securities and Exchange Act:
   This company already has an audit committee in place. For more detailed information, please refer to the audit committee's activities regarding Article 14-5 of the Securities and Exchange Act.
   1.2 In addition to the above-mentioned matters, records or written board resolutions contain Independent Directors' counter advices along with qualified opinions: None
2. Any Directors avoidance of motions due to conflict of interests, including the Directors' names, the content of the motions and the causes for avoidance and voting: None
3. In recent years, a number of actions have been made to improve the functions of the Board of Directors, including the establishment of the Audit Committee, and the strengthening of the disclosure of information. Evaluating these:
   3.1 The Audit Committee was officially established when the 7th term of the Board of Directors were elected to the office in 2015 and was made up of the entire number of the Independent Directors. The Audit Committee meeting was held 5 times in the year and the recent year. Please refer to the execution status of the Audit Committee's participation in the Board Meetings for the details.
   3.2 The Company's public disclosure of the information is quite transparent and immediate. It has set up both Chinese and English websites and appointed personnel to gather and disclose financial and business relevant information including information from the investor's conference. Furthermore, considering the convenience of information access for both foreign and domestic Shareholders, the Company disclosures information in both Chinese and English on the Market Observation Post System and the Company website.
4. The Company's execution of its major operational plan and the preparation of its financial statement is made under the supervision of Independent Directors; The Company holds a Financial and Business Conference before the quarterly Board of Directors meeting, and also holds annual strategy meetings involving top-level management at the end of every year. To strengthen the Company's operations and substantiate their Supervisory responsibility, Independent Directors attend the above meetings to understand the Company's financial and business conditions as well as the execution of its significant business plans. Moreover, the Independent Directors offer their experience and value-added recommendations to the executive management. At least one Independent Director of the Company possesses a professional accounting or financial background, and engages in the review and communication of the Company's financial statements with the dedicated accounting team.
5. Advices from Independent Directors on significant proposal of the board meeting and the Company's responses to Independent Directors' opinions:
   The Company's Independent Directors have approved major Board of Director's proposals in the year and the recent year, and there were no counter advices or qualified opinions. Therefore, this section is not applicable.

### 3-2. Operation of Audit Committee:

**Holding 5 times (A) of Audit Committee Meetings, the attendance status of Independent Directors from last year up to the Annual Report being published：**

2017/4/30

| Title | Name | Times of Attendance (B) | Proxy | Actual Percentage of Attendance (%) (B/A) | Remark |
|---|---|---|---|---|---|
| Convener | Lawrence Juen-Yee LAU | 5 | 0 | 100 | |
| Member | Kurt Roland Hellström | 5 | 0 | 100 | |
| Member | Chung Laung Liu | 4 | 1 | 80 | |

**Other matters of importance:**

1. If any any of below listed-circumstances of operation of Audit Committee Meetings, it's necessary to be disclosured, including dates of Audit Committee meetings, sessions, the contents of motions, all independent opinions from Audit Committee members and the Company's response to Audit Committee's opinions :

1-1 The issues of Article 14-5 of the Securities and Exchange Act

| Dates & sessions of Audit Committee Meeting | Contents and motions | The issues of Article 14-5 of the Securities and Exchange Act: | Has not been approved by audit committee but been undertaken upon the consent of two-thirds or more of all directors |
|---|---|---|---|
| The 3rd Meeting of the 1st Term (February 16, 2016) | The disposal of equipment | V | None |
| | The renewal of the hedge-purpose financial derivatives (Cross Currency Swap, "CCS"), and the execution of Foreign Exchange hedge transactions | V | None |
| | The redemption of fund and termination of the hedge contract of OPAS Fund Segregated Portfolio Tranche D (initial investment cost of US$5 million) | V | None |
| | The disposal of 4,000,000 common shares of iScreen Corporation | V | None |
| | Internal Audit Update | V | None |
| | The 2015 annual financial statements and consolidated financial statements | | |
| | The distribution cash dividend from Retained Earnings and Capital Surplus of the Year 2015 | | |
| | The 2015 business report | | |
| | The Company's 2016 business plan and summary consolidated financial forecast | V | None |
| | The Declaration of Internal Control System | V | None |
| | The amendments to the "Internal Control System" | V | None |
| | The assessment result of Certified Public Accountant qualification for reinforcing corporate governance | V | None |
| | Resolution: | Ratified or approved by all attending Members without objection, and submitted to the 5th meeting of the 7th term Board of Directors for ratification in accordance with the Paragraph 1 of Article 14-5 of the Securities and Exchange Act | |
| | The Company's response to Audit Committee's opinions: | Ratified or approved by all attending Directors without objection at the 5th meeting of the 7th term Board of Directors. | |
| The 4th Meeting of the 1st Term (April 28, 2016) | The disposal of equipment | V | None |
| | The execution of foreign exchange hedge transactions | V | None |
| | The internal audit update | V | None |
| | The Q1 2016 consolidated financial statements | | |
| | Resolution: | Ratified or approved by all attending Members without objection, and submitted to the 6th meeting of the 7th term Board of Directors for ratification in accordance with the Paragraph 1 of Article 14-5 of the Securities and Exchange Act | |
| | The Company's response to Audit Committee's opinions: | Ratified or approved by all attending Directors without objection at the 6th meeting of the 7th term Board of Directors. | |
| The 5th Meeting of the 1st Term (July 28, 2016) | The disposal of equipment | V | None |
| | The execution of foreign exchange hedge transactions | V | None |
| | The Internal Audit Update | V | None |
| | The Q2 2016 consolidated financial statements | V | None |
| | Resolution: | Ratified or approved by all attending Members without objection, and submitted to the 7th meeting of the 7th term Board of Directors for ratification in accordance with the Paragraph 1 of Article 14-5 of the Securities and Exchange Act | |
| | The Company's response to Audit Committee's opinions: | Ratified or approved by all attending Directors without objection atthe 7th meeting of the 7th term Board of Directors. | |
| The 6th Meeting of the 1st Term (November 3, 2016) | The disposal of equipment | V | None |
| | The internal audit update | V | None |
| | The 2017 Audit Plan | V | Chairman of Audit Committee suggested that the Company needs to strengthen the penetration test in response to importance of cyber security, and the suggestion was agreed by all the Members present at the Meeting. |
| | The major capital expenditure budget for Q1 2017 | V | None |
| | Resolution: | Ratified or approved by all attending Members without objection, and submitted to the 8th meeting of the 7th term Board of Directors for ratification in accordance with the Paragraph 1 of Article 14-5 of the Securities and Exchange Act | |
| | The Company's response to Audit Committee's opinions: | Ratified or approved by all attending Directors without objection at the 8th meeting of the 7th term Board of Directors. | |
| The 7th Meeting of the 1st Term (February 15, 2017) | The disposal of equipment and recognition of the impairment loss | V | None |
| | The execution of foreign exchange hedge transactions | V | None |
| | The acquisition of 3,000,000 common shares of Alliance Digital Technology Co., Ltd. in the total amount of NT$30,000,000 | V | None |
| | The internal audit update | V | None |
| | The 2016 annual financial statements and consolidated financial statements | V | None |
| | The distribution cash dividend from Retained Earnings and Capital Surplus of the Year 2016 | | |

| | | | |
|---|---|---|---|
| | The 2016 business report | | |
| | The Company's 2017 business plan and summary consolidated financial forecast | V | None |
| | The capital lending to the Company's subsidiary, Q-Ware Communication Co., Ltd., not exceeding NT$250M | V | None |
| | The Declaration of Internal Control System | V | None |
| | Resolution: | Ratified or approved by all attending Members without objection, and submitted to the 10th meeting of the 7th term Board of Directors for ratification in accordance with the Paragraph 1 of Article 14-5 of the Securities and Exchange Act | |
| | The Company's response to Audit Committee's opinions: | Ratified or approved by all attending Directors without objection at the 10th meeting of the 7th term Board of Directors. | |

1-2 In addition to the above-mentioned matters, resolutions approved by over two-thirds of the board directors but not approved by the Audit Committee :None.

2. Any Independent Director's avoidance of motions due to conflict of interest, including the Independent Directors' names, the contents of motions, the causes for avoidance and voting :None

3. Communications among Independent Directors and the Company's Chief Auditor and CPA (Including significant issues, methods, and resolutions of discussion regarding the Company's financial and business status) :

A. Communications between Independent Directors and the Chief Auditor: Audit Committee meeting is held quarterly, and meeting minutes is submitted to inform Directors, President, and the Company's top management of important discussions and resolutions. In 2016 and the most recent year, there were 5Audit Committee meetings in which the Chief Auditor reported and updated audit task progress and significant audit activities. Execution, reporting and tracking were based on Independent Directors' instruction. Additionally, monthly Internal Audit Update is submitted to Independent Directors from the Chief Auditor.

B. Communications between Independent Directors and CPA: In 2016 and the most recent year, 5 related meetings were held. At the Auditing Committee meetings of Q1 2016 and Q1 2017 the CPA reported the audit results to three independent directors via separate session. The CPA was present at the rest of three Auditing Committee meetings.

4. Resolutions approved by Audit Committee on significant proposals and the Company's responses to Audit Committee's opinions：
The chairman advised that the Company to strengthen its penetration test at the 6th meeting of the 1st term Audit committee on 3 November 2016, therefore, the proposed Audit Report illustrated how the Company would strengthen the penetration test at the 7th meeting of the 1st term Audit committee on 15 February 2017 and the report has been approved by Audit Committee without objection.

## 3-3. Implementation of Code of Ethical Conduct

( The NCIC Special Shareholders' Meeting in 2010 commissioned its parent company, Far EasTone, to be in charge of NCIC business operations; therefore, "The Company" refers to both Far EasTone and NCIC)

| Evaluation Criteria | Implementation Status | | | Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| **I. Establishment of Business conduct policy and plans**<br><br>(i) Do regulations and external documents express business conduct policies and are both the Board of Directors and the management team committed to actively implement these policies? | V | | The "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Code of Ethical Conduct" have been approved and amended by the 3rd meeting of the 7th term of Board of Directors on July 30, 2015, and has been submitted to the Y2016 FET Shareholders' Meeting.<br><br>In order to fulfill the "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct", the Company undertakes educational communications of principles for employees on a regular basis. It also promotes the concept of business conduct in daily operations to all employees.<br><br>Furthermore, Far EasTone communicates the guidance of "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Code of Ethical Conduct" to the Board of Directors and company management at Board of Director meetings bi-annually to ensure their understanding of the guidelines.The Company also requires new suppliers to sign "Code of Conduct for Fareastone Supplier Chain Social Responsibility" within the commercial document data sheet provided to suppliers as a way of encouraging them to comply with the Company's "Ethical Corporate Management Best Practice Principles". | Compliant with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. |
| (ii) Does the Company establish an unethical conduct prevention plan and does it stress standard operating procedure (SOP), guidance, punishment for violating regulations and a redress system? | V | | In order to establish an ethical corporate culture and prevent unethical conduct, apart from communicating the "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct" through – FET Intranet, FET has included "Code of Conduct for Fareastone Supplier Chain Social Responsibility" to remind the stakeholder groups of FET to follow and respect the moral and ethical standards of FET.<br>We also remind our staff to follow code of conduct for their daily operation via Intranet information or e-Learning courses, such as the "Information Security" website, which incorporated additional resource about information security, and conducted annual e-learning course on Information Security for all employees. In October 2016, we made a full announcement, and emphasized "Ethical Corporate Management Best Practice Principles", "Guidelines for the Adoption of Codes of Ethical Conduct", and internal report mechanisms. This is to strengthen the management's internal control and internal auditing process for new managers. The related SOPs and standards about "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct" are disclosed on the FET official website at:<br>http://www.farEasTone.com.tw,Home/Company Information/Corporate Governance/Articles of Incorporation and others.<br>FET has also established each disciplinary and complaints system. Anyone can report an offense by internal mailbox or through public channels.<br>Subsidiary-ARCOA has also established "Ethical Corporate Management Best Practice Principles" to as the present the principles for our employees when they are carry out their tasks. | |
| (iii) Does the Company take any precautionary measures to prevent corruption or high-risk illegal business activities, based on | V | | The "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct" have been approved by the Board of Directors and been submitted to the Shareholders' meeting. These regulations stipulate that board members, the Company's directors, managers, employees, and any personnel taking decisions on behalf or the Company may not, directly or indirectly, offer, promise, demand or accept any form of dishonest benefit while conducting their work. This includes bribes, commissions and expenses; they must also not provide | |

| Evaluation Criteria | Implementation Status | | | Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| Paragraph No.2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"? | | | or accept any dishonest benefit to or from customers, agents, contractors, suppliers, government officials or other stakeholders through any means. Anyone discovering dishonest behavior on the part of the other party in business dealings must immediately cease these dealings and list the party as one with which they refuse any further dealing. | |
| **II. Implementation of Code of Business Conduct**<br><br>(i) Does the Company evaluate counterparties' ethical records and specifiy "Ethical clauses" in business contracts? | V | | In order to fully implement "Ethical Corporate Management Best Practice Principles", the Company requires that all suppliers sign "Code of Conduct for Fareastone Supplier Chain Social Responsibility" and stamp the agreements with the Company's seal. The clause of "Ethical Corporate Management Best Practice " is also added to each purchase order as an appendix. This is to encourage all suppliers to abide by it. If any dishonest behavior is found on the part of the other party, business dealings must immediately cease. The contract must terminate and the party must be recorded as one with whom any further dealings will be ceased.<br>All new suppliers are required to submit corporate credit report or no bouncing check report for verification. Only those suppliers without credit issue are eligible for Fareastone suppliers.<br>The subsidiary company - ARCOA added a no-bribery provision in the standard sales contracts. This guarantees that no bribe, commission, percentage, brokerage, kickback, rebate, gift, entertainment or any other unethical benefit is given to ARCOA employees, agents or trustees or paid to its employees, agents or trustees. If this is breached, in addition to dissolving or terminating the relevant contract, the premium and benefit will be deducted from the price of the goods sold in the contract. In addition, the breaching party must take responsibility for damages and compensation. | Compliant with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. |
| (ii) Does the Company set up a dedicated unit, reporting to the board, for the promotion of ethical business conduct, and does it regularly report on the status of these operations to the Board? | V | | Far EasTone's Corporate Strategy & Development Office is the unit responsible for encouraging ethical management. It is supervised by the Chief Advisor. Its major responsibilities and implementation situation: reported regulatory compliance, promotion, education training and handling declaration matters etc. It reports the status of its implementation to the Board of Directors every year.<br>The Internal Audit will report contravening matters to the Board of Directors. | |
| (iii)Does the Company promulgate policies for preventing conflicts of interests and does it offer channels for reporting conflicts of interests? | V | | In compliance with the codes of conduct which have been set up, employees receiving gifts, benefit, or discounts must initiatively submit a declaration.<br>A Far EasTone Employee Notice has been drawn up, for employees to fill out and submit when they suspect a conflict of interest between themselves and the Company. | |
| (iv)Does the Company establish efficient internal audit systems to implement the "Code of Business Conduct" and does it regularly carry out internal auditing by internal auditors or the appointed CPA? | V | | The Company has set up rigorous accounting systems and a dedicated accounting department. Financial statements are audited (or reviewed) by a CPA, and are announced and uploaded in compliance with legal requirements to ensure accuracy and transparency of financial information.<br>FET has established the Internal Audit Division and related internal audit systems. It reviews and revises these systems periodically to ensure their effectiveness, so as to enforce the Regulations Governing Establishment of Internal Control Systems by Public Companies and the Ethical Corporate Management Best Practice Principles. In addition, the Internal Audit Division establishes and implements the annual internal audit plan based on risk assessment and reports the audit outcomes to the chairperson, directors, general manager, and relevant authorities so as to enforce the code of business conduct. | |
| (v) Does the Company regularly hold internal and external training on the "Code of Business Conduct"? | V | | The "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct" were announced through FET Intranet on the 18th of October 2016. Far EasTone has incorporated the "Code of Conduct for Fareastone Supplier Chain Social Responsibility into business documents for external use, such as adding "Ethical Corporate Management Best Practice Principles" to the supplier data sheet. This is to remind Company stakeholders to abide by and respect Far EasTone's ethics and integrity standards.<br>Furthermore, Far EasTone communicates the guidance of "Gidelines for the Adoption of Code of Ethical Conduct" and "Ethical Corporate Management Best Practice Principles" to the Board of Directors and company management at Board of Director meetings bi-annually to ensure their understanding of the guidelines. | |
| **III. Operation of internal /external personnel petition mechanism.**<br><br>(i) Does the Company establish disciplinary and petition mechanisms and built the requisite channels and processes for those violating the code of business conduct to be punished. Does it assign appropriate specialists to investigate any reported cases? | V | | Internally, the Internal Audit Division has set the "Regulations of Whistle-blowing Management" in accordance with the "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct". Employees can report any violation of related regulations via the "whistle-blower" mailbox on the intranet.In October 2016, we made a full announcement through intranet, and emphasized internal report mechanisms. If employees are found to have violated the regulations, the Company will implement necessary penalties and ensure that relevant legal action will be taken. The investigations team will ensure that it keeps its processes confidential in order to protect the informant.<br>Far EasTone has established penalty and appeal systems. Anyone can use the Company mailboxes or publicized channels for reporting and for appeals.<br><br>Externally, external personnel can use reporting channels to report as follows:<br>Opinions for Internal Audit e-mail: ia@fareastone.com.tw<br>Far Eastern Group Purchasing Website ECOME<br>http://www.ecome.com.tw/A00BG/ABG_Connection.aspx<br><br>The Company's suppliers whoever involving dishonest behavior on the part of the other party in business dealings must immediately cease. The contract between FET and the supplier would be terminated and the supplier must be recorded as one with whom any further dealings will be ceased.Upon receipt of the complaint from external personnel, professional personnel are assigned to immediately launch an investigation, as well as to handle and reply to cases. The name and identity of the complainant and the investigation process are kept confidential, and all matters reported in this way are verified through independent channels in order to protect the complainant.<br>ARCOA's employees can feed back their opinions or report transgressions via the 'Speak Your Mind letter box | Compliant with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. |
| (ii) Does the Company establish standard investigation procedures and security mechanisms | V | | Internally, the Internal Audit Division clearly stated the investigation of cases accepted and specification of procedural norms in Far EasTone's "Regulations of Whistle-blowing Management" that matters reported should be completely confidential to protect the individual making the report.<br>Externally, the Internal Audit Division treats any complaint in a confidential and sensitive manner. | |

| Evaluation Criteria | Implementation Status | | | Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| for the cases reported? | | | Upon receipt of the complaint from external personnel, professional personnel are immediately assigned to launch an investigation, The name and identity of the complainant and the investigation process are kept confidential, and all matters reported in this way are verified through independent channels in order to protect the complainant. | |
| (iii) Does the Company take measures to protect accused persons from inappropriate treatment? | V | | Internally, the Internal Audit Division clearly stated the investigation of cases accepted and specification of procedural norms in Far EasTone's "Regulations of Whistle-blowing Management" that matters reported should be completely confidential to protect the individual making the report. Externally, the Internal Audit Division treats any complaint in a confidential and sensitive manner. Upon receipt of the complaint from external personnel , professional personnel are immediately assigned to launch an investigation, The name and identity of the complainant and the investigation process are kept confidential, and all matters reported in this way are verified through independent channels in order to protect the complainant from any form of improper treatment. | |
| **IV. Improvements in information disclosure**<br>(i) Does the Company disclose information related to the "Code of Ethics" through its website and MOPS? | V | | Regarding of the "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct", please refer to Far EasTone's company website for details. (Website: http://www.farEasTone.com.tw,Home>CompanyInformation>CorporateGovernance>Articles of Incorporation and others.)<br>The "Ethical Corporate Management Best Practice Principles" and "Guidelines for the Adoption of Codes of Ethical Conduct" are disclosed on "Market Observation Post System" as well.<br><br>More details about ARCOA's "Ethical Corporate Management Best Practice Principles", please visit ARCOA website : http://www.arcoa.com.tw>「Privacy Policy」「Code of Ethics」 | Compliant with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies. |
| **V. If the Company have established our own guidelines for the "Code of Business Conduct" according to Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies, please state the discrepancies (if any) between actual operation and policy:** There are no discrepancies. | | | | |
| **VI. Other important information revealing the Company's ethical operations:**<br>➢ The following code of procurement conduct is shown on each purchasing order to ensure supplier's complicity: "FET employees or FET suppliers shall abide a high-standard of ethics. Suppliers bribing the Company's employees or FET employees asking for bribes from suppliers shall be referred to a court of law. Please follow the code in detail, as set out, as well as in its spirit"<br>➢ We also make the following announcement on our procurement system to provide suppliers with a clear petition channel. Suppliers with doubts about any harm to their rights and interests in the process of a procurement project may write to the website of the Far Eastern Group Procurement for petition.<br>➢ The Company understands the latest "Code of Business Conduct" and" Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", and has a dedicated team responsible for reviewing the code. Those were approved by the 3rd meeting of the 7th term of Board of Directors on 30th July, 2015, and have been submitted to the Y2016 Far EasTone Shareholders' meeting. | | | | |

## 3-4.Implementation of Corporate Social Responsibility and the Corporate Governance

( The NCIC Special Shareholders' Meeting in 2010 has commissioned its parent company, Far EasTone, to be in charge of NCIC business operations; therefore, "The Company" refers to both Far EasTone and NCIC)

### A) Implementation of Corporate Social Responsibility and Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons

| Evaluation Criteria | Implementation Status | | | Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| **I. Implementation and promotion of corporate governance**<br>(i) Does the Company set up corporate social responsibility policies or systems and does it review their results? | V | | FET has established the "FET CSR committee", whose director and CEO are Chairman and President respectively, and set up the CSR (Corporate Social Responsibility) secretariat for the sole management of the unit. FET also defined a "FET Corporate Social Responsibility Policy". The policy was approved as the guiding principle of FET CSR policies at a meeting of the Board of Directors. The FET CSR Committee meets regularly to discuss CSR relevant issues and proposals. Various communication channels are used to strengthen communications with stakeholders. A variety of social, charity and environmental protection initiatives are also used to fulfill FET's CSR goals. | Compliant with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies. |
| (ii) Does the Company organize corporate social responsibility training regularly? | V | | FET invites CSR specialists to share CSR trends at the CSR committee and managerial meetings annualy. | |
| (iii) Does the Company set up a dedicated or part-time department for the promotion of corporate social responsibility, and has it been authorized by the Board of Directors and senior management to handle such situations and report on its actions to the Board of Directors? | V | | The FET CSR committee hold a meeting regularly once a year and each committee member proposes to discuss in view of the related domain. The Company also pushes together and pursues FET "4G" Go Prosperous, Go Innovative, Go Caring and Go Inclusive for sustainable development in the future. Members on the "4G Growth Group" are composed from various departments to ensure interdepartmental communication, coordination, and resource usage. The group supervises projects, focuses on execution and work schedules, and pushes for results. In addition, implementation results on yearly basis are presented at regular intervals to the board of directors. | |
| (iv) Does the Company establish a reasonable remuneration policy which combines employees' performance evaluation with corporate social responsibility and a clearly-defined reward and punishment system? | V | | Every year FET undertakes a remuneration survey to benchmark the industry, and ensures salaries paid are competitive in the market. It also adjusts salaries and pay bonuses every year on the basis of employees' work performance and the overall company performance.<br>ARCOA's five core values (Trustworthiness, Innovation, Proactivity Accountability, and Collaboration). To encourage the core values in everyday affairs, we held core value consensus camps to promote and strengthen their advocacy and communication from 2012 to 2016. Recently we integrated the core values and functions within the staff performance appraisal system and reward staff accordingly. | |
| **II. Development of a sustainable environment**<br>(i) Is the Company devoted to | V | | Based on the "Green Network Construction Long-Term Plan", we have been enforcing energy saving and carbon reduction throughout our operations network on an ongoing basis. | Compliant with the Corporate Social Responsibility Best Practice Principles for |

| Evaluation Criteria | Implementation Status | | | Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
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| | Yes | No | Illustration | |
| improving the utilization rate of various resources and usage of recyclable materials to minimize its impact on the environment? | | | A. The outcomes in 2016 included:<br>a. 16.28 mega kwh of electricity saved, and 8,502 tons of CO2 reduced, equal to the annual carbon absorption of 23 Daan Forest Park.<br>b. Deploy high efficiency base station and power supply equipment, remove extra radio frequency units, and dismantle or shut down old telecom equipment.<br>c. 354 base stations have been improved with an energy-saving system that has reduced electricity consumption at each base station by average 12%. 80 inverter air- conditioner have been installed that has reduced electricity consumption at each base station by 10%. 112 small weather-proof shelters have been installed, along with high-performance cooling fans that reduce power consumption of air conditioners.<br>d. Because of the effective energy management and improve the power using efficiency ,electricity consumption was reduced 3,140,182 kWh and 1,658 tons of GHG emissions compared to 2015.<br><br>B. Major focuses for energy saving and carbon reduction in 2017:<br>a. Continue to deploy 185 small weather-proof shelters with high-performance cooling fans. Install another400 fan cooling system in existing shelter type base stations to reduce power consumption.<br>b. Reduce the usage of air condition by turning on the air temperature up to 30 degrees Celsius in base station.<br>c. To strengthen the energy management mechanism, set up energy performance goals and regularly review and adjust the set-up goals .<br>d. Using the most efficient energy chiller unit, (the electricity saving rate of Active Magnetic Bearing Chiller is 39% ) and committed itself to reduce energy usage and carbon emissions.<br>ARCOA has improved resource utilization efficiency, its main achievements 2016 listed as below:<br>a. By using compact fluorescent lamps in retail store remodeling, a 10% electricity-saving has resulted.<br>b. By replacing compact fluorescent lamps inlogistic center, a 10% electricity-saving has resulted.<br>c. By implementing ceiling and air conditioner improvement projects in Neihu Headquarters, a 3% electricity-saving has resulted. | TWSE/GTSM-Listed Companies. |
| (ii) Does the Company achieve ISO 14001 or other similar verification of Environmental Monitoring System? | V | | The Company has established an Online Environment Monitoring System, to routinely measure environmental quality, such as temperature, humidity, illumination, indoor $CO_2$ concentration, hydrogen concentration in battery chambers etc.<br><br>The Company obtained ISO50001 (Energy Management System) and ISO14064-1 (Greenhouse Gases Part 1: Specification with guidance) certification, and implemented ISO14001Environmental Management system, and passed certification in May, 2017. | |
| (iii) Does the Company develop policies for energy-efficiency, reducing carbon/GHG emissions and implementing a greenhouse gas inventory ,reducing ues of water or other waste management because of an awareness of the impact on company operations brought about by climate change? | V | | In 2016, FET's GHG (Greenhouse Gas) emission reached 330,045.345 metric tons. The major difference came from substantial uptake of 4G equipment network expansion.<br><br>To ensure ongoing energy saving and carbon reduction we set up an energy & environmental management committee and energy & environmental management policy ensuring these issues are constantly addressed. Major changes in EnPI(energy performance indicator) as following : office saving 3.43%, MSC/IDC Saving 1.55%, BTS increased 1.75%, retail saving 1.78%<br><br>Subsidiary- ARCOA<br>The subsidiary ARCOA has chosen to use energy-saving lamps in all retail stores. Meanwhile ARCOA is continuously replacing its existing air conditioner system with "Green Mark" air-con systems. | |
| **III. Maintenance of Social Charity**<br>(i) Does the Company formulate management policies and procedures which are in accordance with the relevant internationally-recognized principles of human rights? | V | | The Company has complied with all relevant labor regulations with regards to employees. The Company has also convened labor-management meetings to ensure the addition to or changes to affairs that affect employees' rights. Thus, changes are only made after both parties have discussed issues. The Company has also set up dedicated channels for employees to file complaints as a way of safeguarding their rights.<br><br>Subsidiary - ARCOA has complied with all pertinent labor regulations with regards to all measures and policies that relate to employees. It has also convened labor-management meetings and dedicated channels for employees to file complaints as a measure to safeguard their rights. | Compliant with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies. |
| (ii)Does the Company set up a mechanism and channels for employees' complaints and does it deal with them properly? | V | | Staff can feed back their opinions or report transgressions via the 'I want to complain" to appeal the issues.<br>ARCOA's employee can feed back their opinions or report transgressions via the "Speak Your Mind letter box" and "Sexual harassment prevention letter box " | |
| (iii)Does the Company provide a safe and healthy working environment for employees and implement health and safety education regularly? | V | | Smoking is prohibited on Company premises. The Company's premises have medical rooms, attended by qualified medical staffs to provide basic workplace accident assistance. They also offer health consultation services, annual CPR training, major disease-oriented screening and seminars on staying healthy. All offices are equipped with firstaid kits and nursery rooms, in addition to massage services by visually impaired massage therapists and various employee assistance solutions to maintain employees' physical and mental health. In complying with safe workplaces regulation, plans and methods should be put in place to ensure a safe and healthy workplace. Education and training on workplace health and safety should be carried out, oversight and supervisory mechanisms should be established, risk and harm awareness should be improved, and engineering and environmental safety checks should be implemented. Work environment monitoring should be carried out to maintain workplace air quality, and at fixed intervals staff health check-ups should be offered. A blood donor drive is a major annual event that involves everyone at the Company.<br><br>Smoking is prohibited on the ARCOA premises. ARCOA carries out regular employee health checkups and holds seminars on staying healthy from time to time. ARCOA's premises are equipped with first aid kits and nursery rooms,. Safety and health training sessions have been launched to improve employees' safety awareness. In 2016, ARCOA was awarded with the Badge of "Accredited Healthy Workplace" by Health Department.<br>In addition, ARCOA's choice of using environmentally-friendly paper cups. These cups were designed with reference to food utensil standards, ensuring cups contain no fluorescent | |

| Evaluation Criteria | Implementation Status | | | Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
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| | Yes | No | Illustration | |
| | | | substances, heavy metals (lead/cadmium), or alizarine acid. And the choice of BPA-free (Bisphenol A) paper also guarantee employee's safety. | |
| (iv)Does the Company establish regular communication mechanisms for employees and does it notify the staff in a reasonable way when there is an operational change that may have a substantial impact on them? | V | | In order to strengthen the efficacy and efficiency of communication with employees of FET and subsidiary ARCOA, the Company and ARCOA provide diverse communication modes to interact and reach a consensus with employees. More details, please refers to "Employee Care" disclosed under "Corporate Governance ". | |
| (v) Does the Company establish efficient career development and training plans for employees? | V | | The Company has established a career development structure and linked it to the Company's core competency measures, using this as the basis for a management mechanism to develop all kinds of opportunities for personnel. The career hierarchy structure is dual-track, incorporating both management skills and professional tracks, and divided into six grades based on the company's short-term strategic direction and operations. It simultaneously maintains consistency of rank across departments and encourages employees to develop cross-functional experience.<br>Subsidiary – ARCOA has also established an annual employee training program. The program is designed according to the needs of each department and level thus co-ordinating the related training plans. | |
| (vi) Does the Company establish relevant policies for protecting consumer rights and appeals procedures on the basis of the research and development, procurement, production, operation and procedure of service? | V | | Our company values the voice of consumers, aside from our FET phone shops that offer face-to-face services across Taiwan, our customer service center provides a 24-hour online service. This can be accessed anywhere, anytime via a variety of platforms, including the FET Self Care App, online chat services and email which allow customers, therefore, could have accesses to those services anytime to resolve problems and submit complaints, opinions and feedback at their convenience. With our ISO 10002 customer complaints management certification, we have set up a special consumer complaints mechanism. This uses a systematized, logical procedure to manage complaints. FET also conducts complaints management inspections to improve existing services and processes, while ensuring the customers' rights are safeguarded, providing a comprehensive, first rate service overall. | |
| (vii) Does the Company follow the relevant international standard rules for marketing and marking products and services? | V | | The Company engages in active, detailed disclosure and communication for all rate plans and services by varied channels such as website and stores. For new rate plans and services, FET ensures the rate plans are submitted in advance to the National Communications Commission for approval.<br>The company complies with relevant regulations regarding marketing and promotion of services. Standard operational procedures ensure all services and promotions are in accordance with regulations.<br>All cell phone brands follow the NCC(National Communications Commission) principles to obtain license numbers. In addition, the following information must be printed on the packaging: product name / model, rated voltage / frequency, total rated power consumption of electricity, battery specifications, travel charger, manufacturing number, warnings (decrease battery wave impact, please use sparingly), methods of use and precautions to be taken while using the product, emergency treatment, production year / producing country, the manufacturer's name, the customer service line and address. As of 2015, all new products should have the following warnings; overuse may cause damage to your vision, take a ten-minute break every 30 minutes. Children under 2 should not look at the screen while children over 2 should not spend over one hour looking at the screen. | |
| (viii)Does the Company evaluate the environmental and social records of suppliers before beginning cooperation with suppliers? | V | | Companies with capital of more than NT$5 million must provide a credit statement, and those with less than NT$5 million must provide proof of no bounced checks to serve as a basis for approval. Starting From 2015, FET also requests that suppliers to fill out a CSR self-disclosure statement to ensure they adhere to regulations relating to Environment, Economic and Social regulations. | |
| (ix) Does the Company draw up contracts which include provisions for terminating or rescinding the contract if the supplier violates the policies of corporate social responsibility and has a remarkable impact on the environment and society for use with major suppliers? | V | | When a new contract is signed, FET lists work safety and environmental hazards as matters which must be declared and has set terms for compensation, and requires that contractors assume their corporate social responsibility.<br>The subsidiary company ARCOA also has no-bribery provisions in standard sales contracts, guaranteeing that no bribe, commission, percentage, brokerage, kickback, rebate, gift, entertainment or any other unethical benefit is demanded of or contracted with employees, agents or trustees or paid to its employees, agents or trustees. If this is breached, in addition to dissolving or terminating the relevant contract, the premium and benefit will be deducted from the price of the goods sold in the contract, as well as the breaching party assuming responsibility for damages and compensation. | |
| IV. **Improvements in information disclosure**<br>Does the Company disclose relevant and reliable information concerning corporate social responsibility on its website and Market Observation Post System? | V | | The Company has a section entitled "FET Corporate Social Responsibility" on its website to disclose relevant information including corporate governance, social charity commitments, environmental sustainability, and supply chain management. And FET corporate social responsibility statements are also available for download. For more details, please visit: http://www.fetnet.net/cs/Satellite/Corporate/coSociety<br><br>FET discloses its CSR Report not only on its corporate website but also at Market Observation Post System(MOPS), please visit http://mops.twse.com.tw/mops/web/t100sb11<br><br>The relevant charity and sponsorship events are disclosed in the 「Social Care」 area shown on ARCOA's website. Please visit : http://www.arcoa.com.tw/cares.jsp | Compliant with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies. |

**V. If you have established your own guidelines for Corporate Social Responsibility according to the Corporate Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, please state the discrepancies (if any) between actual operation and the guidelines:** FET's "Corporate Social Responsibility Policy" was approved by the 3rd Meeting of the 7th Term Board of Directors on July 30, 2015 and has been implemented gradully.

**VI. Please state any other important information that would facilitate better understanding of your current status in fulfilling corporate social responsibility (i.e. the Company's system, measures or status of implementation on environmental protection, community participation, contribution to society, social services, charity, consumer rights, human rights, safety and health and so forth):**

**▶ FET continues to strengthen sustainable development, and publish IR Report to enhance disclosure of financial and non-financial statements quality**

In 2011, FET established CSR Committee, and since 2015, FET has upheld "Go Prosperous", "Go Innovative", "Go Caring", and "Go Inclusive" as the four pillars of our

| Evaluation Criteria | Implementation Status | | | Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |

sustainability strategy. We have integrated corporate sustainability strategies with core operations, and set middle and long term development goals. Among them, the goals of 2016 have all achieved. In addition, we were ranked as the top 10 companies of CommonWealth's CSR Excellence Award, and being honored as one of the Most Prestigious Sustainable Companies. FET was also included for the first time in Dow Jones Sustainability Index-Emerging Markets, showcasing our capabilities to grow sustainably with the environment and society. In order to foster comprehensive communication channels with stakeholders, FET's Integrated Report is published on corporate website. (http://www.fetnet.net/cs/Satellite/Corporate/coSociety).

▶ **FET implemented ISO14064-1 for greenhouse gas emissions management and set specific reduction targets, executing supply chain onsite audit to enable the ICT industry heading toward sustainable development.**

In an effort to proactively achieve carbon emissions reduction goals, and prepare for holistic environment management system, FET expands Energy Management Committee to Environment and Energy Management Committee, headed by Chief Financial Officer. In addition, we implemented ISO 14064-1 for GHG management and set specific goals. On the other hand, we continued to collaborate with suppliers to protect the environment, helping the society, and pursuing financial growth through regular on-site audits.

▶ **FET received a number of financial performance related awards, demonstrating that responsible enterprises are highly acclaimed**

For 3 consecutive years FET was ranked top 5% of Corporate Governance Evaluations by Taiwan Stock Exchange. There is no doubt that FET has become a model of excellence in corporate governance in Taiwan. FET always takes the initiative to communicate with stakeholders and investors, providing comprehensive information about our operations and prospects. Our efforts have won undeniable affirmations by investors and stakeholders both domestically and abroad. Meanwhile, in 2016 FET garnered the "Best Managed Company", "Most Committed to Corporate Governance", "Best at Investor Relations," "Best at Corporate Social Responsibility" and "Best CFO" from Finance Asia. Douglas Hsu, the Chairman was also selected as one of the 50 best-performed CEO in Taiwan by Harvard Business Review. While solid company governance earns positive external assessment, FET dedicates to bringing better investment return for shareholders, enabling the sustainability of the Company.

▶ **FET devoted to fund-raising for charity through core competence, expanding care for the less-privileged children**

Over the years, we have been involved in child welfare-related social issues, hoping to create an ideal environment and future for the next generation. Upholding such beliefs, we continuously work with the Child Welfare League Foundation; it has been ten years now since our involvement in the Saving the Lives of Abandoned Children fund-raiser. We have recruited volunteers and joined efforts with Homemakers Union to provide services at schools in remote areas, engage in environmental education, and support philanthropic organizations. In 2016, we also teamed up with John Tung Foundation to organize EQ( Emotional Intelligence Quotient ) education "Say Good Words, Spread the Happiness" at remote schools.

▶ **FET devoted to bringing unique experience for customers. "Connect with Heart. Spread the Love" advocacy campaign encouraged the public to express compassions through actions.**

As communication technology transforms at the speed of light, so does Far EasTone. With regard to customer services, as FET's 4.5G technology become available, we continued to bring more custom-made services through Self-care APP, FET 360° Store Service and various kinds of digitalized services. Meanwhile, Far Eastone launched a brand new wave campaign "Connect with Heart. Spread the Love" which aims to re-discover the connections between people, and urge the public express compassions through actions. EasTone will also work with philanthropic groups in Taiwan to promote this initiative at schools and communities, transforming the love of a corporation to the love of a larger society.

▶ **Caring for the environment - The 2nd "Cherish the Earth, Spread Love Far" advocates the public to savor the ecological beauty of Taiwan**

Far Eastone's caring for the environment began with our initiatives to call for electronic environmental protection picture books submissions. We formed long-term partnership with Taiwan Environmental Information Association and Homemakers United Foundation and promote a series of interesting and appealing creative environmental education on campus, including ecological documentary, holding camps for kids in remote areas, and workshops for families to feel the beauty of the nature. Furthermore, we pioneered in creating the first-ever concert integrating music, dancing, and drama. The music feast received great applause from the public.

▶ **FET applies the "friDay" brand ethos to its digital content, mobile payment and mobile commerce services**

Far EasTone displays the "friDay" brand spirit in its services as it looks to develop digital content, mobile payment, and business transactions. We do our best to support industry-relevant events. The friDay mobile life brand has three key facets: digital content, mobile commerce, and mobile payment. The digital content plays a major role in content integration, with curation and design. Our end-goal is to ensure applications such as mobile payment and mobile commerce are able to fulfill the needs of our market segmented groups, and to ensure that people with different lifestyles can enjoy the convenience and comfort of mobile lives. Far EasTone not only exhibits brand spirit in all of its mobile services, but in 2016 we even got involved with offline popular cultural events. We sponsored the Taipei Film Festival and allowed people to view the 53th Golden Horse Film Festival online for free.

**VII. If the Company's products or Corporate Social Responsibility(CSR) statement have/has been accredited by relevant accreditation institutions, please elaborate:**
FET 2015 CSR report was verified by SGS Taiwan in June, 2016, as being in accordance with GRI G4 core option and AA1000 (AccountAbility) Type 2 High Level.

## B) Implementatation of Corporate Governance and Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM listed Companies"

| Item | Implementation Status | | | Deviations from "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| **(1) Does the Company stipulate and disclose "Corporate Governance Principle" based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" ?** | V | | FET has formulated "Corporate Governance Best Practice Principles" in accordance with the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies", and the principles have been approved by Board of Directors. There have been no deviations from these principles up to now. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| **(2) Ownership Structure and Shareholders' Equity**<br>2-1 Does the Company establish internal operating procedure to handle suggestions, doubts, disputes and legal issues from shareholders, and act in accordance with the procedure? | V | | FET has formulated "Corporate Governance Best Practice Principles", in which "Protection of Shareholders rights and interests" has been included and executed. The Company's spokesperson and the contracted stock agency, Oriental Securities Co., Ltd., are responsible for shareholders' suggestions and inquiries. If it's legal relevant , Legal and Regulatory Department would be involved to handle. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| 2-2 Does the Company identify major shareholders and/ or their ultimate controlling parties? | V | | The Finance and Shared Services Division of the Company is responsible for collecting the updated information on major shareholders and/or their ultimate controlling parties. This information is disclosed /registered in according with the TWSE Listed Companies Information Reporting Rule. | |

| Item | Implementation Status | | | Deviations from "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| 2-3 Does the Company set up and operated risk control mechanisms and firewalls between the Company and its affiliated companies? | V | | The Company and its affiliated companies are all independent entities in respect of their financial and business operations and have established "Related Party Transactions Regulation" which has been approved by the Board Meeting. Risk control mechanism and firewall have been properly established as well. | |
| 2-4 Does the Company establish internal guidelines to prohibit insider trading? | V | | The Company has established "Procedures for Handling Internal Material Information" and "Guidelines for the Adoption of codes of Ethical Conduct" to prohibit any insiders taking advantage of inside information for stock trading. Besides, the Company regularly advocates regulations to prevent "Insider Trading" on a monthly basis. | |
| **(3) Structure and Duties of the Board of Directors**<br>3-1.Does the Company establish guidelines for the diversification of Board members and disclosure the execution status of it? | V | | The Company has established "FET Corporate Governance Best-Practices Principles" in which "Enhancing the Function of Board of Directors" has been included and properly executed.<br><br>**Diversification of Board Members:**<br>**Gender:** In accordance with the rationale of amendment to Article 20 of "Corporate Governance Best Practice<br>Principles for TWSE/GTSM Listed Companies", the Company pays more attention to Gender Equality and implements it. There is a female director in current term Board of Directors.<br><br>**Nationality:** In an attempt to keep up with rapid changes and development in the industry, the Company would like to explore every opportunity from a global perspective. Members with nationality diversity does count for the board composition.: Board members' background diversified from United States, Japan, Singapore, Sweden, China, Hong Kong to Taiwan in nationalities.<br><br>**Industry experience:** In telecommunication industry, members of the Board with varied professional fields play an important part in market competition. The members of the FET Board, being experts from Accounting, Telecommunication, Finance, Economics to Corporate Governance proficiency, assist to facilitate the Company's decision making and strategic planning with their proficiency and proactive views.<br><br>Preformance evaluation of Board of Directors is conducted every year on a regular basis to verify the diversity and contenpency of the Board. | Except for item 3-2, all items are compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| 3-2. Other than Remuneration Committee and Audit Committee, Does the Company set up any functional committee? | | V | The Company hasn't established other functional committees. | |
| 3-3. Does the Company establish performance appraisal mechanisms to evaluate the Board's performance on a yearly basis?Are measures in place to holdexternal evaluations at least once everythree years and discloseevaluation results on the official website? | V | | The company has formulated procedures to assess the performance of the Board of Directors, and that each year it conducts regularly scheduled performance assessments of the board of directors, and individual directors through proper methods. The Company's board performance evaluation shall be conducted by an external professional independent institution or a panel of external experts and scholars at least once every three years. The 2016 performance evaluation of Board of Directors Meeting has been completed. The conduct of Questionnaire of Self-Evaluation of Performance of the Board members went well, but four items in Questionnaire of the Board's Procedure Unit did not meet the requirements. The results have been reported at the 10th meeting of the 7th-term Board of Directors on February 15, 2017.<br>The four items mentioned above includes continuing education of the directors, frequency of meeting, and directors having a spousal relationship or a familial relationship. Due to constraints of region, time and language, some of the overseas directors did not meet the 6-hour-study requirement in corporate governance courses. The Company will assist the directors to complete the courses this year, so as to fulfill the next performance evaluation of the board of directors meeting of the Company and strengthen the board of directors' performance. | |
| 3-4. Does the board regularly (at least once a year)evaluate the independence and eligibility of the Company's appointed CPA and disclose the assessment procedure clearly ? | V | | The Company has set up the "Guidance of Certified Public Accountant Performance Assessment". The accounting department is responsible for evaluating the independence of the CPA appointed by the Company annually and submitting the results of evaluations to the Board of Directors. The results have been approved by the 5th meeting of the 7th term Board of Directors on Feb. 17, 2016, and the 10th meeting of the 7th term Board of Directors on Feb. 15, 2017, respectly. ("Confirmation of Independence" and "Assessment Result of Expertise and Eligibility of Certified Public Accountant" from Accounting firm are included )<br>The guidances to evaluate the independence of the CPA as follows:<br>1. Regularly obtain a Confirmation of Independence from CPA periodically.<br>2. A CPA does not assume the Company's external auditor for 7 consecutive years.<br><br>All currently appointed CPAs meet the requirements of independence.<br>Annex 1:Assessment table of expertise and eligibility of Certified Public Accountant<br>Annex 2: Assessment table of independence of Certified Public Accountant | |
| **(4)Does the listed company establish specialized units or dedicated members and personnel responsible for corporate governance affairs, as well as carring out key actions and reporting statuses (e.g. : including but not limited to provid the information that board directors and supervisors request to perform their duties, ensuring the general affairs of board meetings and shareholders' meetings are held in accordance** | V | | The Finance and Shared Services Division of the Company is responsible for corporate governance, and designated personnel to execute corporate governance. Chief financial officer, with over 3-year working experience in financial or stock affairs management in a public company, is in charge of supervision.<br><br>It is advisable that the Corporate Governance affairs mentioned in the preceding paragraph include at least the following items:<br><br>1. Handling corporate registration and amendment registration<br>2. Handling matters relating to board meetings and shareholders meetings according to laws, and assisting the Company in compliance with laws and regulations governing such meetings.<br>3. Producing minutes of board meetings and shareholders meetings. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |

| Item | Implementation Status | | | Deviations from "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" and Reasons |
|---|---|---|---|---|
| | Yes | No | Illustration | |
| with regulations, applying and changing of company registration, and taking meeting minutes for board meetings and shareholders' meetings.) | | | 4. Furnishing information required for business execution by Board directors, and updating them on change of laws and regulations relating to the operation of the Company in order to assist them with legal compliance.<br>5. Affairs relating to investor relations<br>6. Other matters set out in the articles or corporation or contracts | |
| **(5) Does the Company build up communication channels with interest-conflicting parties ( including but not limited to shareholders, employees, customers and suppliers), delicate a specific area on the Company website, and properly respond to important issues regarding CSR?** | V | | In addition to a formal spokesperson mechanism, the Company has set up adequate connection to the Company for suggestions from stakeholders, such as mail box on the Company website ( ir@fareastone.com.tw), or could be communicated via retail stores, our customer service center also which provides a 24-hour online service (Mobile Direct Line on 123) , FET Self- Care App and e-mail (ecare @ fareastone.com.tw) and contracted stock agency, Oriental Securities Co., Ltd.<br>Subsidiary - ARCOA also set up an email box (ir@arcoa.com.tw) for prompt shareholders services and consultation. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| **(6) Does the Company assign professional Share Transfer Agent to handle shareholders' Meeting?** | V | | The Company and its subsidiary - ARCOA have appointed "Oriental Securities Corporation" as stock agency to assist shareholders' meeting affairs. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| **(7) Information Disclosure**<br>7-1 Does the Company set up a website to disclose financial, operational and corporate governance information? | V | | The Company website address: www.fareastone.com.tw<br>The Company discloses real-time financial, operational and corporate governance information on company's website. | Compliant with the "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" |
| 7-2 Does the Company adopt any other disclosure channels? ( e.g. English website; designated personnel in charge of company information collection and disclosure; implementation of a spokesperson policy; disclose process of institutional investors' meetings information on company website, etc.) | V | | The Company has established an English website. A special personnel has been assigned to manage the gathering and disclosure of financial and business relevant information and taking the minutes of institutional investors meetings. | |

Annex 1. Assessment table of expertise and eligibility of Certified Public Accountant

| Expertise and Eligibility of Certified Public Accountant | | | |
|---|---|---|---|
| Item | Description | Yes (Normal) | No (Abnormal) |
| 1 | Whether certificated with the license of Certified Public Accountant to perform auditing. | V | |
| 2 | Whether never reprimanded by authority and Certified Public Accountant organization nor penalized accordance with article 37-3 of Securities and Exchange Act. | V | |
| 3 | Whether equipped with industry knowledge. | V | |
| 4 | Whether perform auditing of financial statements accordance with Generally Accepted Auditing Principles and Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants. | V | |
| 5 | Whether never presume the position of Certified Public Accountant to conduct malignant commercial competition. | V | |

Annex 2. Assessment table of independence of Certified Public Accountant

| Independence | | | |
|---|---|---|---|
| Item | Description | Result | Independence? Y/N |
| 1 | Whether Certified Public Accountant has direct or significant indirect financial interests with the Company. | No | Y |
| 2 | Whether or not Certified Public Accountant has any financing or guarantees of conduct with the Company or the directors of the Company. | No | Y |
| 3 | Whether Certified Public Accountant has a close business relationship and potential employment relationship with the Company. | No | Y |
| 4 | Whether Certified Public Accountant or members of their audit team had any positions in the Company as directors, managers or significant influence on the audit during the audit period. | No | Y |
| 5 | Whether Certified Public Accountant has any non-audit services to the Company which may directly affect the audit work. | No | Y |
| 6 | Whether Certified Public Accountant has an intermediary to issue shares or other securities of the Company. | No | Y |
| 7 | Whether Certified Public Accountant has acted as the Company's defender or on behalf of the Company to coordinate conflicts with other third parties. | No | Y |
| 8 | Whether Certified Public Accountant has a kinship with the directors, managers of the Company or persons who have a significant influence on the audit work | No | Y |

**(8) If there's any material information that helps to explain the implementation of corporate governance (i.e. included but not limited to employee rights and interests, employee care, investor relations, supplier relations, stakeholders' rights, Board Directors' training status, implementation status of both risk management policy and risk measurement criteria, implementation status of customer policy, the status of purchase of liability insurance for all Board of Directors and of reporting to the board of members:**

### 8-1 Employee rights and interests:

It has been handled according to the Labor Standards Act and the Personnel Regulations of FET and FET's subsidiaries.

### 8-2 Employee Care:

The Company is always mindful of communication with its employees, which could inspire FET to progress and grow. The existing communication channels are as follows:

**Physical Communication Channel**

| | |
|---|---|
| Lantern Legend Meeting | On a quarterly basis, or more frequently where necessary, meetings are held in which constructive suggestions which promote organizational harmony, demonstrate core values, and enhance corporate competitiveness, may be raised. This is so as to build a better unified future for FET |
| Employee Conference | The "Employee General Meeting" is hosted by the general manager as a forum for sharing operational outcomes and communicating new policies that benefit employees |
| United Employee Welfare Committee Meeting | On a quarterly basis, or more frequently where necessary, the "United Employee Welfare Committee" holds meetings where employee activities are planned out as a way of driving employee welfare |
| Management Two-way Communication Conference | At the "Two-Way Quarterly Meeting" with officers, operational policies and implementation effectiveness, and market trend information are communicated. Senior managers propose operation-related topics for discussion, with management responding to these topics at the meeting as a way of improving staff-management interaction. |
| Employee Engagement Survey | An employee engagement survey is conducted on an regular basis by external organizations in order to gain a deeper understanding of employee sentiment for the purpose of building continuous organizational improvement. |

**Electronic Communication Channel**

| | |
|---|---|
| e Newsletter | Published various topic articles and new trending content on knowledge center of intranet monthly, as a way of encouraging learning and sharing within the organization |
| e-News | Published FET the latest news and industrial information on time on "company news bulletin "on intranet |
| e-Express | Continual ad-hoc distribution of important real-time information for immediate employee attention |
| e-Offer | Automatic pop-up in the intranet when selected by employees as way of increasing exposure to important information |
| Employee Suggestions | Creative proposals which benefit organizational operations submitted |
| I Want to Complain | Employees may seek assistance through the opinion box for cases where queries to responsible units or supervisors has met with no response |
| "Whistle-blower" mailbox | Employees could report the violation of Business Conduct via mailbox. |

**Internal Communication Meeting**：Held regularly or irregularly, this is also an important channel to communicate directly and build a good relationship with employees.

ARCOA improves its internal procedure and system based on the employees' responses. The existing communication channels are as follows:

**Physical Communication Channels**

| | |
|---|---|
| Labor-management meeting | Labor-management meetings on a quarterly basis to ensure the addition to or changes to affairs that affect employees' rights, changes are only made after both parties have discussed issues. |
| Employee Conference | The "Employee General Meeting" is hosted by the general manager as a forum for sharing operational outcomes and communicating new policies that benefit employees |
| ARCOA Staff Welfare Committee | This meeting is held on a quarterly basis, or more frequently where necessary, to improve welfare and harmony in the organization. |

**Electronic Communication Channels**

| | |
|---|---|
| e-Newsletter | Published quarterly as a way of encouraging learning and sharing within the organization |
| Sexual Harassment Letterbox | Employees may seek assistance through the opinion box when encounter sexual harassment, or need advice or assistance. |
| "Speak Your Mind" Letterbox | Employees may seek assistance through the opinion box for cases where queries to responsible units or supervisors has met with no response |

### 8-3 Investor Relations:

High quality investor relations are built on effective communication. Our company has established an "Investor Relations Division"(IR) responsible for communicating with institutional investors and shareholders, and between management and external investors. Through two-way communication, IR also serves as a bridge for providing market intelligence to internal corporate management to develop long term strategies. Additionally, to ensure information transparency, quarterly investor conferences have been held for over 10 years, so that investors' questions and suggestions can be addressed. An email dedicated to investor service has also been established as a way of facilitating responsive and effective communication with institutional investors and shareholders.

### 8-4 Supplier Relations:

The establishment and management of supplier relationship is the most important task for procurement. The annual Supplier Performance Evaluation will definitely be an important tool for supplier management. A total of 138 suppliers were evaluated from 2016/9/6 to 2016/10/30, with the total purchase amount contributing to 95% of the FET annual purchase amount. This divided 11 vendor categories. Within FET, a total of 154 divisions and 323 staff were involved in this evaluation task. The final result was that 5 suppliers had a score greater than 90 (outstanding performance), 124 suppliers scored between 70-89 (normal performance), 8 suppliers were scored under 70and 1 supplier was scored under 60 which shall be suspended for one year. Three of the eight manufacturers requiring improvement will be suspended for some transaction types ,because of this , the improvement plans have been remitted. Those suppliers who have not provided their "FET Supply Chain Social Responsibility Self-Declaration Form" will be asked to submit it before 2017 Q1.

### 8-5 Rights of Interest-conflicting Parties:

In order to provide investors with transparent and timely information, financial, operational and corporate governance related information can be obtained on the Far Eastone corporate website for investors' reference. Furthermore, concerning the convenience of data accessibility for both foreign and domestic investors, information is provided in Chinese and English on Market Observation Post System and company website.

### 8-6 Board Directors training status:

According to the "Key Points of Implementation for the Continuing Education of Directors in Listed Companies" of the Taiwan Stock Exchange Corporation, the Company's domestic directors complete continuing professional education courses regularly. Due to regional and linguistic restrictions, overseas directors did not participate in the courses, but through foreign seminars or the Company has been provided the updated law/regulation to gain new knowledge. Beginning this year, courses delivered in English will be arranged for overseas directors.

A.Board of Directors: ( In recent 3 years )

| Title | Name | Study Date | | Sponsoring Organization | Course Name | Study Hours |
|---|---|---|---|---|---|---|
| | | From | To | | | |
| Chairman | Douglas Hsu | 2014/12/22 | 2014/12/22 | Taiwan Corporate Governance Association | Trend of CSR and Sustainable Governance | 3 |
| | | 2015/9/22 | 2015/9/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2015/12/23 | 2015/12/23 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2016/07/06 | 2016/07/06 | Taiwan Corporate Governance Association | The Trend of Change in tax | 3 |
| | | 2016/12/22 | 2016/12/22 | Taiwan Corporate Governance Association | Board Operations and Corporate Governance | 3 |
| Director | Champion Lee | 2014/12/22 | 2014/12/22 | Taiwan Corporate Governance Association | Trend of CSR and Sustainable Governance | 3 |
| | | 2015/9/22 | 2015/9/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2015/12/23 | 2015/12/23 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2016/07/06 | 2016/07/06 | Taiwan Corporate Governance Association | The Trend of Change in tax | 3 |
| | | 2016/12/22 | 2016/12/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| Director | Peter Hsu | 2014/12/22 | 2014/12/22 | Taiwan Corporate Governance Association | Trend of CSR and Sustainable Governance | 3 |
| | | 2015/10/20 | 2015/10/20 | Taiwan Corporate Governance Association | Internal Audit and External Audit: From Directors and Supervisors' point of view | 3 |
| | | 2015/12/23 | 2015/12/23 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2016/07/06 | 2016/07/06 | Taiwan Corporate Governance Association | The Trend of Change in tax | 3 |
| | | 2016/10/20 | 2016/10/20 | Financial Supervisory Commission | The 11th Taipei Corporate Governance Forum | 3 |
| | | 2016/12/22 | 2016/12/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2017/04/07 | 2017/04/07 | Securities and Futures Institute | 2017 Corporate Governance Forum – Insider Trading and Corporate Social Responsibility | 3 |
| Director | Jeff Hsu | 2015/08/10 | 2015/08/10 | Wood Mackenzie | The impact of steel demand and Bulk shipping from the Belt and Road Initiative | 2 |
| | | 2015/09/22 | 2015/09/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2016/07/06 | 2016/07/06 | Taiwan Corporate Governance Association | The Trend of Change in tax | 3 |
| | | 2016/10/20 | 2016/10/20 | Financial Supervisory Commission | The 11th Taipei Corporate Governance Forum | 3 |
| Director | Bonnie Peng | 2015/12/11 | 2015/12/11 | Securities and Futures Institute | The trend of M&A and case study | 3 |
| | | 2016/12/16 | 2016/12/16 | Taiwan Corporate Governance Association | Audit Committee and Independent Directors Function | 3 |
| | | 2016/12/19 | 2016/12/19 | Securities & Futures Institute | Money Laundering and Legal Compliance | 3 |
| Director | Toon Lim | 2016/06/16 | 2016/06/16 | Securities & Futures Institute | 2015 Corporate Governance Evaluation Award Ceremony | 3 |
| Independent Director | Chung Laung Liu | 2015/9/8 | 2015/9/8 | Taiwan Corporate Governance Association | Trade Secret Act and The practice of M&A | 6 |
| | | 2015/10/28 | 2015/10/28 | Taiwan Corporate Governance Association | The chance and challenge of CSR | 3 |
| | | 2016/08/23 | 2016/08/23 | Securities & Futures Institute | Director's Liability of Financial Statement Fraud and Risk Control | 3 |
| | | 2016/08/23 | 2016/08/23 | Securities & Futures Institute | The Regulation of Competence for Management Power | 3 |

Note: Except for the above mentioned education status, the Company would semi-annually inform all directors of updated Corporate Governance related regulations.

B.Executive Management (In recent 3 years)

| Title | Name | Study Date | | Sponsoring Organization | Course Name | Study hours |
|---|---|---|---|---|---|---|
| | | From | To | | | |
| President | Yvonne Li | 2014/12/22 | 2014/12/22 | Taiwan Corporate Governance Association | Trend of CSR and Sustainable Governance | 3 |
| | | 2015/9/22 | 2015/9/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2015/12/23 | 2015/12/23 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |
| | | 2016/11/10 | 2016/11/10 | Taiwan Corporate Governance Association | Corporate Governance Best Guidance - principles, practice and trend | 3 |
| | | 2016/12/22 | 2016/12/22 | Taiwan Academy of Banking and Finance | Board Operations and Corporate Governance | 3 |

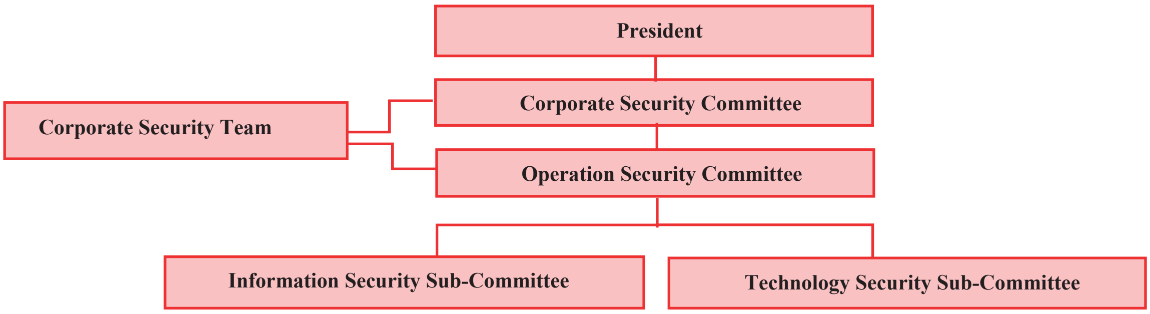
Note: Except for the above mentioned education status, the Company would monthly inform all management of updated Corporate Governance related regulations.

### 8-7 Corporate Risk Management Policy and Organizational Structure:

The telecommunications industry is highly driven by the development of internet technology, and its operations are becoming ever more complex and dynamic. The impacts of intense competition in the industry, changes in consumer behavior, restrictions imposed by national laws and regulations and natural disasters caused by climate change all require systematic prevention and management mechanisms, so as to appropriately evaluate the risks and opportunities that they present.

FET has specially established a corporate security organization to safeguard company assets, reduce impact on business, maximize business gains and ensure the sustainability of the Company. This security organization designs corporate security policies and frameworks in the areas of operations information, technology, physical and human resources. In each security domain, consideration is given to the management of security governance, the upholding of necessary standards and regulations, personal information protection, risk management, business continuity management and crisis management. The security organization has already put into effect substantive risk management targets through its solid operation and management. Moreover, to further strengthen the risk management mechanism and supervision mechanism, FET will adjust the risk management structure in 2017 to quickly respond to changes in the business environment and ensure effective risk management while pursuing business objectives.

**The Corporate Security Organization and responsibilities are as follows:**




| Risk Management Organization | Responsibility |
|---|---|
| Corporate Security Committee | ●Main Duties :<br>1.Establish and maintain the corporate security governance framework.<br>2. Monitor corporate security risk and determine the acceptable risk level.<br>3. Monitor corporate security authority. Be responsible for the buildup and maintenance of corporate operational capability.<br>4. Oversee corporate security activities, including the strategic security policy setting and implementation, information assets management, security metrics setting and management, security event management and control, business continuity management, advocacy of security awareness, crisis and issues management, international standard certificate planning and execution status...etc.<br>5. Review and approve the plan of corporate security, integration of operations and security, resources and budget requirements. |
| Operation Security Committee | ●Main Duties :<br>1. Regularly report to Corporate Security Committee.<br>2. Establish the Company security objectives.<br>3. Manage and certify the progress and results of activities.<br>4. Manage security-related policies and regulations planning, establishment, implementation and review.<br>5. Direct the working group.<br>6. Plan resources with considerations of risk categories and security roadmaps. |
| Corporate Security Team | ●Main Duties:<br>1.Convene Corporate Security Committee / Operation Security Committee meetings and is responsible for executive matters and administrative tasks.<br>2.Facilitate the implementation of security policy and boost the security awareness.<br>3.The coordination unit for Information Security Management System Certification and the convener of implementation groups. |
| Information Security Sub-Committee | ●Main Duties:<br>1.Design and execute plans in their professional domain, safeguard and comply with the Company's security policies and regulations.<br>2.Communicate and coordinate with relevant units for processes and operations, maintain the balance of operation efficiency and security management.<br>3.Report regularly to Operation Security Committee on the implementation situation and decision-making requirements. |
| Technology Security Sub-Committee | ●Main Duties :<br>1. Conduct regular reviews and evaluations of information security risks and the impact of changes in technology.<br>2. Formulate relevant plans; implement appropriate management measures to safeguard the Company's important information and assets.<br>3. Reporting regularly to Operation Security Committee on the implementation situation and decision-making requirements. |

### 8-8 Implementation of Customer Policies:

FET holds to a vision that "FET Connects and Enriches Life", striving to provide ever better customer service.
The FET customer service center has established service and quality management mechanisms, using customer satisfaction surveys that seek to understand customers' experiences and feedback. In addition, meetings and inspections are regularly held to review service quality, with the aim to ensure that customers consistently receive a high quality of service.

The FET market research team tracks satisfaction levels of various products and services via regular customer surveys, and implements projects to understand customer behavior, with the aim to provide consumers a thoughtful service and keep increasing our customer loyalty.

### 8-9 Purchase of liability insurance for all Board of Directors and of reporting to the board:

The Company's Directors provide professional and objective opinions from their varied professional fields, facilitating the decision making in the best interest of the Company and shareholders. To protect Directors from individual liability and financial loss brought by third party lawsuits, while conducting Directors' duties, the Company purchased liability insurance for all Directors after the Board was re-elected in June 2015. The insurance coverage is US$10 million; insured period from June 18, 2016 to June 18, 2017. It will be reported to the recent term (Q3) of Board of directors meeting after renewal of insurance policy in accordance with "Corporate Governance Best Practice Principles".

**8-10 For those staff who work to create transparency in the Company's financial affairs, relevant licences and certification obtained from professional authorities are shown:**

**(1) FarEasTone :**

R.O.C. CPA : 6 persons in the Financial and Accounting Department and Home Services Development Department, F&SS-Andrea Shen, Peggy Chang, Tiana Chang, Kate Yang, Wendy Su; Home Services Development Department -Jennifer Liu.

U.S.A. CPA : 3 persons in the Financial and Accounting Department, Home Services Development Department and Internal Audit Department, F&SS-Jasmine Chiu; Home Services Development Department- Jennifer Liu; Internal Audit Department -Wendy Luong.

R.O.C. Internal Auditor: 6 persons in the Financial and Accounting Department, Corporate Strategy & Development Office, and Internal Audit Department, F&SS- Andrea Shen, Peggy Chang; CSDO-Jeff Su; Internal Audit Department -Ted Chang, Wendy Luong, Andy Chien.

ISO 27001 Internal Auditor : 13 persons in the Financial and Accounting Department, Corporate Strategy & Development Office, Services & Operations and Internal Audit Department,F&SS-Betty Liao, Leo Cheng, Joanne Huang, Joanne Kao, Tracy Lin, Charleen Huang; CSDO -Jeff Su ; S&O- Annie Liu, Jason Chen, Irene Lin, James Chen; Internal Audit Department -Tweety Yeh, Jack Mei.

ISO 9001 Internal Auditor : 3 persons in the Business Control Department, Corporate Strategy & Development Office and Services & Operations Department -Jeff Su, Sandra Lin ; S&O -Irene Lin.

Debt-Collection Personnel's proficiency test held by Taiwan Academy of Banking and Finance : 144 persons in the Financial and Accounting Department, F&SS-Betty Liao, Wendy Chen and Tony Wen,etc.

Stock Personnel's Proficiency Test held by Securities and Futures Institute : 3 persons in the Financial and Accounting Department, F&SS-Helen Ni, Lily Li, Jerry Hsu.

Bond Personnel's Proficiency Test held by Securities and Futures Institute : 1 person in the Financial and Accounting Department, F&SS-Eileen Huang.

**(2) Subsidiary–ARCOA:**

R.O.C. CPA : 1 person in the Financial and Accounting department, Accounting - Jennifer Chen.

## (9) Base on the result of "Corporate governance Evaluation" announced by TWSE ( Taiwan Stock Exchange Corporation) in a recent year to illustrate the status of matters have been already improved and priority measures to reinforce matters haven't been improved：

The Company's to-be-improved items including Directors' training, frequency of meetings and relationship between the directors, etc.

Due to constraints of region, time, and language, some of the overseas directors did not met the 6-hour traning requirement in Corporate Governance courses, the Company will assist the Board of Directors to complete the courses this year, so as to enhance the performance of the Board of Directors.

## (10) If the Company has established the Corporate Governance Principles and the related regulations, it shall disclose the inquiry method:

"Corporate Governance Best Practice Principles" has been established and approved by FET Board of Directors and uploaded to MOPS with Chinese and English versions to facilitate shareholders' inquiries.

## (11) Other information relating to corporate governance:

### 11-1 Execution of policies to protect consumers or customers:

To provide customers with secured and trustworthy telecommunications services is FET's responsibilities, which is also crucial to maintain customers' relationship and enhance their confidence with FET. To show the importance it attaches to and commitment to information security, FET is continually improving its information management system, moreover, FET continuously receives international standard certification for business processes. It not only shows a high degree of self-management, but also shows great commitment to information security and customer information protection.

### 11-2 Employees' Code of Conduct or Ethics:

It is necessary for each employee to sign the "Employees' Code of Conduct" and "Non-disclosure Agreement" and declare his/her agreement to comply with the "Work Rules" in his/her "Employment Contract". The said documents will be kept in the employees' files and disclosed on the Company's intranet to be available to all employees. The contents of the documents are briefed as following:

a. Employees' Code of Conduct, including: (1) the responsibility for making good use of Company resources; (2) the responsibility for ensuring the Company's use of gifts and premiums complies with the commercial customs, laws and code of ethics; (3) code of conduct outside the Company; (4) code of conduct inside the Company; (5) social courtesy; (6) confidentiality of the Company's information; (7) internal information management; (8) information must be recorded and maintained in good faith.

b.Non-disclosure Agreement, including (1) definition of confidential information; (2) assignment of rights; (3) non-disclosure obligation; (4) legal effect for breach of the agreement and obligation thereof; (5) effect upon termination of the employment relationship; (6) successors and assignment of rights; (7) governing law and jurisdiction.

c. Employment Contract, including (1) date of hire; (2) salary; (3) bonus; (4) benefit; (5) special leave; (6) insurance; (7) transfer; (8) work hours; (9) health examination; (10) code of management.

d. Work Rules passed by the Labor-Management Conference and sent for approval to the Taipei City Department of Labor. This includes (1) employment, severance and resignation; (2) wage and bonus; (3) work hours, rest, vacation and leave; (4) retirement; (5) performance appraisal and reward/punishment; (6) compensation and pension for occupation disaster; (7) benefit measures and health and safety.

## (12) The Company has established the "Internal Material Information Disclosure Procedure" and proceeded to promote as follows:

(1) The "Internal Material Information Disclosure Procedure" would be provided to Directors at least once a year when holding board meetings.

(2) The "Internal Material Information Disclosure Procedure" would be provided to new insiders when they signed "Manager's Declaration".

(3) The Company promotes not only the "Internal Material Information Disclosure Procedure", but also the "Insider Trading" related information posted on TWSE website with the e-mail for the declaration of shareholding variation to remind insiders every month.

(4) The Company's insiders and employees are required to sign the "Confidential Agreement" when joining the Company and the latest guildance regarding "Internal Material Information Disclosure Procedure" to employees was posted on the intranet on April 28 , 2017.

## 3-5. The Composition of the Remuneration Committee Member, and the Official Powers of the Remuneration Committee.

### (A)Information of the Remuneration Committee Members

| Role | Condition / Name | With work experience for more than 5 years and the following professional qualification requirements: An instructor or higher up in a department of commerce, law, finance, accounting, or other academic department related to company business in a public or private junior college, college, university | A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a professional capacity that is necessary for company business | Having work experience in the area of commerce, law, finance, or accounting, or otherwise necessary company business | Conform to Independent (Note1) 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | No. of Public companies in which he/she serves as Remuneration Committee Member | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Independent Director | Lawrence Juen-Yee LAU | V | | | V | V | V | V | V | V | V | V | 0 | |
| others | Edward Y. Way | | V | V | V | V | V | V | V | V | V | V | 11 | |
| others | Doris Wu | | | V | V | V | V | V | V | V | V | V | 0 | |

Note 1: Indicates qualified members during the two years before being elected or during the term of the appointment.
(1)Not an employee of the Company or any of its affiliates.
(2)Not a director or supervisor of the Company or any its affiliates. This is not restrictive on any person who is an independent director of the Company, or its parent company which established based on this law or local law.
(3)Not an individual shareholder who, together with those held by the person's spouse, minor children, or held under others' names, holds shares in an aggregate amount of one percent or more of the total outstanding shares of the Company, or an individual who ranks among the top ten shareholders in terms of the share volume held.
(4)Not a spouse, or relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any the persons in the preceding three subparagraphs.
(5)Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total outstanding shares of the Company or ranks among the top five corporate shareholders in term of share volume held.
(6)Not a director, supervisor, executive officer, or shareholder holding five percent or more shares of a specific Company or institution, and who also has financial or business dealings with the Company.
(7)Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, Company, or institution that provides commercial, legal, financial, accounting or consulting services to the Company or to any affiliates of the Company.
(8)Not affected by the circumstances as listed in the subparagraphs of Article 30 of the Company Act.

### (B) Operation of the Remuneration Committee

**1. There are currently three members on the Remuneration Committee**

**2. The current term of office is from June 18, 2015 until June 17, 2018. Remuneration Committee meetings have been held three times (A), with the attendance status listed below:**

| Title | Name | Times of Attendance (B) | Times of Attendance by Proxy | Actual Percentage of Attendance (%) (B/A) | Remark |
|---|---|---|---|---|---|
| Convener | Lawrenc Juen-Yee Lau | 3 | 0 | 100% | This is the member of the 3rd term of the Remuneration Committee of the Company, who was elected again on June 18, 2015, shall present 3 times. |
| Committee member | Edward Y.Way | 3 | 0 | 100% | This is the member of the 3rd term of the Remuneration Committee of the Company, who was elected again on June 18, 2015, shall present 3 times. |
| Committee member | Doris Wu | 3 | 0 | 100% | This is the member of the third term of the Remuneration Committee of the Company, who was elected again on June 18, 2015, shall present 3 times. |

**Other matters of importance:**
1. Instances where the Board of Directors declines to adopt, or attempts to modify, recommendations from the remuneration committee , any objection should specify the dates of meetings, sessions, contents of motion, resolution by the Board of Directors, and the Company's response to the remuneration committee's opinion (for example, where the remuneration passed by the Board of Directors exceeds the recommendations of the remuneration committee, the circumstances and reasons for the difference of opinions shall be specified) : None.
2. Instances where resolutions of the remuneration committee were objected to by members, or subject to qualified opinion and recorded or declared in writing (where date of meetings, sessions, contents of motions, all members' opinion and the response to members' opinion are specified): None

## 3-6. Implematation of Internal Control System

### (1) The declaration of internal control system

**Far EasTone Telecommunications Co., Ltd.**
**The Declaration of Internal Control System**

Date: February 15, 2017

Based on the self-examination results of the internal control system for the year ended December 31, 2016, Far Eastone Telecommunications Co., Ltd. (The Company) therefore declares the following:

I. The Company's board of directors and management understand their responsibilities of developing, implementing and maintaining the internal control system and such a system has been well established. The purpose of establishing the internal control system is to reasonably assure the following objectives:
   1. Effectiveness and efficiency of business operations (including earnings, operating performance and the safeguard of company assets);
   2. Reliability, timeliness, transparency, and regulatory compliance of reporting;
   3. Compliance with applicable laws, regulations, and bylaws.

II. The internal control system has its inherent limitations, no matter how well designed, effective internal control system can only provide reasonable assurance on the foresaid three objectives. Moreover, the effectiveness of internal control system may vary with changes in the environment. However, the Company management develops self-monitoring mechanism to detect deficiency and take corrective actions.

III. The evaluation of effectiveness of the internal control system design and implementation is performed in accordance with "Regulations Governing Establishment of Internal Control Systems by Public Companies" (the Regulations). The Regulations examine the following components throughout the internal control process: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.

IV. The Company management has assessed the effectiveness of the internal control system design and implementation based on the above Regulations.

V. The Company management declares that the internal control system (including Subsidiary Governance) has effectively assured that the following objectives have been reasonably achieved during the assessment period:
   1. The effectiveness and efficiency of business operations;
   2. Reliability, timeliness, transparency, and regulatory compliance of reporting;
   3. Compliance with applicable laws, regulations, and bylaws.

VI. The Declaration will be included in the Annual Report and be subject to the Articles 20, 32, 171 and 174 under the Securities Exchange Act.

VII. The Declaration of Internal Control System has been approved by the Company's board of directors on February 15, 2017.

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

**Douglas Hsu**
**Chairman**

**Yvonne Li**
**President**

(2) **The special audit of the Company's internal control systems conducted by CPA retained by the company : None.**

## 3-7. Any penalties for violations of regulations or the company's internal control systems by the personal ; major defects and the status of corrections in the internal control systems from last year up to the Annual Report being published : None.

## 3-8. From last year up to the Annual Report being published, major resolution and execution status of Shareholder's Meetings and Board Meetings

### (1) Major Resolutions and Execution status of Shareholder's Meetings

| Date | Resolutions of Shareholders' Meeting | Execution |
|---|---|---|
| June 16, 2015 | Resolutions in the Annual Shareholders' Meeting of Year 2016<br>**Matter to be discussed (I)**<br>1. Approval of the amendment to "the Articles of Incorporation" of the Company.<br>**Matters to be reported**<br>1. Business report of Year 2015.<br>2. Financial report of Year 2015.<br>3. The 2015 Audit Committee's review report.<br>4. The 2015 directors and employees' compensation.<br>5. To report the "Guidelines for the Adoption of Codes of Board of Directors" and the "Ethical Corporate Management Best Practice Principles" of the Company.<br>**Matters to be approved**<br>1. Approval of the Year 2015 closing report (Including business report)<br>2. Approval of the proposal regarding Year 2015 earnings distribution (Cash dividend per share NT$3.174)<br>**Matters to be discussed(II)**<br>1. Approval of the cash distribution from Capital Surplus (Cash dividend per share NT$0.576). | Operating pursuant to the amended "Articles of Incorporation". And already approved by the Ministry of Economic Affairs on July 18, 2016.<br><br>July 18, 2016 was fixed as the record date of ex-cash dividends, and cash dividends were paid on August 5, 2016.<br><br>July 18, 2016 was fixed as the record date of ex-cash dividends, and cash were paid on August 5, 2016. |

### (2)Major Resolutions of Board Meetings

| Date | Resolutions of the Board Meetings |
|---|---|
| February 17, 2016 | (1) Approval of the amendments to the "Articles of Incorporation".<br>(2) Approval of the 2015 directors' and employees' compensation of the Company.<br>(3) Approval of the 2015 annual financial statements and consolidated financial statements of the Company.<br>(4) Approval of the distribution cash dividend from Retained Earnings and Capital Surplus of the Year 2015.<br>(5) Approval of the 2015 business report of the Company.<br>(6) Approval of the dates and agenda of the Company's 2016 Annual Shareholders' Meeting.<br>(7) Approval of the Company's 2016 business plan and consolidated financial forecast.<br>(8) Approval of loan agreements to be executed with banks.<br>(9) Approval of the declaration of internal control system of the Company.<br>(10) Approval of the amendment of the "Internal Control System" of the Company.<br>(11) Approval of the assessment result of expertise, eligibility and independence of Certified Public Accountant. |
| April 28, 2016 | (1) Approval of the release of recent dual employments and competition restriction on managerial officers of the Company. |
| November 4, 2016 | (1) Approval of the 2017 Audit Plan.<br>(2) Approval of the major capital expenditure budget for Q1 2017.<br>(3) Approval of the "Procedures for Performance Evaluation of Board of Directors Meeting" of the Company.<br>(4) Approval of the release of recent dual employments and competition restriction on managerial officers of the Company.<br>(5) Approval of the loan agreements to be executed with banks.<br>(6) Approval of the issuance of domestic secured corporate bond not exceeding NT$4 billion. |
| December 8, 2016 | (1) Approval of the issuance of domestic unsecured corporate bond not exceeding NT$10 billion. |
| February 15, 2017 | (1) Approval of the 2016 directors' and employees' compensation of the Company.<br>(2) Approval of the 2016 annual financial statements and consolidated financial statements of the Company.<br>(3) Approval of the distribution cash dividend from Retained Earnings and Capital Surplus of the Year 2016.<br>(4) Approval of the 2016 business operation report of the Company.<br>(5) Approval of the dates and agenda of the Company's 2017 Annual Shareholders' Meeting.<br>(6) Approval of the Company's 2017 business plan and summary consolidated financial forecast.<br>(7) Approval of the capital lending to Q-Ware Communication Co., Ltd., not exceeding NT$250M.<br>(8) Approval of the Declaration of Internal Control System of the Company. |

## 3-9. From last year up to the Annual Report being published, dissenting comments on major Board Resolutions from Board Directors: None.

## 3-10.From last year up to the Annual Report being published, the resignation/dismissal situation of the Officers ( Including Chairman, President, Accounting Manager, Financial Manager, Internal Auditor Manager and R&D Manager ): None.

## 4. Certified Public Accountant (CPA) Professional Fee Information

### 4-1. Information of CPA

2016/12/31

| Accounting Firm | Name of CPA | | Audit Period | Note |
|---|---|---|---|---|
| Deloitte & Touche | Annie Lin | Denny Kuo | 2016.01.01 ~ 2016.12.31 | |

### 4-2. Professional Fees of CPA

#### 4-2-1.

Unit: NT$'000

| | Item / Amount (NTD) | Audit Fees | Non-audit Fees | Total |
|---|---|---|---|---|
| 1 | Less than 2,000 | | | |
| 2 | 2,000 ~ 4,000 (inclusive of 2,000) | | | |
| 3 | 4,000 ~ 6,000 (inclusive of 4,000) | | V | |
| 4 | 6,000~ 8,000 (inclusive of 6,000) | | | |
| 5 | 8,000 ~ 10,000 (inclusive of 8,000) | V | | |
| 6 | More than 10,000 (inclusive of 10,000) | | | V |

#### 4-2-2.

2016/12/31; Unit: NT$'000

| Accounting Firm | Name of CPA | Audit Fees | Non-audit Fees | | | | | Audit Period | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | | System Design | Registration | Human Resources | Other | Total | | |
| Deloitte & Touche | Annie Lin | $8,840 | None | None | None | $5,930 | $14,770 | 2016.01.01~ 2016.12.31 | Non-audit Fees are mainly consoulting fees for cases. |
| | Denny Kuo | | | | | | | 2016.01.01~ 2016.12.31 | |

**4-3. If the audit fees of the year in which the company changes CPA firm is lower than that of the prior year, specify the amount of audit fee before and after, and the reason:** Not applicable**.**

**4-4. If the audit fee dropped year on year by more than 15%, specify the amount, percentage, and reason for the reduction:** Not applicable.

## 5. Change of Certified Public Accountant (CPA)

**None.**

## 6. The Company's Chairman, President and Managers Responsible for Finance or Accounting Who Have Held a Post in Company's Audit Firm or its Affiliations in the Last Year

**None.**

## 7. Shares Transferred by Directors, Management and Major Shareholders from last year up to the Annual Report being Published

**7-1. Shareholding Variation:**

2017/4/25

| Title | Name | 2016 | | 2017/1/1 ~ 2017/4/25 | |
|---|---|---|---|---|---|
| | | Shares Increased (Decreased) | Pledged Shares Increased (Decreased) | Shares Increased (Decreased) | Pledged Shares Increased (Decreased) |
| Chairman | Douglas Hsu,<br>Representative of Yuan Ding Investment Co., Ltd. (Note 1) | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Managing Director | Peter Hsu,<br>Representative of Yuan Ding Investment Co., Ltd. (Note 1) | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Managing Director | Jan Nilsson,<br>Representative of Yuan Ding Investment Co., Ltd. (Note 1) | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Independent Director | Lawrence Juen-Yee LAU | 0 | 0 | 0 | 0 |
| Independent Director | Kurt Roland Hellström | 0 | 0 | 0 | 0 |
| Independent Director | Chung Laung Liu | 0 | 0 | 0 | 0 |
| Director | Champion Lee,<br>Representative of Yuan Ding Co., Ltd. | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Director | Jeff Hsu,<br>Representative of Yuan Ding Co., Ltd. | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Director | Keisuke Yoshizawa,<br>Representative of U-Ming Marine Transport Corp. | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Director | Bonnie Peng,<br>Representative of Representative of Asia investment Corp. | 440,000<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| Director | Toon Lim,<br>Representative of Ding Yuan International Investment Co., Ltd. | 0<br>*0 | 0<br>*0 | 0<br>*0 | 0<br>*0 |
| President | Yvonne Li | 0 | 0 | 0 | 0 |
| Executive VP | Mike Lee | 0 | 0 | 0 | 0 |
| Chief Advisor | Sherman Lee | 0 | 0 | 0 | 0 |
| Executive VP | Eton Shu | 0 | 0 | 0 | 0 |
| Executive VP and Chief Sales & Marketing Officer | Maxwell Cheng | 0 | 0 | 0 | 0 |
| Executive VP | Magdalina Lin | 0 | 0 | 0 | 0 |
| Executive VP | Philip Tseng (Note 2) | Not Applicable | Not Applicable | 0 | 0 |
| Executive VP & CFO | T.Y. Yin | 0 | 0 | 0 | 0 |
| Executive VP | Herman Rao | 0 | 0 | 0 | 0 |
| VP | Dick Lin | 0 | 0 | 0 | 0 |
| VP | Jennifer Liu | 0 | 0 | 0 | 0 |
| VP | Joann Chang | 0 | 0 | 0 | 0 |
| VP | Jessica Chen | 0 | 0 | 0 | 0 |
| VP | Maggie Mei | 0 | 0 | 0 | 0 |
| VP | Jessica Sung | 0 | 0 | 0 | 0 |
| VP | Samuel Yuan | 0 | 0 | 0 | 0 |
| VP | Belinda Chen | 0 | 0 | 0 | 0 |
| VP | Brian Chao | 0 | 0 | 0 | 0 |
| VP | Roger Lin | 0 | 0 | 0 | 0 |
| VP | Charlene Lin | 0 | 0 | 0 | 0 |
| VP | Andy Tu | 0 | 0 | 0 | 0 |
| VP | Terrance Yang (Note 3) | 0 | 0 | 0 | 0 |
| VP | Mark Lee | 0 | 0 | 0 | 0 |
| VP | Eric Li | 0 | 0 | 0 | 0 |
| VP | James Lee | 0 | 0 | 0 | 0 |
| VP | Sharon Lin | 0 | 0 | 0 | 0 |
| VP | David Tsai | 0 | 0 | 0 | 0 |
| VP | Bruce Yu | 0 | 0 | 0 | 0 |
| VP | Jessie Teng | 0 | 0 | 0 | 0 |
| VP | Hae-Shung Ju (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director | C. J. Lee (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director | Yaling Lang | 0 | 0 | 0 | 0 |
| Senior Director | Joyce Chen (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director | Andy Kuo | 0 | 0 | 0 | 0 |
| Senior Director | Elliza Tu (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director of Sales | Andy Kuo | 0 | 0 | 0 | 0 |
| Senior Director | Allan Lee | 0 | 0 | 0 | 0 |
| Senior Director | Ann Chang | 0 | 0 | 0 | 0 |
| Senior Director | Gary Lai | 0 | 0 | 0 | 0 |
| Senior Director | Andrea Shen | 0 | 0 | 0 | 0 |
| Senior Director | Jason. Chen | 0 | 0 | 0 | 0 |
| Senior Director | Tony Wang | 0 | 0 | 0 | 0 |
| Senior Director | Vivian Chiang | 0 | 0 | 0 | 0 |
| Senior Director | Jason Kuo (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director | Dave Lu (Note 4) | 0 | 0 | 0 | 0 |
| Senior Director | Leon, Li | 0 | 0 | 0 | 0 |
| Senior Director | D.J. Chen | 0 | 0 | 0 | 0 |
| Senior Director | Andy Weng (Note 5) | Not Applicable | Not Applicable | 0 | 0 |
| Chief Advisor | Iris Su | 0 | 0 | 0 | 0 |

Note 1: Who are the major shareholders that hold over 10% share.
Note 2 : On board on Mar. 20. 2017
Note 3 : On board on Dec. 01, 2016
Note 4 : Promoted on Oct. 01, 2016
Note 5 : Promoted on Apr. 01, 2017
*Number of shares held and shareholding percentage of the individual representative.

**7-2. Shareholding Transferred:** None. Due to the counter party is not a related party.

**7-3. Shareholding Pledged:** None. Due to the counter party is not a related party.

## 8. Relationship between Top Ten Shareholders defined as Related Parties, Spouse or a Relative within Two Degree

2017/4/25

| Name | Current Shareholding | | Spouse & Minor Children's Shareholding | | Shareholding in Name of Others | | Name, relationship of top ten shareholders are Spouses of within 2 degrees of consanguinity to each other | | Note |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % | Name | Relationship | |
| Yuan Ding Investment Co., Ltd. | 1,066,657,614 | 32.73 | N/A | N/A | 0 | 0.00 | An Ho Garment Co., Ltd.<br>Yuan Tung Investment Co., Ltd. | Same ultimate parent company<br>Same ultimate parent company | None |
| Chairman & Representative:Douglas Hsu | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Peter Hsu | Brother | None |
| Representative:Peter Hsu | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | Douglas Hsu | Brother | None |
| Representative:Jan Nilsson | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Shin Kong Life Insurance Co., Ltd. | 160,460,000 | 4.92 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Tung-Chin Wu | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| NTT DOCOMO Inc. | 153,543,573 | 4.71 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Kaoru Kato | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Cathay Life Insurance Co., Ltd. | 125,711,000 | 3.86 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Hong-Tu Tsai | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Yuan Tong Investment Co., Ltd. | 100,237,031 | 3.08 | N/A | N/A | 0 | 0.00 | Yuan Ding Investment Co., Ltd.<br>An Ho Garment Co., Ltd. | Same ultimate parent company<br>Same ultimate parent company | None |
| Chairman: David Wang | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Taiwan Post Co., Ltd. | 97,243,696 | 2.98 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Philip Wen-chyi Ong | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Fubon Life Insurance Co., Ltd. | 67,000,696 | 2.06 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Richard M. Tsai | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Nan Shan Life Insurance Co., Ltd. | 51,064,354 | 1.57 | N/A | N/A | 0 | 0.00 | None | None | None |
| Chairman: Y. T. Du | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| An Ho Garment Co., Ltd. | 40,817,592 | 1.25 | N/A | N/A | 0 | 0.00 | Yuan Ding Investment Co., Ltd.<br>Yuan Tong Investment Co., Ltd. | Same ultimate parent company<br>Same ultimate parent company | None |
| Chairman: Alan Tsai | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| China Life Insurance Company, Ltd. | 40,333,518 | 1.24 | 0 | 0.00 | 0 | 0.00 | None | None | None |
| Chairman:Alan Wang | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | None | None | None |

Information Sources: Market Observation Post System, Commerce Industrial Services Portal and company's website.

## 9. Comprehensive Shareholding Information Relating to Company, Directors, Management, and Companies Affiliated through Direct and Indirect Investment

2017/3/31; Unit: share; %

| Affiliated Company (Note 1) | Investment of Far EasTone | | Directors, Managements and Direct or Indirect Investment of the Affiliated company | | Consolidated Investment | |
|---|---|---|---|---|---|---|
| | Shares | % | Shares | % | Shares | % |
| New Centry InfoComm Tech Co., Ltd. | 2,100,000,000 | 100.00 | 0 | 0 | 2,100,000,000 | 100.00 |
| FarEastern Electronic Toll Collection Company | 118,250,967 | 39.42 | 44,796,239 | 14.93 | 163,047,206 | 54.35 |
| ARCOA Communication Co., Ltd. | 82,762,221 | 61.63 | 0 | 0 | 82,762,221 | 61.63 |
| KGEx.com Co., Ltd. | 78,895,760 | 99.99 | 0 | 0 | 78,895,760 | 99.99 |
| Hiiir Inc. | 53,726,000 | 89.54 | 0 | 0 | 53,726,000 | 89.54 |
| Q-ware Communications Co., Ltd. | 33,982,812 | 81.46 | 0 | 0 | 33,982,812 | 81.46 |
| Yuan Hsin Digital Payment Co., Ltd. | 32,658,426 | 30.00 | 21,772,284 | 20.00 | 54,430,710 | 50.00 |
| Ding Ding Integrated Marketing Service Co., Ltd. | 10,408,200 | 15.00 | 45,102,200 | 65.00 | 55,510,400 | 80.00 |
| Far Eastern Electronic Commerce Co.,Ltd. | 6,691,000 | 14.85 | 26,305,000 | 58.39 | 32,996,000 | 73.24 |
| Alliance Digital Technology Co., Ltd. | 6,000,000 | 14.4 | 0 | 0 | 6,000,000 | 14.4 |
| Omusic Co., Ltd. | 2,500,000 | 50.00 | 0 | 0 | 2,500,000 | 50.00 |
| Yuan Cing Co., Ltd. | 2,000,000 | 100.00 | 0 | 0 | 2,000,000 | 100.00 |
| Far Eastern Info Service (Holding) Ltd. | 1,200 | 100.00 | 0 | 0 | 1,200 | 100.00 |
| DataExpress Infotech Co., Ltd. | 0 | 0 | 12,866,353 | 70.00 | 12,866,353 | 70.00 |
| New Diligent Co., Ltd. | 0 | 0 | 106,000,000 | 100.00 | 106,000,000 | 100.00 |
| Information Security Service Digital United Inc. | 0 | 0 | 10,249,047 | 100.00 | 10,249,047 | 100.00 |
| Digital United (Cayman) Ltd. | - | - | 4,320,000 | 100.00 | 4,320,000 | 100.00 |
| Sino Lead Enterprise Limited | - | - | 30,000 | 100.00 | 30,000 | 100.00 |
| FarEastern New Diligent Company Ltd. | - | - | - | 100.00* | - | 100.00* |
| New Diligent Hong Kong Company Ltd. (Note 2) | - | - | - | 0* | - | 0* |
| Linkwell Tech. Ltd. | - | - | - | 100.00* | - | 100.00* |
| Home Master Technology Ltd. | - | - | - | 100.00* | - | 100.00* |
| Far Eastern Tech-info Ltd (Shanghai) | - | - | - | 100.00* | - | 100.00* |
| FarEastern New Century Information Technology (Beijing) Limited | - | - | - | 90.52* | - | 90.52* |
| New Diligence Corporation (Shanghai) | - | - | - | 100.00* | - | 100.00* |

Note 1:Investment accounted for using equity-method.
Note 2:Company registration completed on December 4, 2014, but the investment amount had not been remitted to the investee as of March 31, 2017.
*The ratio is based on the proportion of investor company's contributions to the registered capital.

# IV Fund Raising Status


1. Capital and Shares
2. Issuance of Corporate Bonds
3. Preferred Shares
4. Issuance of Overseas Depository Receipt
5. Employee Stock Options
6. Employee Restricted Stock Options
7. Shares Issued for Merges or Acquisitions
8. Fund Utilization Plans and Status

## 1. Capital and Shares

### 1-1 History of Capitalization

2017/4/25

| Year. Month | Par Value (NT$) | Authorized Capital | | Shares Outstanding | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares ('000) | Amount (NT$'000) | Shares ('000) | Amount (NT$'000) | Source of Capital | Non-Monetary Capital Expansion | Effective Date & Cert. No. |
| 2008.1 | 10 | 4,200,000 | 42,000,000 | 3,258,501 | 32,585,008 | Capital reduction of NT$7,745,326 Thousand | None | (Note 1) |

Note 1: 2008.1.22 MOEA Ruling Ref.No.09701015390

Current Capital Sources : Unit:NT$'000

| Source of Capital | Initial capital | Capital increase through cash paid-in | Capitalization of earnings | Capitalization of additional paid-in capital | Others (Including ECB Conversion & Acquisition of the issue of new shares ) | Total |
|---|---|---|---|---|---|---|
| Amount | 9,000,000 | 4,112,570 | 12,926,063 | 4,331,098 | 2,215,277 | 32,585,008 |
| Percentage of Capital (%) | 27.62 | 12.62 | 39.67 | 13.29 | 6.80 | 100 |

2017/4/25; Unit:'000 Shares

| Type of Stock | Authorized Capital | | | Note |
|---|---|---|---|---|
| | Shares Outstanding | Un-issued | Total | |
| Common Shares | 3,258,501 | 941,499 | 4,200,000 | Listed stock |

### 1-2 Information for Shelf Registration: Not Applicable.

### 1-3 Shareholder Structure

2017/4/25

| Quantity \ Shareholder Structure | Government Institutions | Financial Institutions | Other Institutional Shareholders | Individual Shareholders | Foreign Institutions and Individual Shareholders | Total |
|---|---|---|---|---|---|---|
| Numbers | 9 | 30 | 188 | 21,688 | 857 | 22,772 |
| Shares | 17,957,068 | 576,338,101 | 1,499,642,390 | 91,203,084 | 1,073,360,167 | 3,258,500,810 |
| Shareholding ratio (%) | 0.55% | 17.69% | 46.02% | 2.80% | 32.94% | 100% |

Note: According to the official letter No.0990002770 of Financial Supervisory Commission ("FSC") on January 15, 2010, the Telecommunications Enterprise was the prohibited investment industry. The individuals, juristic persons, organizations, other institutions from Mainland can't invest in the Company, hence the percentages of ownership of China investors is "0".

### 1-4 Share Distribution-Common Stock

2017/4/25

| Level | Number of shareholders | Shares | % |
|---|---|---|---|
| 1 - 999 | 5,312 | 1,446,903 | 0.04 |
| 1,000 - 5,000 | 13,317 | 26,940,982 | 0.83 |
| 5,001 - 10,000 | 1,701 | 13,491,896 | 0.41 |
| 10,001 - 15,000 | 553 | 7,047,852 | 0.22 |
| 15,001 - 20,000 | 332 | 6.125.060 | 0.19 |
| 20,001 - 30,000 | 312 | 7,841,159 | 0.24 |
| 30,001 - 50,000 | 279 | 11,115,871 | 0.34 |
| 50,001 - 100,000 | 280 | 19,942,408 | 0.61 |
| 100,001 - 200,000 | 168 | 24,224,706 | 0.74 |
| 200,001 - 400,000 | 137 | 39,528,664 | 1.21 |
| 400,001 - 600,000 | 74 | 35,512,516 | 1.09 |
| 600,001 - 800,000 | 50 | 34,708,156 | 1.07 |
| 800,001 - 1,000,000 | 41 | 36,731,135 | 1.13 |
| 1,000,001 and above | 216 | 2,993,843,502 | 91.88 |
| Total | 22,772 | 3,258,500,810 | 100.00 |

Note: The Company has not yet issued any preferred shares until April 25, 2017.

## 1-5 Top 10 Major Shareholders

2017/4/25

| Major Shareholders \ Shares | Shares | % |
|---|---|---|
| Yuan Ding Investment Co., Ltd. | 1,066,657,614 | 32.73 |
| Shin Kong Life Insurance Co., Ltd. | 160,460,000 | 4.92 |
| NTT DOCOMO INC. | 153,543,573 | 4.71 |
| Cathay Life Insurance Co., Ltd. | 125,711,000 | 3.86 |
| Yuang Tung Investement Co., Ltd. | 100,237,031 | 3.08 |
| Taiwan Post Co., Ltd. | 97,243,696 | 2.98 |
| Fubon Life Insurance Co., Ltd. | 67,000,696 | 2.06 |
| Nan Shan Life Insurance Co., Ltd. | 51,064,354 | 1.57 |
| An Ho Garment Co., Ltd. | 40,817,592 | 1.25 |
| China Life Insurance Company, Ltd. | 40,333,518 | 1.24 |

## 1-6 Share Price, Net Value, Earnings, Dividends and Related Information in Last 2 years

Unit: NT$; shares

| Item \ Year | | | 2015 | 2016 | 2017 (as of March 31) |
|---|---|---|---|---|---|
| Share price (Note 1) | High | | 80.5 | 81.9 | 75.7 |
| | Low | | 65.0 | 64.5 | 71.3 |
| | Average | | 72.28 | 73.11 | 73.8 |
| Net Value per share | Before distribution | | 22.07 | 21.79 | 22.67 |
| | After distribution | | 18.32 | (Note 2) | (Note 2) |
| Earnings per share | Weighted-average outstanding shares | | 3,258,500,810 | 3,258,500,810 | 3,258,500,810 |
| | Earnings per share | Before adjustment | 3.52 | 3.50 | 0.87 |
| | | After adjustment (Note3) | 3.52 | 3.50 | 0.87 |
| Dividend per share | Cash dividend | | 3.75 (Note 7) | 3.75 (Note 8) | Not Applicable |
| | Stock dividend | Distribution of surplus | 0 | 0 | Not Applicable |
| | | Additional Paid-In Capital | 0 | 0 | Not Applicable |
| | Accumulated un-distributed dividend | | 0 | 0 | Not Applicable |
| Return on Investment | Price/Earnings Ratio (Note 4) | | 20.53 | 20.89 | Not Applicable |
| | Price/Dividend Ratio (Note 5) | | 19.27 | 19.50 | Not Applicable |
| | Cash dividend yield (Note 6) | | 5.19% | 5.13% | Not Applicable |

Note 1: High/Low means the highest/lowest share price for the period and average share price is calculated based on transaction amount and volume for the period.
Note 2: Earnings distribution shall be resolved by Shareholders' Meeting in the subsequent year.
Note 3: Earnings per share after stock dividend is distributed.
Note 4: Price/Earnings Ratio = Average closing share price of the period/Earnings per share.
Note 5: Price/Dividend Ratio = Average closing share price of the period/Cash dividend per share.
Note 6: Cash dividend yield = Cash dividend per share/average closing share price of the year.
Note 7: The cash dividend of year 2015 distribution NT$3.75 per share was based on 3,258,500,810 shares.
Note 8: The cash dividend of year 2016 has not been approved by the Shareholder's Meeting.

## 1-7 Dividend Policy

### 1-7-1. Dividend Policies under the Articles of Incorporation

The dividend payout ratio each fiscal year shall be no less than fifty percent (50%) of the final surplus, which is the sum of the after-tax profit of the fiscal year to withhold previous loss, if any, legal reserve and special reserve as required by law; while cash dividend declared by the Corporation shall be no less than fifty percent (50%) of the total dividends distributed that year; provided, however, depending on whether the Corporation has any financial structure improvement or major capital expenditure plans in the year, the earnings unallocated and accumulated in the preceding year may be distributed, and the payout ratio and percentage of cash dividend may be raised or lowered by a resolution adopted at the shareholders' meeting.

With pay-out dividends over past three years, taking 2014-2016 for example, the dividend payout ratios from 2014-2016 were 106%, 106% and 107% respectively. All dividend payout ratios are all in accordance with the Articles of Incorporation of FET that outline that the cash dividend declared by the Company shall be no less than fifty percent (50%) of the total dividends distributed that year. Please see the below table for details:

Unit:NT/share

| Year | EPS after income tax (A) | Cash Dividend from retained earnings (B) | Cash Dividend from the capital surplus-additional paid-in capital-share issuance in excess of par value (C) | Total of the Cash Dividend (B+C=D) | Payout Ratio(D/A) | Cash Payout Ratio(D/A) (B+C)/D |
|---|---|---|---|---|---|---|
| 2014 | 3.52 | 3.167 | 0.583 | 3.75 | 106% | 100% |
| 2015 | 3.52 | 3.174 | 0.576 | 3.75 | 106% | 100% |
| 2016 | 3.50 | 3.129 | 0.621 | 3.75 | 107% | 100% |

**1-7-2. Dividend Allocation proposed to be approved at the Annual Shareholders' meeting**

The 2016 profit allocation resolved by the Board of Directors on Feb 15, 2017 for reporting to the 2017 Annual Shareholders' Meeting is as follows: Distribute profits of NT$10,195,849,034 in the form of shareholder dividends, NT$3.129 per share. An additional cash surplus of NT$2,023,529,004 will be distributed at NT$0.621 per share, giving a total cash dividend of NT$3.75 per share held in 2016.

## 1-8 Impact of Stock Dividend Distribution on Business Performance, EPS and Return on Investment:

FET did not distribute any stock dividend, thus it's not applicable.

## 1-9 Remuneration to Employees and Directors

### 1-9-1 Description regarding compensation for employees and Directors in the Articles of Incorporation:

The standard is set according to Company Act revised in May, 2015 and Articles of Incorporation of the Company approved by the Shareholders' Meeting in June, 2016: "If there is profit for the current year, the Company shall set aside 1%~2% of it as compensation for employees and, shall set aside not more than 1% of it as compensation for Directors. If there is accumulated loss on the books of the Company, portion of the profit equaling the loss shall first be set aside to cover the latter.

### 1-9-2 The accounting treatment for the differences between actual and accrued amount of compensation for employees and Directors :

Prior to the release date of annual financial reports, material differences between the accruals and the amount resolved by the Board of Directors are adjusted in the current (financial reporting) year. After the release of annual financial reports, if the actual amounts differ from the amount resolved by the Board of Directors, the differences are recorded and adjusted in the following (financial reporting) year as changes in accounting estimate.

### 1-9-3 Status of compensation distribution to the Board of Directors:

(1) The differences between employees' and Directors' compensation distributed from the 2016 earnings by cash resolved by the Board of Directors on February 15th, 2017, and the accrued amount in the year these remunerations were recognized as expenses are as follows:

Unit: NT$'000

| Item / Amount | Bonuses for Employees | Remuneration to Directors | Treatment of Discrepancy |
|---|---|---|---|
| Accrued Amount ( A ) | $262,208 | $94,395 | None |
| Proposed Distribution ( B ) | $262,208 | $94,395 | |
| Variance（B）-（A） | $0 | $0 | |

(2) Proposed employee compensation by shares as percentages of net income and total employee compensation: It is revolved to be distributed by cash, hence it is not applicable.

### 1-9-4 Remuneration to employees and Directors of Year 2015:

The difference between cash compensation actual distributed to employees and Directors from the 2015 earnings, which has been resolved by the Board of Directors on February 17th, 2016, and the accrued remunerations amount recognized as expenses in 2015 are as follows:

Unit: NT$'000

| Item / Amount | Remuneration to Employees | Remuneration to Directors | Treatment of Discrepancy |
|---|---|---|---|
| Recognized Accrued Amount ( A ) | $283,550 | $102,078 | None |
| Actual Distribution（B） | $283,550 | $102,078 | |
| Variance（B）-（A） | $0 | $0 | |

**1-10 Shares buyback by the Company:** None.

## 2. Issuance of Corporate Bonds

### 2-1 Information of unretired corporate bonds and unissued corporate bonds for which an issuance is currently under preparation and impact on shareholders' equity are disclosed in compliance with Article 248 of the Company Act:

Until the Annual Report being published, the Company has issued corporate bonds with outstanding amount totaling NT$28.1 billion, terms and impacts on shareholders' equity disclosed as below. And currently subsidiaries of the Company do not issue corporate bond.

2017/4/30

| Issuance | 2013 Domestic 4th Unsecured Corporate Bond | 2013 Domestic 5th Unsecured Corporate Bond | 2013 Domestic 6th Unsecured Corporate Bond | 2016 Domestic 1st Unsecured Corporate Bond | 2017 Domestic 1st Unsecured Corporate Bond |
|---|---|---|---|---|---|
| Issue Date | 2013/6/27 | 2013/10/15 | 2013/12/24 | 2017/1/5 | 2017/4/26 |
| Denomination | NT$10,000,000 | NT$10,000,000 | NT$10,000,000 | NT$10,000,000 | NT$10,000,000 |
| Issue Price | At par value | At par value | At par value | At par value | At par value |
| Total Amount | NT$5,000,000,000 | NT$5,000,000,000<br>A Issue: NT$1,000,000,000<br>B Issue: NT$4,000,000,000 | NT$8,400,000,000<br>B Issue: NT$5,200,000,000<br>C Issue: NT$3,200,000,000 | NT$5,200,000,000 | NT$4,500,000,000 |
| Coupon | 1.33% | A Issue:1.46%<br>B Issue:1.58% | B Issue:1.27%<br>C Issue:1.58% | 1.17% | 1.17% |
| Tenor and Maturity Date | 7 years<br>Maturity:2020/6/27 | A Issue: 4 years<br>Maturity:2017/10/15<br>B Issue: 5 years<br>Maturity:2018/10/15 | B Issue:4 years<br>Maturity:2017/12/24<br>C Issue : 6 years<br>Maturity :2019/12/24 | 5 years<br>Maturity:2022/1/5 | 5 years<br>Maturity:2022/4/26 |
| Guarantor | None | None | None | None | None |
| Trustee | Chinatrust Commercial Bank, Trust Department | Mega International Commercial Bank, Trust Department | Mega International Commercial Bank, Trust Department | Mega International Commercial Bank, Trust Department | Chinatrust Commercial Bank, Trust Department |
| Underwriter | Not Applicable | Not Applicable | Not Applicable | KGI Securities | Yuanta Securitiet |
| Legal Counsel | Lee and Li Attorney<br>Grace Wang | Lee and Li Attorney<br>Grace Wang | Lee and Li Attorney<br>Grace Wang | Lee and Li Attorney<br>Grace Wang | Lee and Li Attorney<br>Grace Wang |
| Auditor | Deloitte & Touche<br>CPA, Tony Chang | Deloitte & Touche<br>CPA, Tony Chang | Deloitte & Touche<br>CPA, Tony Chang | Deloitte & Touche<br>CPA, Annie Lin | Deloitte & Touche<br>CPA, Annie Lin |
| Repayment | Repay 50% of principal each in the 5th & 7th year. | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment |
| Outstanding Balance | NT$5,000,000,000 | NT$5,000,000,000 | NT$8,400,000,000 | NT$5,200,000,000 | NT$4,500,000,000 |
| Redemption or Early Repayment Clause | None | None | None | None | None |
| Covenants | None | None | None | None | None |
| Credit rating agency, rating date, bond ratings | Taiwan Ratings Corp.<br>twAA- (2017/02/17) | Taiwan Ratings Corp.<br>twAA- (2017/02/17) | Taiwan Ratings Corp.<br>twAA- (2017/02/17) | Taiwan Ratings Corp.<br>twAA- (2017/02/17) | Taiwan Ratings Corp.<br>twAA- (2017/02/17) |
| Other rights of Bond holders: Amount of converted or exchanged into common shares, ADRs or other securities | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Other rights of Bond holders: Rules governing issuance or conversion (Exchanged or subscription) | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |
| Dilution Effect and other adverse effects on existing shareholders | None | None | None | None | None |
| Custodian of exchanged securities | Not applicable | Not applicable | Not applicable | Not applicable | Not applicable |

### 2-2 Corporate Bonds to be due within one year upon Publication of the Annual Report:

The Domestic 4th Unsecured Corporate Bond A Issue, and the Domestic 6th Unsecured Corporate Bond B Issue, according to its issuance rules, will be repaid the entire principal of NT$5,200,000,000 on 2017/10/15 and NT$5,200,000,000 on 2017/12/24, respectively. Total principal amount to be paid is NT$6,200,000,000.

**2-3 Convertible Bond:** None.

**2-4 Exchangeable Bond:** None.

**2-5 Shelf Registrations for Issuing Corporate Bonds:** None.

**2-6 Bond with Warrants:** None.

**2-7 Issuance of Corporate Bonds through Private Placement in Recent 3 Years:** None.

## 3. Preferred Shares

None.

## 4. Issuance of Overseas Depository Receipt

2017/3/31

| Item / Date of Issuance | | | June 11, 2004 | |
|---|---|---|---|---|
| Total Price of Issuance | | | US$132,190,000 | |
| Unit Price of Issuance | | | US$13.219 | |
| Total number of units issued | | | 10,000,000 | |
| Type of underlying securities | | | Far EasTone common stocks | |
| Amount of underlying securities | | | 15 shares | |
| Rights and obligations of subscribers | | | Same as common stock holders | |
| Trustee | | | Not applicable | |
| Depositary Bank | | | The Bank of New York (Luxembourg) S.A. | |
| Custodian Bank | | | Far Eastern International Bank | |
| Number of outstanding shares | | | 8,753,530 shares | |
| Bearers of Related charges incurred during issuance and holding period | | | Charges of GDR issuance shall be borne by sellers; charges incurred during holding period shall be borne by the Company. | |
| Major terms of Depositary Agreement and Custodian Agreement | | | None | |
| Place of issuance | | | Luxembourg Stock Exchange | London Stock Exchange |
| Market Price per unit | 2016 | High | US$36.415 | US$36.000 |
| | | Low | US$32.850 | US$36.000 |
| | | Average | US$34.937 | US$36.000 |
| | 2017 (as of March 31, 2017) | High | US$37.610 | US$36.000 |
| | | Low | US$32.850 | US$36.000 |
| | | Average | US$35.167 | US$36.000 |

## 5. Employee Stock Options

None.

## 6. Employee Restricted Stock Options

None.

## 7. Shares Issued for Mergers or Acquisitions

**7-1 Information from Completed Merger or Acquisition from last year up to the Annual Report being published:**

**7-1-1** The lead underwriters' evaluationon on any merger, acquisition, or issuance of new shares due to the share transfer from other companies in the previous quarter**:** Not Applicable.

**7-1-2** If the progress or effect of the implementation does not meet the goal in the previous quarter, please specify the influence on shareholders' equity and the improvement plan: Not Applicable.

**7-2 Information from Shares Issued for Acquisition or due to Acquisition of shares of other companies from last year up to the Annual Report being Published:** None.

**7-3 Impact on shareholders equity from Shares Issued for Merge or Acquisitions from last year up to the Annual Report being published:** None.

## 8. Fund Utilization Plans and Status

**Uncompleted processes or remaining issues of the previous issued corporation bonds and the private placement of securities or outcome of projects don't meet the expected goal in recent 3 years:** None.

The Company had issued domestic unsecured corporate bonds since 2013, the utilization of these funds was fully executed as the planned schedule. Please refer to below table:

Unit: NT$000

| Bond Name | Issue amount | Issue date | Use of Funds | Planned execution date | Actual execution status |
|---|---|---|---|---|---|
| Far EasTone Domestic 4th Unsecured Corporate Bond | 5,000,000 | 2013/6/27 | To enrich working capital | 2013 Q3 | Had completely executed by 2013/9. |
| Far EasTone Domestic 5th Unsecured Corporate Bond | 5,000,000 | 2013/10/15 | To repay bank loans | 2013 Q4 | Had completely executed by 2013/10. |
| Far EasTone Domestic 6th Unsecured Corporate Bond | 10,000,000 | 2013/12/24 | To enrich working capital | 2013 Q4 | Had completely executed by 2013/12. |
| Far EasTone Y2016 Domestic 1st Unsecured | 5,200,000 | 2017/01/05 | To repay bank loans | 2017 Q1 | Had completely executed by 2017/1. |
| Far EasTone Y2017 Domestic 1st Unsecured | 4,500,000 | 2017/04/26 | To repay bank loans | 2017 Q2 | Had completely executed by 2017/4. |

# V Operational Highlights

1. Business Activities
2. Markets and Sales Overview
3. Employee Information in Recent 2 Years up to the Annual Report being Published
4. Environmental Protection Expenditure
5. Employee Relations
6. Major Contracts and Agreements

# 1. Business Activities

## 1-1 Business Scope

### (1) Major Business Items of FET and its subsidiaries as follows:

- Type I Telecommunications Enterprise;
- Type II Telecommunications Enterprise;
- Sales of communications products and office equipment;
- Call center services;
- Electronic information providing services;
- Sale of communications products;
- Security and monitoring service via Internet;
- Research and design of computer system;
- Computer software, data processing and provision of network information.

### (2) Operating Revenue Breakdowns

Unit: NT$'000

| Item \ Year | 2015 | | 2016 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Telecommunication Service Revenue | 69,722,129 | 72 | 67,315,200 | 71 |
| Others | 27,571,089 | 28 | 27,029,066 | 29 |
| Total | 97,293,218 | 100 | 94,344,266 | 100 |

(Note) The figures are on consolidated base

### (3) Existing Products and Services

**Products/Services provided by FarEasTone and its' subsidiaries - NCIC& ARCOA are as follows:**

A. Mobile Service Communications Revenue:

a. Type I Telecommunication Services: Provide mobile phone, 3G and 4G voice and data communication services and digital services; the voice services are categorized as postpaid and prepaid services according to the payment methods; digitalservices include, friDay Shopping, friDay Shopping Plus, friDay Video, friDayReading, friDay PLAY and friDay Omusic, FET Mobile TV, friDay Wallet and so forth. In addition, telecommunication lease circuit leasing revenue mainly relates to domestic circuit leased line services. In 2014, the company cooperated with China Unicom and China Mobile to formally launch Taiwan Strait Express-1 (TSE-1), which brought new opportunities and options for cross-strait enterprises. In 2014, it broke new ground in demonstrating cloud applications: firstly, it proposed experiential activities related to Private Cloud and Hybrid Cloud. It then unveiled the BYOD (Bring Your Own Device) experiential exhibition center that enables interested enterprise customers to experience interactive and information security management applications. Finally, based on the insight that there is a need for information security communication, EMMA communication software was successfully launched. That is, while maintaining company security and privacy, enterprises are also able to tap-into more diverse and active internal exchanges through the integration of bulletin board and directory, along with other messenger and sticker applications. In the year of 2016, the applications of BYOD were further integrated. FET introduced Enterprise Mobility Information Security Platform to provide corporate clients with a more complete solution of mobility information security. We also brought out a solution for enterprise applications onto the EMMA enterprise mobility platform. It includes enterprise EMM, BI and monitoring system, pushing information to users' mobile devices; or the users can search for system information via the EMMA to establish a two-way communication between the system and human. Furthermore, all the 12 branches of Chang Gung Memorial Hospital in Taiwan and the Shanghai branch of the OPTC, Taiwan have adopted our self-developed patrol inspection system in 2015. The internally developed patrol system was successfully adopted by all 12 Chang Gung Memorial Hospital campuses throughout Taiwan as well as Oriental Petrochemical's Taiwan and Shanghai plants in 2015. In 2016 the BYOD applications were integrated more closely together to become the FET mobile IT security platform which offers enterprise clients a more comprehensive mobile IT security solution. An enterprise application interface solution was released for the EMMA enterprise mobility platform. Integration with enterprise EMM, BI and monitoring systems allows information to be pushed to users' mobile devices and users can also query system information via EMMA, this is how we enabling two-way communication between the system and users. As businesses are now migrating their application services to cloud servers to boost the flexibility of IT resource use and reduce operating costs, the Cloud Management Service (CMS) for the enterprise market was launched in 2016. Apart from providing a hybrid cloud solution to satisfy the need for secure inter-connection and flexible utilization of computing resources by enterprise application services on between public and private clouds, the extensive experience and expertise of the FET ICT consultation team was also leveraged to assist businesses in realizing the secure migration, backup and continuity of their application services. This provides businesses with a one-stop cloud solution.

b. Type II Telecommunication Services: Non-E.164 internet phone, wholesale resale, simple voice resale (ISR), intranet communication services and internet access services.

B. Internet Access Services Revenue: ISP Service for “FET Big Broadband-ADSL” and “Optical Networks”.
C. Circuit Rental Services Revenue: Including local circuit rental, domestic circuit rental and international circuit rental.
D. Fixed Line Communications Revenue: This includes domestic phone call service, long-distance internet phone call service, 007 international call service, and 070 software call service, Wagaly Talk cost saving service, etc.
E. Revenue from sales of mobile communication equipment and accessories: this includes the sales of equipment and accessories for voice and video communications via telephone switchboard as well as digital convergence, alone or in a package with telephone number.
F. Maintenance Service Revenue: Revenues coming from the revenue of the clients across all FarEastone stores, business customers and maintenance stations that provide product maintenance.
G. Logistics Service Revenue：Revenues coming from goods delivery, return, pick-up, processing, storage, document management and electronic commerce logistics services of enterprise business.

### (4) New Products /or Services under Development

FET will continue to work to develop services, based on consumer insights, to meet mobile consumers’ needs. The general concept, products, and evolved services currently provided by FET, NCIC and ARCOA are shown below:

■ **Digital Content**

- **Video On Demand (VOD):** FET launched its “Video On Demand” service (renamed friDay Video in 2015) in 2011, as it ventured into the development of online video services with movie rental offerings. The service supports multiple devices (Laptop, Mobile and Tablet) across a cloud service. friDay Video currently has more than 130 million consumers, and owns more than 3,500 film titles. Internally, the service creates various content to appeal to its consumers’ diverse tastes. Externally, the service cooperates with well-known film festivals, such as the Golden Horse Awards & Taipei Film Festival. All these activities raise brand awareness and improve user experience. In 2017, FET will continue to invest in user interface optimization, big data analytics, and enhanced media sharing tools such as “Chromecast & Airplay”, providing consumers with diverse content that is of superior quality.
- **Digital Music:** In September 2010, FET invited 9 major record labels in Taiwan to take part in the joint venture Omusic; a company focus specifically on the promotion of digital music adoption and development of digital music business models. Omusic continues to increase digital music sales with diversified product portfolios that integrate current and popular topics. In 2017, Omusic joins firDay family and one of Omusic’s digital musical products has rebranded as “friDay Omusic”. The service keeps improving the user interface, music content, playlist to fulfill member needs.
- **Mobile Application:** According to “Institute for Information Industry” reported in 2016, the Taiwan game market size is NT$ 57 billion and the market forecast in 2017 could reach $NT 63 billion. friDay PLAY has gathered more than 800,000 members and a single gamer had spent over $500,000 on one game in a year. friDay PLAY creates a great revenue stream with the game company by the innovative marketing activities. In the future, friDay PLAY will focus on businesses which are able to provide game operation efficiency, effective marketing, and insightful gamer analysis.
- **friDay Reading:** friDay Reading maintains over than 6,000 e-books on the shelves, unlimited reading for members. In order to encourage people to read digitally, friDay Reading launched a “friDay Reading Gift Card” in 2016 which provides a great gift for friends and family and allows the recipient to choose their favorite e-books. Customers can choose books and tops they are interested in (including popular magazines, literary novels, popular prose and read best-selling books so on the shelves), and during the effective period the reader is able to read any of the e-books sitting on the digital shelves. In 2017, friDay Reading will continuously devote to the development of e-book in Taiwan , to optimize user interface and reading experience.
- **Alley:** Launched in 2012, Alley is an App providing gourmet information and vouchers, aiming to attract online consumers to experience in offline stores. Alley has launched two Apps: “Alley” and “Alley x Tainan”. With over 700,000 downloads and over 50,000 active users, Alley assisted more than 1,200 food merchants to create huge media exposure. The service has also been introduced to Taichung and Kaohsiung cities in Taiwan. Alley has generated revenue over NTD 20 million in 2016, which not only generated extra profits to merchants but also yielded positive effects on the industry indirectly.

■ **Mobile Payment**

- **friDay Wallet:** FriDay Wallet has been soft-launched since August 2016. It provides consumers contactless payments, QR code payments and real-life application. friDay Wallet can fully support consumers’ daily life demands with easy-to-user features. By the end of 2016, friDay Wallet already achieved 300K user downloads within 4 months.
- **Carrier Billing Business :** FET has actively developed applications in carrier billing business over the years. Being a pioneer in Taiwan, FET not only grandly launched Direct Carrier Billing with partner Google Play in 2014 but also succeeded launching Direct Carrier Billing with partner iTunes Store in Asia in 2016, recognized as the first telecom carrier providing Android & iOS duo-platform simultaneously in Asia. With our effort and recognition, FET was honorably awarded by IDC Asia/Pacific with "Best Telco-OTT Partnership of the Year" in 2016. Apart from cooperating with foreign partners, we kept dedicating to carrier billing with local government and huge companies in providing parking fee service in Taipei, Taichung and

Kaohsiung urban area, movie theaters and coffee shops by using carrier billing. We expect to provide FET users with simple, secured and smart mobile payment services (3S services), the ultimate 3S mobile payment choice.

■ **Mobile Commerce**

- **friDay Shopping:** launched in October 2014, friDay Shopping provides tailored e-shopping user experiences based on consumer insight. friDay Shopping is a market leader when it comes to the introduction of lifestyle and curation-based commerce services. Through strong social content and intuitive user interface design, friDay Shopping has achieved positive business performance and created clear differentiation from rivals. The service has over 1,100 suppliers and 200,000 listed merchandisers. With a focus on mobile user experience enhancement, friDay Shopping seems set to become the leader in mobile commerce within Taiwan. friDay Shopping has introduced video shopping to create better consumer experiences since 2015. In 2016, friDay Shopping has 300,000 listed merchandises, more than 500,000 members and revenue has achieved 80 million NTD. In addition, we launched a cutting-edge mobile shopping platform “friDay Shopping Plus”, connecting big data and floating price mechanism, friDay Shopping Plus returned extra profits to consumers from each product. In 2017, we will sustain the growth of revenue, enhance floating price mechanism and scenario-oriented shopping guide, aiming to picture a better life for service providers, product suppliers, and consumers.

■ **HD mobile video platform application service:**

Cloud computing technology and services have matured in recent years. Mobile transmission and cloud technologies are combined with video conferencing techniques to achieve improved communication quality for both enterprises and individuals alike. The mobile cloud video conferencing service also consists of fully-equipped data storage and computing centers, along with high-quality HD video transmission and video signal processing mechanisms. Participants within Taiwan and from across the globe are freed from the limitations of time and space, since video conferencing equipment gives access to a virtual meeting room through the FarEasTone teleconferencing cloud platform. This facilitates greater meeting efficiency and minimizes the number of meetings needed, their duration, and the costs they incur in terms of time and money. The multilateral video platform application service may be used for corporate policy announcements, training, project follow-up and crisis management.

■ **Corporate Fleet Management System:**

According to the statistics, there are over 200,000 corporate vehicles in Taiwan (excluding commercial and freight vehicles). In the past, most of the enterprises still cannot manage their vehicle assets effectively so far, due to the cost limitations for maintenance and building of a system. They could only have the tracking devices installed to know the vehicles location and control the costs of vehicle dispatching, fuel, toll, consumable parts of the vehicles and periodic maintenance with paper-based logs. As a result, it’s quite difficult for enterprises to control and manage vehicle conditions and drivers’ behaviors in real time. Therefore, FET provides the "FET Cloud-Based Corporate Fleet" service to collect in-vehicle information with the OBDII vehicle diagnostic equipment, providing enterprises with vehicle location, in-vehicle, monitoring and event information to help enterprises to improve the utilization and equipment availability of the corporate fleet. In the end, it can reduce fuel consumption and carbon footprint as well to fulfill corporate social responsibilities.

■ **Smart Patrol Inspection System:**

Based on the interviews experiences with clients from different industries, FET found that most of the enterprises still use paper-based logs and forms as their management tool. We built the FET Smart Patrol Inspection & Management System based on numerous principles, such as comprehensive planning, patrol system implementation and real-time abnormalities response, to improve the patrol efficiency of enterprises. Furthermore, the core of the FET Smart Patrol Inspection & Management System is to create a platform for patrol inspections and use it to build up the best solution for enterprises to deal with patrol inspections and management issues that confront them. In addition to various functional modules required for patrol inspection, the solution also covers modules for enterprise to undergo system integration. The following benefits are what enterprises can receive from the FET Smart Patrol Inspection & Management System:

- **Streamlined Management :** Through digitizing the enterprise patrol inspection from paper-based logs, the patrol inspection system keeps pace with this change. The patrol staff can not only meet the manager’s requirements, but reflect the operating results onto the big data system. Relevant managers can then control and manage with full confidence.
- **Patrol Inspection Implementation:** With the use of the NFC technology, the patrol staff can only obtain the site’s information when they sense their badge at that site. This ensures them are present at the site.
- **Higher Efficiency:** As information is collected with portable smart mobile devices when conducting patrol inspection, users just have to upload it after inspection. There is no need to enter the data manually, that leads to fewer errors and less time for data entry.
- **Abnormality Management:** Based on the digitizing patrol inspection information and real-time data collection, the system can provide a compiled report of the value showed on the meters and visually inspected items in real time, and then manage the abnormalities beforehand effectively as per the reports.
- **Equipment & Resources Integration:** Increase the overall efficiency and benefits of the patrol inspection and management so as to decrease the operating costs to enhance the competitiveness of enterprises in the market.

■ **Smart Owner :**

Tens of thousands of small business are founded in Taiwan each year, among them the IT team is a rarity. Their employers and managers are also not familiar with the establishment of related ICT services. FET integrates the Cloud and Smart Mobility Application Solution, offering our clients in the small business retail and catering industry an integrated service of operations digitization, equipment mobilization and cloud services. These includes services such as commercial monitoring, mobile shop App, cloud POS and mobile smart attendance management. Small business owners don't have to spend too much time on equipment and system services required for starting their businesses. They can purchase all of the services needed in one place for them to focus on the business management. FET and FarEast Corporation combine their resources, providing small business with unified ICT services. We hope to enhance the services in the field of sales & marketing and operations management needed by small businesss to highlight the value of the overall services that FET provides.

- ARCOA is now officially involved in the B2C e-commerce logistics business and focusing on e-commerce clients, such as Gohappy, Hiiir, Newegg, and Sogo – have joined the service. The development of the "Smart Warehouse Management System" (SWMS) was supported by guidance and funding from the Industrial Technology Research Institute in 2016. A next-generation smart logistics center is commissioned and can now provide customers with diversified logistics services.

## 1-2 Industry Overviews

### (1) Industry status and development

Deregulation and loosened government controls have allowed telecommunications industries moving towards liberalization and greater competition. Total mobile subscribers reached 28.93 million at the end of 2016, and the Mobile Phone Account Penetration Rate was over 123%. The services, promotions and handset programs among operators caused customers to apply for more than one.

With the rise of emerging fiber access to internet, FTTx will gradually replace ADSL as the mainstream internet access method for the next generation. Some of the benefits offered to ISPs (Internet Service Providers) by FTTx are the fast 100Mb~ 1Gb high speed download and increased stability versus ASDL. With the growing popularity of mobile devices such as smartphones and tablet PCs, demands for wireless internet access from consumers have also raised correspondingly. In addition to 4G services, some operators even provide 2600MHz spectrum service since 2016 Q3 to fulfill and optimize customer needs for internet.

Regarding corporate mobile communications, in recent years, with the slow recovery of developed countries, along with the impact felt by slower growth in emerging and developing countries, global economic growth has not gone as planned, therefore enterprises have been forced to have more prudent investments due All of these have made operation of the corporate mobile communication market more challenging. Fortunately, the sales of smart mobile devices (mobile phone, tablet PC etc.) has boomed over the last two years. Smart-watches, smart glasses and other wearable devices are heating up in the market. Together with the prevalence of Mobile APPs, a new turning point was reached by the telecommunications industry.

The number of global 4G LTE subscribers is growing fast, making this service the mainstream for mobile communication technology in the next decade. On the other hand, the widespread broadband infrastructure and high bandwidth provided by mobile broadband services have motivated all kinds of applications and services. In particular, the HD video conferencing application constitutes the intersection of most potential and greatest development space for real-time transmission and mobility and the need for large data transmission flow. This includes teleconferencing within corporations and across borders, provision of health care through video and audio feeds, and video sharing. With the boom of 4G and every conceivable kind of high-speed transmission service to come, it can be expected that telecommunication service providers will provide service anytime anywhere at increased bandwidth, which will drive the growth of digital service revenue and bring new energy to the growth of corporate operations.

On the other hand, BYOD (Bring Your Own Device, where employees bring their own devices to the work) is sweeping across the world. According to the recent Ovum report, BYOD has become a very popular mode of multinationals in Asia-Pacific, and mobile applications have doubtlessly become the key for enterprises to enhance productivity and competitiveness. As such, many corporations are now actively involved in the development of mobile applications that would enhance productivity for their employees. The international research and consultancy firm Gartner even indicated that growth in the use of mobile devices to watch work-related videos has led to increased pressure on companies to support and manage this demand.

In addition, enterprises are also paying much attention to Mobile Device Management (MDM), Mobile Application Management (MAM), Mobile Content Management (MCM) and mobile security applications and development. In this era in which new mobile devices are continually brought out and mobile applications and management are continuously innovated, requests from the enterprise customers are no longer limited to mobile communication cost-down. Instead, the mobile communication applications for enterprises' internal APP video conference, the integration of mobile network and Fixed Mobile Convergence (FMC), and the development of value added mobile solutions are more important.

We began working with Google and Microsoft on the G suite and Office 365 services in 2014 to provide a complete suite of cloud application services. These have since been adopted by a number of large users and have also proven popular among small and medium enterprise users as well. This not only helped small and medium enterprises overcome their issue of none in-house IT specialist but also allowed them to enjoy the convenience of flexible billing, flexible expansion and on-demand services.

As well as facilitating communication between people, the IoT (Internet of Everything) has also entered a rapid development period where IoE has become a network that brings together people, procedures, information, and equipment. In the future, any new technological products must consider issues associated with connectivity, and ensure that their product meets these connectivity needs. In addition, more and more applications make use of Big Data to develop a form of intelligence. Even the most recent wave of intelligent robots brings with them business opportunities with regards to mobile connection needs, and this is true across all industries. The development of emerging technologies is expected to give the telecommunications industries a growing number of opportunities.

In the next few years, Far EasTone will actively focus on the integrated development of 4G mobile and Cloud technologies; along with Big Data and IoT. According to the particular characteristics of the industries we serve, we look to provide corporate clients with more application integration services, which help to satisfy the clients' needs of being ubiquitous, mobile, and real time, and helps to improve organizational competitiveness.

**Taiwan's telecommunications market is characterized by the following factors, among others:**

A. As 4G networking has been adopted by more and more users within Taiwan, consumers have begun to rely on their cellphones throughout daily life; with use cases including for work, shopping and entertainment. FET works constantly to innovate in the sphere of digital content, mobile application, mobile payment and mobile commerce services.

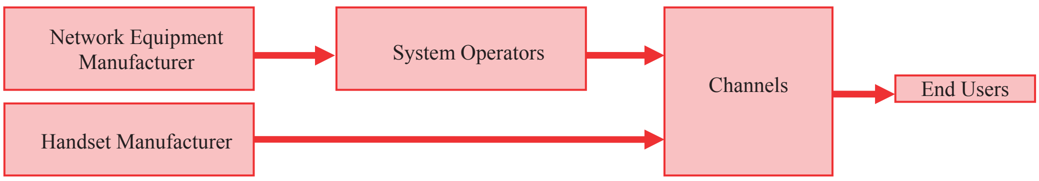
On one hand, a balance must constantly be struck between providing more digital content, which increases the value of the service, and simplifying the user experience so that it is easy to use and intuitive. The design of mobile payment and mobile commerce services aims to provide benefits for consumers, which are enriched by our enhanced understanding of consumer demands. It is hoped that through a process of continuous improvement, FET will become the consumer's most trusted partner in daily life.

B. 4G – at the core of the market, Wireless – the potential for growth

As operators began to launch 4G services in mid-2014, total 3G subscribers reached 16.78 million, and total 4G subscribers reached 11.57 million, by the end of 2015. By the end of 2016, total 3G subscribers numbered 10.47 million, and total 4G subscribers reached 18.46 million. (Source: 2016 number of mobile service subscribers is based on NCC's survey disclosed in Jan. 2017). After 4G service launch, operators continued to provide comprehensive wireless services to consumers, and increased bandwidth for data services as a way of driving new sources of mobile revenue.

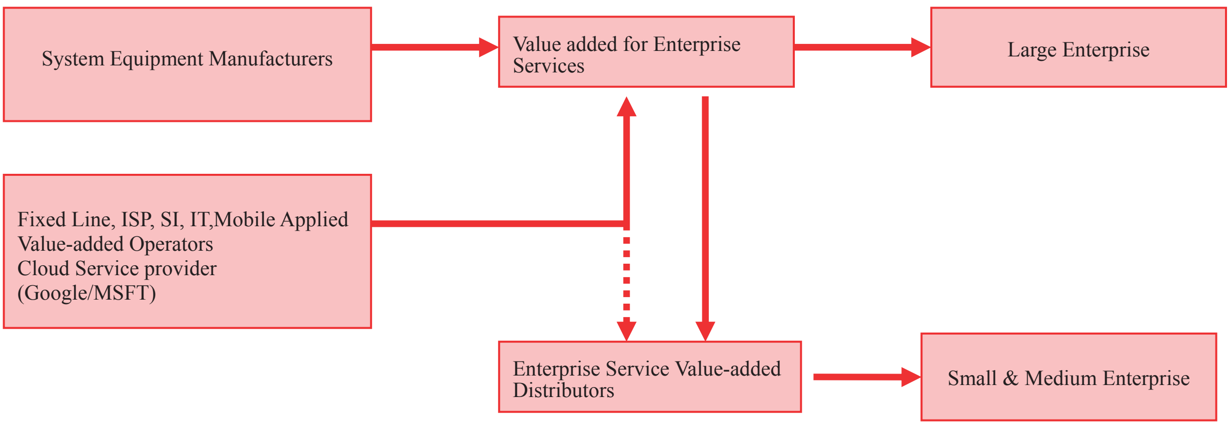
**( 2 ) Industry Value Chain:**

**For personal mobile service communications aspects:**




( Including agents, distributors, retail stores of operators )

**For corporate mobile service communications aspects**



### (3) Development Trends of Products and Services

A. Entering a period of rapid development of 4.5G mobile Internet

The launch of 4.5G has led to a significant rise in mobile internet speeds; and mobile video/audio and high-bandwidth use services will gradually become the main contributors of traffic volume. Therefore, FET continues to aggressively deploy 4G; and has already reached out to 367 towns and achieved 99.5% of the population coverage.

There are currently several million subscribers utilizing smartphones, and the proportion actually using Data service continues to increase, because of this, FET will continue to strengthen the development of relevant value-added services so that users can continue to enjoy a greater range of easy-to-use services.

Apart from the medium and low Internet spectrums, FET also makes use of the LTE 2600MHz, which creates new hotspots that enhance the capacity and speed of bandwidth in high utilization areas. FET is building more 2600MHz base stations than any other provider through aggressive construction. This not only enhances the consumer experience but also gives the company advantages.

B. Beginning to implement NFV (Network Function Virtualization) technology

In recent years, an increasingly diverse range of communication services are coming to market, due in part to the rapid development of ICT industry. Some services require greater transmission throughput, and some generate multiple connections simultaneously. Faced with a rapidly changing market, FET is capable of providing diverse services via the characteristics of NFV technology:

- Network Slicing : FET networks would support various type of services (for example, streaming, healthcare, fleet management, etc.) simultaneously, and cross-interference would not occur.
- Efficiently use hardware resources : Hardware resources would be no longer be committed to one specific network function, and instead they would become a shared resource pool for any functional use.
- Quickly providing new services: In the future, network functions would be deployed on commodity servers, and FET would not purchase the special equipment itself. This would greatly reduce the cost and time to build-up new services.
- FET begin to implement NFV in 2017. The first step is to perform a trial to virtualize the selected core network functions. The whole network function would be completed by phase deployment.

C. Mobile device/Wearable device

The IDC report reveals that the number of wearable devices shipped worldwide is expected to increase to 111.9 million, with an annual compound growth rate of 78.4% by the year 2018. The quantity of Internet of Things (IoT) devices will reach 250 hundred million by 2020.

IDC's study includes three categories: complex accessories such as physical activity measurement devices, smart accessories such as smart watches, and smart wearable devices such as Google Glass. As such, FET is maintaining cooperation with wearables and IoT (Internet of Things) vendors to test and verify the performance and stability of wearable devices on FET's network and proposed 5G technical needs, cooperating with mobile phone manufacturers to develop more diversed pre-5G high-speed products, so that we can provide our customers with great experiences in the future.

D. Increasingly Mature Mobile and Fixed Network Convergence

With the growing trend of digital convergence, users may access the information they need anywhere via any network and any device, which will accelerate and hasten the convergence of mobile networks and fixed networks. In response to this trend, beginning in 2008, the FET and the NCIC have been undertaking progressive convergence of mobile and fixed networks gradually forming a single network backbone and access network.

E. Focus on segmentation marketing; create an easy mobile life for consumers

FET is proactively developing multiple aspects of the mobile service market and strategized with its subsidiary, Hiiir Technology, to debut the mobile life brand "friDay". Taking advantage of respective expertise in mobile content, mobile commerce and social media, FET and Hiiir have cooperated to deliver multiple mobile applications and services.

The brand ethos of "friDay" is to provide an intuitive, comfortable, and easy-to-use platform for users of mobile services. For example, mobile services like apps, mobile shopping, and mobile payment and commerce allows users to instantly obtain apps, complete the shopping process, and pay via mobile wallet easily and conveniently. Delivering mobile services with the brand ethos of "friDay" truly can improve the lives of consumers.

### (4) Product Competitions

As operators' investment in network infrastructure and hardware is usually enormous, all operators try to expand customer base to reach economic scale. Three national operators, FET, CHT and TWM, basically share the market. The similarity of the services provided by the operators is high. Various rate plans, mostly charged by second, were designed to attract different user segments. Two payment methods prepaid and postpaid, are offered for customers' choice. Far EasTone is constantly adding more innovative elements into mobile digital content, mobile applications, mobile payment and commerce. In terms of digital content, it provides curation type value-added service; in the service field of digital applications, it emphasizes bringing users a simple, direct user experience. Furthermore, it more actively serves to increase the service distribution in mobile payment and mobile commerce. The provision of these digital services will make us the best partner for consumer mobile applications. As the service contents provided by different operators are very similar, in order to increase ARPU, advertisements and promotions are mostly designed to enhance customer loyalty and establish a clear market position.

Regarding the development of innovative corporate services, FET has not only launched value-added enterprise mobile applications for 4G mobile video conference, but also sustainably developed innovative services for the cloud and IoT market. Besides, it also launched Iaas (Infrastructure as a Service) services such as "Computing as a Service", "Storage as a Service", CDN(content Delivery Network) and "Video as a service" as well as medical cloud, transportation cloud, e-Tag parking management system and IoT ( Internet of things) services. In addition, FET also announced the Super Cloud enterprise solution for the private enterprise cloud market. In 2015, Far EasTone has worked on an EMMA Enterprise Mobile Platform Corporate solution project, which allows us, on the one hand to satisfy the financial, manufacturing, circulation, medical, and service industries with regards to the applications that need to be developed for business purposes, on the other hand to be able to provide safe and secured internal message solutions to corporates without information leakage concern. The FET enterprise mobile IT security platform combined with the EMMA Enterprise Mobility Platform Launched in 2016 offers customers a more comprehensive and secure enterprise mobility solution. Furthermore, we continue to promote corporate cloud storage, business audio cloud, paperless meeting systems, corporate Apps, and mobile device management of "Enterprise Mobility Solutions" to create business opportunities and product differentiation. In addition, as businesses are now migrating their application services to cloud servers to boost the flexibility of IT resource use and reduce operating costs, the Cloud Management Service (CMS), providing enterprise application cloud management for the enterprise market, was launched in 2016. We also provide the solutions pertaining to MicroSoft private cloud and hybrid cloud to maintain a leading role in this field. In 2014, we worked together with Google for the first time to promote the Google for Work application cloud service. Through a series of experiential activities, the number of clients secured in 2015 has continued to grow. In the same year we joined the Microsoft Cloud Service Provider Plan in order to satisfy the 67% of corporations seeking single suppliers to provide diverse cloud services. We also became the first telecommunications operator that provides MicroSoft CSP and Google for Work services, and this allows clients to work with more innovative methods as provided by Far EasTone and world leading technology giants. In terms of IoT applications, in 2016 FET partnered with PTC, a large international developer, to build a ThingWorx-based IoT platform that provides a convenient interface connection terminal with a modular drag and drop development tool to simplify the development of application services. Big data and machine learning analytics tools were also combined with AR to provide the best user experience; the 1st IoT Hackathon was also held to promote the development of IoT applications. In terms of big data, FET joined forces with the National Chiao Tung University and Institute for the Information Industry to build Taiwan's first real-time road traffic big data system. The system provides a real-time display of traffic conditions throughout Taiwan and can also provide historical data for the use of government and academic units.

## 1-3 Technology Development Overviews

**Major R&D Expenditure from last year up to the Annual Report being published**

2017/3/31; Unit: NT$'000

| Item \ Year | 2016 | 2017 Q1 |
|---|---|---|
| R&D Expenditure | 1,028,712 | 198,464 (Note) |
| Total Operating Revenue | 94,344,266 | 22,480,387 |
| R&D Expenditure as percentage of Total Operating Revenue (%) | 1.09 | 0.88 |

Note: 2017 Q1 R&D expenditure is an estimated amount.

**Products and Services Developed in the Recent Years and until the Annual Report being Published**

With 4G broadband becoming widespread and ready for smartphones, consumers' daily life and lifestyle changed. In the future, combining diversified digital content and application (App) with the best integration through social community on the mobile will be the most important key factors for gaining the market share in the fierce market competition. Far EasTone and its subsidiaries NCIC are focusing on mobility, community, diversified digital content and mobile e-commerce. Below are the highlights:

| Year | Name of Plan | Content of Plan |
|---|---|---|
| 2016 | friDay Video (The Company) | friDay Video creates varied online material to appeal to its users' varying tastes, and cooperates with famous film festivals. All these activities could raise brand awareness and improve the user experience by providing highly diversified content of superior quality to users. |
| | friDay PLAY (The Company) | friDay PLAY is the only local platform for Apps downloads which is focused on game, entertainment and video Apps. Try to create higer sales for developers through full-cash-flow transaction services. |
| | friDay Reading (The Company) | Multi-subject books satisfy variable needs of businessmen, parents, and readers alike, ranging from those who want to read lifestyle books to those who are interested in romantic literature. |
| | friDay Wallet (The Company) | FET officially launched friDay Wallet in Dec 2016. friDay Wallet provides consumers contactless payments, QR code payments and life services (Including buying movie tickets , parking fee, pre-paid game cards, gift card). It can fully fullfill consumers' daily life demands with rich and easy-to-use features. |
| | FET 4G Mobile Video Conference (The Company) | FET has targeted 4G mobile services and integrated "cloud applications", "4G mobile" and "economical simplicity" to satisfy the demand of mobile meeting for medium and large companies or personnel located in different location such as instant video conference in multiple locations, report sharing and other application services. In addition, by providing mobile robot (IROBT) along with cloud video conferencing services in multiple locations to support all types of smart mobile devices, FET enables enterprises to carry out instant video conferences at any time and at anywhere, to integrate the service with traditional video conferencing facilities and to lower the installation cost effectively. |
| | FET Cloud Email Service – upgrade version (Subsidiary – NCIC) | FET provides client companies exclusive email servers and IT personnel management emails that enable the enterprises to immediately possess a mail box account with their own domain name. The customers do not need to purchase or install the hardware and software facilities, or maintain facilities and network. In the meantime, the Companies offers global anti-virus and anti-spam services that could secure enterprise's e-mail perfectly. |
| | FET G suite (Subsidiary – NCIC) | FET provides a series of innovative tools, which has integrated mailbox, calendar, network hardware, online office documents and video meeting system to integrate people's interactions and exchanges at work with a more diversified method. |
| | Far EasTone Securities 4-in-1 Real time Exchange Platform (Subsidiary: NCIC) | In response to expected demand for more instantaneous market exchange, in future we will look to adjust the matching mechanisms. Currently, it takes five seconds to match. However, by improving the environment of current securities 4-in-1 platform to stock exchange facilities speeds up the exchange time. |
| | IPLC Submarine Cable Investment and Installation (Subsidiary: NCIC) | FET actively participates in the installation and investment of submarine cables (FASTER, TSE-1 (DanFu Cable)) to increase international band width and competitiveness. |
| | Corporate Fleet Management System (Subsidiary: NCIC) | In the past, businesses relied on paper-based management for company vehicles. This however, prevented the effective use of company resources and often led to unnecessary waste in terms of fuel consumption, vehicle dispatching and tolls. The FET company car cloud effectively solves the company vehicle management problem. The computerization of company vehicle usage and conditions allows businesses to effectively manage their vehicles and movements.<br>The FET Company Car Cloud offers integrated cloud services such as an onboard terminal, network connection and platform applications. It eliminates the hassle of system integration and is offered to enterprise users on a monthly subscription model to lower the obstacles and costs of adoption. |
| | FET Smart Patrol Inspection System (Subsidiary: NCIC) | In response to industries such as medical, security and supply chain and logistics, as well as environmental management or security units within large organizations, which require regular inspection and audits of sites, items or equipment due to business obligations. The Smart Patrol Inspection can effectively replace the previous paper-based patrol inspection. This not only allows for more accurate patrol inspection, but also collection of key information on business operation to form the basis of enterprise data management.<br>The Smart Patrol Inspection System adopts the NFC and Beacon technologies. As the patrol staff can use the electronic patrol inspection system only when they are present at the site, it ensures the accuracy of staff attendance and prevents forgery to decrease the accident rate. In regard to rivers vital to public safety, the public facilities division can also implement patrol inspection precisely to ensure public safety. The results of the Smart Patrol Inspection System will be stored in the system automatically and processed with the big data analysis. Enterprises can use this information as a reference when making decisions and developing policies.<br>The traditional paper forms for patrol inspection can even be replaced by the Smart Patrol Inspection System to reduce waste of resources. It can not only lower the operating costs for enterprises, but achieve energy conservation and carbon reduction. |
| | Smart Owner (Subsidiary: NCIC) | FET works with strategic partners to provide the integrated ICT service required for small business to start a new business. The service is designed with the integration of simple operation, cloudifying and mobility to reduce the burden on small business owners' shoulder, allowing them to focus on shop management and business development. It also incorporates the cloud POS and commercial monitoring systems in order to effectively reduce the number of transaction disputes and prevent malpractices, giving small business owners and directors peace of mind. |

| Year | Name of Plan | Content of Plan |
|---|---|---|
| 2016 | FET O365<br>(Subsidiary: NCIC) | It provides Microsoft's innovative cloud Office service, including e-mail, calendar, internet drive, video conference and online Office document, to satisfy SMB's needs for office work, conference and collaboration. |
| | FET IoT Platform<br>(Subsidiary: NCIC) | FET partnered with PTC, a large international developer, to build a ThingWorx-based IoT platform that provides a convenient interface connection terminal with a modular drag and drop development tool to simplify the development of application services. Big data and machine learning analytics tools are also combined with AR to provide the best user experience. |
| | Enterprise Application Cloud Management Service<br>(Subsidiary: NCIC) | In response to the trend that businesses migrate their application services to the cloud service for the increase of flexibility in IT resource utilization and reduction of operating cost, the service is launched to provide a Hybrid cloud solution to meet the enterprises' requirement for the safe interface between public and private clouds as well as the flexible application of computing resources. Moreover, FET's ICT professional advisor team, with their rich experiences and strengths, assists enterprises in the safe migration of application service, deployment of backup and redundancy and operation of services. All these advantages make the one-stop cloud solution ideal for businesses. |
| | Alley<br>(Subsidiary –Hiiir) | This product has applied the implementation of audio story introduction in brick-and-mortar stores, and " iBeacon" to send out LBS push notifications, and launched third-party payment "Alley Pay". |
| | friDay Shopping<br>(Subsidiary –Hiiir) | With our goal of becoming mobile commerce leader, friDay Shopping launched the iOS and Android versions of mobile Apps in 2014. For better user experiences across different mobile platforms, friDay Shopping launched mobile web version and tablet version in 2015, in addition to video shopping function. In 2016, a cutting-edge mobile shopping platform "friDay Shopping Plus" was born, connecting big data and floating price mechanism. friDay Shopping Plus returned extra profit to consumers from each product, aiming to picture a better life for all service providers, product suppliers, and consumers. |
| | friDay Omusic<br>(Subsidiary –Omusic) | Omusic has continuously added new mood music and celebrity radio station service content to give subscribers a fresh listening experience, feel closer to their favorite idols, and then could be more easily to discover new music. Omusic continuously devoted lots of efforts to optimize products, analyze big data, improve customers experience and then build up customers' loyalty. In 2017, one of Omusic's digital music products joins firDay family and rebrands as "friDay Omusic". The service keeps improving the user interface, music content, playlist to fulfill member needs. With superior interface and content, there're over 3 million new and popular songs and over 40 different musical categories provided as well, which allow you to enjoy the magic of music and make your happy friDay everyday. |

## 1-4 Long-term & Short-term Sales Development Plan

### 1-4-1 Short-term plans

A. Marketing Strategy

a. Various reasonable tariffs are consistently provided to meet all customer needs against competition. Special promotion plans are offered from time to time in aim of market share expansion and high-value customer gain.

b. Dedication to develop and promote new products and data services; keep up with current efforts in developing new distribution channels, service locations and delivery methods to consolidate the Company's status in the market.

c. Strive to establish brands and businesses that are trustworthy to the customers; the Company has completed CRM (Customer Relation Management) and has regularly hosted various customer appreciation events to maintain customer loyalty.

d. Aggressively expand 4G coverage and optimize network.

e. Due to the growing popularity of smartphones and tablet PCs' users, FET will collaborate with its partners in the develop various Mobile Applications to provide a comprehensive service to its corporate clients.

f. Responding to the avoidable cross-strait trade relations, FET is heading towards the cross-strait FMC based on the foundation of "Unicode" FMC (Fixed Mobile Convergence: integrated application services for mobile fixed net).

g. As cloud applications are gradually accepted by the market, FET has cooperated with its international partners Microsoft and Google to launch new solutions in order to provide enterprise clients innovative and efficient services.

h. FET has focused on the trend of integrating enterprise ICT (Information Communication Technology) services to enter the enterprise information and communication market with its ICT project integration capability.

i. The IoT ecosystem developed which can provide an IoT application platform that is easy to develop for. Alliance could be formed by terminal equipment manufacturers and application service developers to jointly promote IoT application services under a mutually beneficial business model. An IoT Hackathon was also held to collect innovative application services and cultivate new start-ups.

j. A more flexible telecommunications service package is now offered to small and medium enterprises. Customers can customize their bundled mobile/fixed internet access, fixed line voice, and cloud services. Different solutions tailored to the nature of different industries have also been made available for business owners to choose from. SMEs can now enjoy professional ICT services at affordable rates.

B. Direction for Product Development

a. Continuously improve network quality to reduce congestion and drop call rate and offer high quality voice service and high speed data service.

b. Creating brand value by promoting consumer mobile services across the three channels of digital content, mobile payment and mobile commerce to ensure that consumer mobile life is more convenient and enjoyable. Every effort has been made to support art activities and international competitions, such as the curation of Taipei Arts Festival, and the live event of Golden Horse Awards live ceremony.

c. Mobile services for consumers

■ Mobile Digital Content

- friDay Video: we continue to improving the user interface and to offer a varied and market-leading framework to support recorded media from friDay. Subscribers will be able to watch favorite films through personal recommendation through a variety of product packages to be launched to meet consumer needs.
- friDay Omusic: we continue offering a wide-array of Chinese language songs and content, great sound quality, and a customizable and easy-to-use interface. By providing recommended content, consumer loyalty will be deepened, and the music listening experience enhanced.

■ Mobile Application

- friDay PLAY：we continue to co-operate with other game developers and companies, providing favorable cash flow services to create new business models that can grow profit.
- friDay Reading App：through diversity of contents and best in class user interfacefriDay Reading creates fun and immersive reading experiences.
- Alley: We continue to expand our business base through cooperating with stores from different areas, and launch additional e-commerce services such as local traveling services, activity voucher services, and mobile payment services, etc., which make Alley become the largest pleasure-seeking O2O platform in Taiwan.

■ Mobile Payment & Commerce

- friDay Wallet: We will continue improving user experience and multifunctional applications of friDay wallet. We expect to become the first company that brings together the four major electronic stored value cards (Easy Card, HappyCash, iPass and iCash) in one wallet and expanding our channel coverage to 20,000 merchants in 2017.
- friDay Shopping: We will sustain friDay Shopping's growth of revenue, and improve friDay Shopping Plus's floating price mechanism and scenario-oriented shopping guide to provide consumers more favorable products, aiming to turn friDay Shopping into Taiwan's leading e-commerce platform.

d. FET will continue to develop innovative mobile multimedia services to provide media that is "real time, precise and local "media service to advertisers, and which differentiates itself from other traditional media forms. FET launched the whole new "Customer DNA 360 Media Solutions" in 2016. By virtue of advantages of telecommunication in consumer profile, browsing behavior, carrier-owned app data and payment transaction data, "Customer DNA 360" helps advertisers excel in target marketing. Many of advertisers from gaming companies and e-Commerce sites adapted "FET Customer DNA 360 Media Solutions" to filter potential target audiences and enhance click through rate (CTR) by 2.2 times. "FET Customer DNA 360 Media Solutions" optimize media spending and uplift return on investment (ROI) for advertisers in Taiwan.

e. Expand value-added broadband services to provide a greater range of digital home applications such as "070 Budget Calls" and "Multimedia VoIP". It is hoped that these data services will create new business opportunities outside of voice services.

f. FET continues to develop integrated telecommunication application services for enterprises by incorporating the 4G Mobile Router, which provides businesses with more flexible data applications and the options of various scenarios and transmission made possible by its advantages of high-speed and reliable features and easy deployment, and further to enhance the integrated solution quality of enterprises' fixed network, voice and data mobile network.

g. Keeping up with the trend of Cloud Service development, exploring the cloud and IoT applications in different industries. And develop application services for ICT integration in order to create differentiation and to maximize customers' needs..

C. Operational Scale

a. Strengthen 4G mobile communication services to provide customers with faster and higher quality voice and data services.

b. Tailor promotional plans and marketing strategies to each customer segment and expand the Company's market share.

c. Continue to release rates and multi-media services that meet the needs of customers in order to gain high-value as well as loyal customer base.

d. Actively work to develop new sales channels and more extensive distribution networks in order to establish the Company's market presence.

e. It is crucial to develop a deep understanding of what mobile consumers really want when it comes to digital content, mobile applications, mobile payments and commerce. By developing this understanding, FET can work to become a valuable partner in the mobile lives of consumers.

f. In 2006, FET became the first ever Asian telecommunication company to garner SGS service certification. In 2016, it received this certification for the tenth time in 11 years as testament to the way in which FET continues to provide customers with more speedy, comprehensive and high quality service and after sales service.

g. In addition to the expansion of 4G service coverage areas across Taiwan, FET will also be working towards increasing the speed of data transmission to accommodate the trend of online multimedia consumption initiated by the popularity of smartphones and tablet PCs. In addition, FET will also be aggressively establishing WiFi hotspots in regions of heavy use to create an intricate parallel network structure with both WiFi and 4G to satisfy consumers' needs by achieving the operational objectives of traffic streaming and cost control.

h. Other than garnered BSI-ISO27001 certification , FET internet data center also obtained the ISO 27011 certification at the end of 2011 and the CSA STAR - Gold Certification in 2014 to continuously provide a better service to customers.

**1-4-2 Long-term plans**

A. Marketing Strategy

a. With various loyalty programs and activities targeting different market segments evaluation, the Company expects to create high-loyalty customers.

b. The Company continuously launches new products and educates customers about new technology development to increase the economic value of its products and provide customers with a diversified sales channel, comprehensive services and extensive channel coverage.

c. Continue to promote innovative and integrated home services, establishing the Company's leadership in the at-home market through robust market education and communication.

d. Based on enterprise client needs, the one stop shopping ICT (Information Communication Technology) Solution is provided to sustainably promote FMC, mobile applications, information security, energy saving, the installation of information centers and private cloud projects. By combining the cloud and 4G LTE technology, "Mobile App", "Machine to Machine" and "Big Data" services are developed to lead enterprise client to move towards total mobility.

e. The six major vertical domains are segmented according to the three main shafts – information security, mobilization and cloud technology – to provide solutions for intelligence transportation, smart manufacturing, smart circulation, smart healthcare, finance, big data and other domains.

B. Direction for Product Development

a. By keeping up with the trend of world's technologies and product development, the Company is dedicated to network quality and developing innovative services and products according customer needs.

b. FET adopts a dual-track strategy that continues to emphasize telecommunication network-based value-added services and internet-based multimedia services, whilst continuing to expand compatibility of multimedia services to more devices (i.e. mobile phones, tablet PCs, desktop/notebook PC, connected TVs and so forth) and more end-user markets (outputting quality multimedia content from Taiwan to the rest of Asia).

c. FET carefully assesses and formulates strategies for social network services, consumer cloud and IP integrated telecommunication services so as to capitalize on the opportunities presented by disruptive innovation. This will be helpful to deliver services with the best quality, so as to improve long-term customer retention.

d. friDay Wallet offers the most desired mobile payment features to the consumers and cultivates consumer behavior by enhancing user experience and providing user benefits. In the future, we may clearly articulate user lifestyles through big data analytics and create more monetization and business opportunities.

C. Operation scale

a. With the boundaries among fixed network, mobile network, internet and digital media gradually blurring, the Company will merge services of fixed network, mobile phone and internet access through the formation of strategic alliances and integration of internal resources to stay abreast of the trend of digital convergence.

b. The Company will also strengthen its human resources by enlarging its reserves of talent in the field of telecommunication to facilitate the expansion of operations.

c. Draw on the telecommunications group's internal resources to continue increasing the share of the home market and good position in the home-broadband market.

# 2. Markets and Sales Overview

## 2-1 Market Analysis

### 2-1-1 FarEasTone

#### (1) Main Products and Service Areas

Since 2012 FET has continued to expand its 6th generation of digital stores and segmented flagship stores.

In 2016, FET announced the launch of 2600MHz to help cater for the coming era of IOT (Internet of Things), and it has rolled out Smart Home Service with the main target being the home segment. By the middle of 2016, FET provides friDay Wallet to integrate resources from Far Eastern Retail Group and enable customers to enjoy the convenience and speed of the payment system. Based on our objective of "Aggressive Innovation, Best Service and Continuous Growth", apart from continuously introducing smart 3C products and integrating online and offline services, FET has been developing related mobile integrated service, and improving the service quality of local stores to enrich customers' experiences with leading service of mobile devices, voice calls, wireless broadband and value-added services.

Along with making strong advances in smart mobile devices, 4G, and IoT (Internet of Things), FET distribution channels also continue to renovate the store environment from interior design right through to external display. FET has also worked to deepen store segmentation by setting up stores at department stores, MRT stations, and night markets. Furthermore, since 2012, we have succeeded in establishing specialty stores including "Trendy telecom store" at Ximending, Taipei, which features the cultures of the young and trendy. In addition, we have also established the first telecom outlet, providing not only the best discounts on 3C used goods, but also a 3-month warranty valid with all FET retail stores.

In May 2015, a next-generation "Future Store" opened at Taipei Information Park , showcasing the five elements of "*Cloud, Future, Digital, Innovation, and Motion Sensing*" which make up a 4G mobile communications technology experience. The next-generation FET model store made use of full-screen counters, motion sensing control games, floating ticket projector machines, and wearable devices.

As the era of AI and robots approaches, FET launched the telecom intelligent robot in-store service at Future Store in August 2016. Far EasTone is truly committed to the development of innovative services. By the end of 2016, the total number of stores are around a thousand , comprising FET, ARCOA, and Data Express, enabled customers to experience professional service and care via wide store coverage.

#### (2) Market Share

Telecommunications companies are all running advertising campaigns and promotions, mobile phone subsidies and flexible rate plans to attract the consumer's attention. With the launching of 4G services, new operators entered the market and increased market saturation. For the big three operators, the revenue from mobile service is generally stable while the CHT is still the leader of mobile service revenue segment. In 2016, the mobile service revenue market share of every operator is as follows: CHT :35.0%, TWM : 29.4%, FET : 28.2%, Asia Pacific Telecom and Taiwan Star together 7.4% of the mobile service revenue market. In the future, changes in market share will be determined by offering customers the excellent customer services, quality network connections, varied rate plans and innovative services and applications, and the bundling of various devices including smartphones, tablets and so forth. 4G mobile subscriber market share by the end of 2016 is CHT at 37.2%, FET at 25.0% and TWM at 24.7%, Asia Pacific Telecom and Taiwan Star together at 13.1%. (Source: The subscribers and telecommunications service revenues are statistics from NCC and from the announcement of each company at the end of 2016.)

#### (3) Supply, Demand and Growth of the Future Market

As the market comes to a matured stage, operators usually place the focus on value-added services and heavy users. Take leading international mobile operator Vodafone for example – with market growth slowing, it decided to shift its focus from general consumers to enterprise customers. The Company continuous to cooperate with enterprise application service suppliers of various industries to actively promotes enterprise ICT integration services, cloud applications and IoT applications.

#### (4) Competitive Advantages

FET is committed to delivering a high quality of service to our customers, and we believe this is the key to our success. Therefore, customer service, brand image, network quality, marketing channels and a good understanding of future trends are keys for FET to be successful in the market.

A. Proactive, Professional and Passionate Customer Service

We continuously provide customers with premium customer service by upholding our insistence on high-quality service. In addition to the 24hr call center service; we have integrated Mobile Communication Service and

Broadband Data Services, which enable our customers to contact our service representatives with just one call or e-mail. We also launched the "FET Self Care App" to enable customers to access online chat services anywhere and anytime. With the increasing market penetration of smartphones and mobile internet, call centers composed of data service expert teams are on hand to help customers access related information and offer troubleshooting services. We aim to be the industry standard with our call center data services.

B. Brand Image and Professional Certification

FET is committed to continually improving the quality of our services. We provide services that exceed our customers' expectations. We place a high degree of importance on customers' personal information, not only upholding awareness via internal training, but also being continuously awarded the international certifications including ISO 27001(Information Security Management System), BS10012(Personal Information Management System), ISO20000 (Service Management System) and CSA STAR(Security,Trust&AssuranceRegistry) certifications; All these efforts are intended to demonstrate FET's determination to implement information security policy and protect customers' personal information.

FET consistently highlights the brand differentiation, not only on customer service and experience, but also the recognition of brand value in customer's minds. FET expect to play a role of "Connector" among interpersonal communication, encouraging customers to express positive emotions, and further forming the value of brand from inside out.

Successful marketing strategy, the brand names of its postpaid service, prepaid service "IF" cards", "Big on net", "Hala boss services" and "Big Broadband" "New Perfect Match", and "Leasing" have created superior brand images and had received recognition of consumers from all ages. The Company launched "friDay Shopping", "friDay Shopping Plus", "friDay video", "friDay Reading", "friDay PLAY", and "friDay Omusic", Mobile TV and friDay Wallet to fulfill customers' needs. Guided by its shared values of being "Trustworthy", "Agile", "Innovative" and "Collaborative",the Company will continue offering superior services to customers.

C. Network Quality

Network quality is the basis to successfully delivering all application services, including voice and data to customers. A high network quality will bring customer satisfaction and in turn increase customer usage so as to grow revenue for the Company.

There are three key factors that determine network quality: signal coverage, system capacity and data speed. Those factors are depending on radio base stations, transmission, core network and optimization. FET's network strategy for 2017 will focus on the enhancement of communication quality, which includes:

a. Continuously optimizing 3G networks and strengthening the efficiency
   - Keep adjusting the best location of 3G base stations and tuning 3G network parameters for better coverage and user experience
   - Keep upgrading base stations' software to provide more stable network quality and better user experience
b. Speed up to expand 4.5G network infrastructure and base stations to provide faster and more reliable data service and network quality.
   - Continuously establishing and optimizing LTE 700MHz, 1800MHz stations and strengthen signal quality and coverage.
   - Continuously establishing high frequency LTE 2600MHz hot-spot stations, as well as expand the broadband capacity and speed.
   - Usage of small cell stations is being carried out to help strengthen indoor coverage, and satisfy hot-spot needs.
c. Expanding the coverage and capacity of Ethernet networks (10Gbps and 100Gbps) to fulfill 4G traffic requirements (includes Original 4G & 4.5G), as well as reduce the unit cost of bandwidth.
d. Continuously expanding 4G Core network capacity to provide more high-speed mobile network services, enriched content and innovative applications.
e. Continuously expanding the bandwidth capacity of IP network infrastructure and internet border router, strengthen the reliability, and optimize IP network to improve network quality to fulfill the demand for 3G/3.5G/4G (includes Original 4G & new 4.5G) mobile data services
f. Providing a smart network for 4G tiered pricing.
g. Continuously deploying the fiber network to improve broadband coverage and capacity.
h. Continuously deploying and enhancing the synchronization network to fulfill 4G (VoLTE) high-quality clock requirement.

FET will continuously expand and optimize network construction and provide better communication quality to customers to maintain a leading position in Taiwan telecommunication market

D. Marketing Channel

Currently, the total number of FET retail stores – including retail sellers, franchise, ARCOA and Data Express stores – is around 1,000. To the core of "100% satisfaction and commitment", FET commits itself to providing a variety of intimate services. In 2012, FET applied the『360° Store Heartfelt Service』concept, aiming at providing customers with comprehensive high-quality services to build a convenient and rich mobile lifestyle as the only Asia Telecom. carrier to pass the SGS Qualicert for 10 consecutive years. FET promises to ensure that FET retail and franchise sales representatives 3.0 milion are able to serve 2.5 million of customers monthly and expect to bring customers caring, proactive and professional services. FET will continue to introduce the best services, products and pricing plans to be the leading brand amongst Taiwanese consumers.

E. Seizing the Future

Telecommunication services will develop around the concept of 'Convergence'. In early 1999, the Company launched mobile service converged with internet access. In 2002, the Company went on to offer wireless internet service over GPRS network, MMS and Fleet Management System. In 2005, it took the lead in creating high-speed transmission data services, new products, and new add-value services over 3G. In 2007, FET integrated with 3rd generation communication system and fixed network services to launch integrated mobile services for the FMC enterprise fixed network. In 2010, the Company launched the HSPA+ high-speed mobile internet service. In 2011, it introduced the self-built WiFi network service, fleet management platform service, and cloud computing service. In 2012, the storage cloud service was launched; in 2013, business video cloud was launched; and in 2014, FET cooperated with international partners to launch various cloud applications. It also worked to develop various cloud and IoT services and successfully launch EMMA Enterprise Mobility Platform to grab enterprise mobile application market share. The growing maturity of the BYOD (Bring Your Own Device)market led to the launch of the enterprise mobile IT security platform and EMMA Enterprise Mobility Platform package in 2016. These offer customers the convenience and productivity increase of mobile applications in a secured environment. In 2013, it was successful in applying for a 4G license and officially launched 4G services in June 2014. FET has become one of the world's leading operators of 4G services with dual frequencies of 700MHz and 1800MHz bands. In 2016 Q3, FET leads customers to a new era of 4.5G with 700MHz/1800MHz/2600MHz Tri-Band service. Looking to the future, FET has already setup first 5G lab in Tainan, which will lead the way to enrich customers' mobile life.

**(5) Advantages and Disadvantages of Future Developments and Proposed Strategies**

A. Advantages of Future Developments

- Multi-band system offers superior communication quality
  FET holds many spectrum licenses for products such as the LTE 700, LTE 1800 and LTE 2600 FDD TDD bands which allows FET to be benefit by the leverage between propagation and penetration methods. In addition to allowing clients to use auto-switching frequency selection to improve service, system can also use each frequency band together to provide optimal capacity so as to reduce the possibility of congestion. Moreover, the 5G laboratory in the Far East Communications Park has been established. A memorandum of understanding has been signed with FET's partner Ericsson, and laboratory experimentation work will lead to the creation of an experimental network ready for the utilization after 2020.
- 4.5G 3CA offers the best indoor and outdoor signal
  FET has become the leading 4G operator by offering service with 700MHz/1800MHz/2600MHz Tri-Band service carrier in the world. Customers can acquire the best indoor and outdoor signal based on the strong penetration capability of 700MHz, widespread coverage higher carrying capacity of 1800MHz, and the best quality in indoor communication and hotspot of 2600MHz. FET provides not only high-performance, but stable 4.5G network service. Depending on the superiority of FET 4.5G network service, customers can enjoy the multimedia streaming, online recreation and various Apps.
- Professional Management Team and Outstanding Corporate Image
  The Company's management team has extensive professional experiences and backgrounds. Therefore, with the combination of superior technology and professionalism the Company has been able to maintain an outstanding corporate image and leading position in the market.
- Increased Added Value Due to Technology Advancement
  The maturing new generation high-speed data transmission system and wireless communication technology (e.g. Bluetooth), the prevalence and application of smartphones, combined with Internet related services, will benefit operators in providing wireless broadband network and other value added services. Mobile phones will not only be devices or voice communication tools; they can also be integrated media for information transmissions and software applications of various creative tools of life to promote their added values.

- A competitive market for mobile wallets
  Apple Pay, Android Pay and Samsung Pay, the three major international e-wallet service providers, haved gradually launched their services in Taiwan in the first half of 2017. The overall mobile payment market will become more challenging and competitive. Far EasTone will continue collaboration with strategic partners and leverage Far Eastern group resources to accelerate and deepen service delivery. Far Eastone has been working with many service providers so that consumers can use more mobile payment services on their mobiles. This also creates the competitive advantage and service differentiation of friDay Wallet in the market.

B. Disadvantages of Future Developments

- After the implementation of Mobile Number Portability, competition on SIM card sales intensifies local consumers' needs for mobile numbers have already reached its peak in the last two years. Thus, mobile number growth is expected to slow down. However, since the Mobile Number Portability launched in November 2005, in order to increase mobile number sales, operators compete with each other by raising commission and handset subsidies or deploying “On-net and off-net at same price” rate plan. Such vicious competition not only squeezes the space for profitability, it also results in more numbers switching and a higher churn.
- Overall revenue shrunk due to NCC (National Communications Commission) restriction on telecom market pricing NCC (National Communication Commission) is vested with the administrative power over pricing regulation to Type I Telecommunication Operators, which leaves no room for negotiation but is passively followed by operators. This one-standard model without consideration of operators’ various cost/profit/expenditure structure will not only lead to operators’ revenue shortage but also lead operators to tighten up capital investment, which results in a lose-lose situation for consumers and service operators.
- CHT’s (Chunghwa Telecom) “Last-mile” advantage on broadband network and fixed net services
  Due to the sluggish pace at which the competent authorities governing telecommunication services had been moving towards the creation of a fair competitive environment in the domestic telecommunication market and the fact that CHT has imposed various restrictions on network interconnectivity and subscriber lines, FET’s attempts at lowering relevant costs have been met with little success, and significant breakthroughs in the expansion of subscriber base have been limited at best. Not only that, cable TV operators have been capitalizing their advantages in broadcasting system and broadband network integration to secure their share in the broadband service market with extremely low prices and they pose significant threat to FET’s development of broadband business operations.

C. Responding Strategies:

a. With the sale of ICT integration application services, FET has not only differentiated their services and created customer value, but also in line with the cloud development trend and cooperated with the industry to develop cloud and IoT services suitable for industrial applications. This has created new revenue and enhanced their values of the customers.

b. Although cloud service and mobile applications have become more popularized, the Company now faces not only regional competition, but also the attacks of world-class operators. That is, they are using a more rapid and innovative methods to generate an impact on our existing customers and revenue. The Company will transform competitions into cooperation, so that the cloud service, IoT and mobile application form a strategic union and have a place in the six major vertical domains. The power of our company-owned stores nation-wide is also being used to promote a greater variety of ICT services to SME users to benefit all stakeholders (cloud application provider, FET, and user).

c. Consolidate mobile communication with the internet and build communication with internet multimedia integrated services to provide integrated mobile internet services.

d. Offer a variety of value-added rate plans to customer.

e. Differentiate products and services in order to avoid Red Sea strategy that leads to a price war.

f. Be precise to segment customers and their needs , so as to increase overall revenue.

g. Continue to upgrade island-wide 4G coverage and improve transmission speed in order to accommodate internet multimedia consumption trend brought by smartphone devices and tablets. Additionally, more WiFi hotspots will be extended to provide excellent user experience in densely populated and high-usage areas. Thus, data traffic can be diverted through WiFi and 4G networks in order to control usage flow and keep costs lower.

### 2-1-2 Subsidiary – NCIC

**(1) Sales and supply regions of major products (services)**

NCIC's high-quality fixed-network voice service makes itself to be the Enterprise solution provider. As well as fulfilling the existing task of providing a professional telecommunications consultation service, NCIC also continue to provide optical fiber networks in major urban areas in order. This allows us to offer a professional, comprehensive, and high quality fixed-network telephone service.

With the development of broadband networks and the Triple Play service, traditional phone call services will be gradually replaced by an IP network service. NCIC established its first E.164 070 telephone network in 2007, successfully integrating fixed network telephone services into its broadband service, and expanding their fixed-network services into areas without optical fiber networks, thereby increasing the overall revenue.

The VPN market in Taiwan is at the brink of close to saturation point. Sales depend whether a service could compete against those provided by pure-play individual service providers and, as well as how stable the service quality is. In an effort to improve product stability and provide better service for clients, a complete backbone backup mechanism has been established and the. The existing flow analysis reports have been improved for ADSL VPN traffic analysis, so as to increase the stability of search quality, customer satisfaction, and in turn market competitiveness.

As mentioned, whilst the VPN market in Taiwan is already tending towards saturation, while sales patterns are increasingly oriented towards eacha respective company's services and addedperceived value-add. Competitors in the VPN market include the stalwart COS service which provides analytical reports on user traffic. At present, NCIC has only QoS on the customers' CE, and provides only simple MRTG images. Such additional services are far less than what customers now expectThis does not meet current customer demands, and this has seen NCIC become a weak playerstruggle compared to its competitors. The Company has launched special effortsmeasures in an attempt to catch upre-capture ground lost to its competitors, meetingand it is hoped the new service will meet the needs of its customers while improving its overall competitiveness.

There is a rapidly growing demand for communication across the Taiwan Strait; Taiwanese usage of China's international bandwidth has expanded much of late, butrecently. More importantly the establishment of new cables across the strait says a lot about the expansion of trade contact between the two coasts. A sea cable laid across the shortest point in the strait, the Taiwan Strait Express-1 (TSE-1, also known as Danshui-Fuzhou Submarine Cable) creates a direct line across the Taiwan Strait, meaning that path, so information no longer has to make a convoluted route via Japan or Korea to make it to the mainland. The route also avoids the risk of interruption caused by earthquakes or other natural disasters. NCIC plans to open a sea cable station at Fangshan, Pingtung, and is optimistic about its cross-straits telecommunications services platform; Indeed, clearly proven by the many international players in the industry who have already entered into discussions.

As 4G's coverage and user base expand exponentially, the convenience of high-speed wireless access will definitely encourage changes in how people use mobile networks and corporate mobile applications. For corporate clients, FarEasTone has provided a 4G wireless network as the primary or secondary means of access to the VPN. It allows mobile shop owners and those who have no business office and are constantly on the move their POSs by providing to access POS services like POS access or , such as credit card payment in no one fixed locationpayments, through VPN via FarEasTone's 4G networks, adding extra convenience and flexibility forto their businesses. On the other hand,Although the Fixed & Mobilefixed and mobile network concept has been developed and, a 4G wireless network is included as the backup access for VPN in order to satisfy clients' needs for secure and uninterrupted network access. It providesThis can help to provide greater transmission bandwidth while, helping companies to get rid of the problem ofavoid network breakdown due to the interruption of the physical telecommunication network, thusthereby achieving uninterrupted business for companies.

Today, businesses goare global and frequent commercial activity between China and Taiwan has started a boom in communication needs. When it comes toRegarding integration of multimedia video conferencing and information platforms at the core, both of awhich are essential to business, HD multimedia video conferencing has gradually evolved from the marriage of dailya specialised function in company administration and management habits of substantial transactions to in-depth fusion witha routine production, dispatching and control of these transactions. Based on the building blocks oftransaction. Linking multimedia video conferencing platforms, to commercial applications centered on production monitoring and emergency command have been derived for functions such as monitoring, management, safe production and emergency command, which is considered an important direction ofstep in the development for the convergenceof convergent forms of HD multimedia video and substantial transactions.

**(2) Market Share:**

Up to the end of 2015, difficulties were persistent for the establishment of a fixed line network at the last mile. All three fixed network providers (the NCIC, Taiwan Fixed Network and Asia Pacific Telecom) cover a market share of just 6.04% for landline network subscribers, which contrasts with the proportion of 93.96% claimed by Chung Hua Telecom (Source: the number of subscribers came from NCC statistical data released at the end of 2015 ). The ups and downs of market share in the future will depend on whether it is possible to provide clients with network and communications with good high-quality, with networks offering diversified solutions, content services. and applications.

On the other hand, in the “Household Broadband Market” (including ADSL, Fiber and Cable modem), at the end of 2016, the market share of each in this market: CHT: 66% and NCIC: 2.3%. If excluded the Cable Modem from the market share, the market share of those two companies would be CHT 86% and NCIC:2.9%.(Source: NCC statistical data released at the end of 2016).

The development of Mobile Broadband is at has reached a peak globally. The accompanying effects of smart mobile device popularization, mobile cloud, and big data, have triggered the development of medical care, intelligent monitoring and audio/video entertainment. In addition to general consumers, HD multimedia video solutions have been widely introduced to, be used for meetings, business activities, remote education, remote health care, coordinated office tasks, disaster rescue, emergency command, and service protection. The market share of tele-conference terminal devices at the for corporate end andusage continues to grow along with income from system platform income is still continuously strongly growingplatforms.

**(3) Future supply and demand and growth in the market:**

The fixed-network telecom market is saturated, and has in fact already begun to decline. Every telecom company now pays great attention to the provision of added-value services, and works hard to actively develop relationships with high-usage customers. NCIC continues to drive for new customer solutions, providing a high-quality, flexible, and customer-oriented service. Where necessary, they will work with other companies in fighting the challenges of change together.

Demand for mobile and in-the-cloud Apps is growing, and it is expected to continue to grow. NCIC will continue to respond to customer demands and market trends, developing products and services with real growth potential.

With regards to HD multimedia video equipment supplier solutions and third-party solutions, the convergence of HD multimedia video systems and business applications has reached new levels, and providing products alone no longer satisfies business users' needs. The ability of multimedia video solution providers to integrate is now the key to winning over competitors in the market. Heterogeneous systems provided by third-party solution providers’ have drawn attention and rapidly grown market share. In particular; energy, government and the financial sector are some of the key areas where multimedia video system applications are ready to make a difference. Demand for these applications in education and medical service has also decreased rapidly over the past few years.

**(4) Positive and negative factors with regards to competitiveness and future prospects, along with relevant counter-measures:**

In order to integrate resources and improve operationoperational efficiency, NCIC's board of directors has commissioned its parent company to integrate itsmanage the integration of human resources, legal, administrative, network planning, network management and technical support work into a comprehensive telecommunications services system. Therefore, for an explanation of the positive and negative aspects of NCIC's competitiveness and future prospects and, along with corresponding countermeasures relate, please refer to FET's explanation in the preceding section.

“Integrated communications” havehas become aan in-vogue trend amongamongst companies in recent years. Major, and major players in the communications market are competing against one another in the hope of becoming the top leader. However, as the market reaches saturation, the problem facing the integrated communications service providers is how to stimulate the market and boost sales.

The leading players in the corporate integrated communication market are all dedicated to providing the best possible coordinated communication solutions available for business. The NCIC has joined forces with FarEasToneFar EasTone mobile broadband communication service in the era of 4G and corporate BYOD. The Outlook conference feature is integrated, allowing attendees to connect to a meeting through invitation mail. Real-time data transmission and sharing are also available as well. By providing the latest industrial information, professional and technical capabilities, and a high-quality service, we are committed to creating a solution that meets corporate needs, budgets and size,1 and provides the best HD multimedia video service cloud application for corporations.

2-1-3 Subsidiary –ARCOA

**(1) Sales and supply regions of major products and services:**

ARCOA's main business activities are currently focused on its agency practices and sales of mobile phones and tablets from various domestic and international brands. This includes HTC, Samsung, Sony, LG, HUAWEI and ASUS; as well as Smart 3C、IoT products and related accessories. Maintenance, distribution and delivery services are also provided. The market area for the Company's product sales and services is Taiwan.

**(2) Market Share:**

Products are channeled through FET direct or franchise stores via its purchasing services. In terms of business through foreign channels, the Company's sales still have maintained the No.1 position in the market both in terms of popularity and in phone member usage.

**(3) Future supply and demand and growth in the market:**

The Internet-of-Things (IoT) is now gathering steam. The global IoT market is expected to grow four-fold within 5 years from US$157 billion in 2016 to US$661.7 billion by 2021. The Asia-Pacific region in particular is driving global IoT growth. As a never-ending stream of innovative IoT products continue to be applied to everyday life, interest in bringing IoT connectivity to everything and anything continues to grow. ARCOA will continue to adjust our IoT product portfolio by boosting IoT product lines and smart connected devices. At the same time, ARCOA will leverage our own strengths to use IoT products and subscription bundles to support new sales models, IoT products and displays. This will not just greatly increase the visibility of IoT products. The novel user experience provided by interactive IoT products will strengthen the link between IoT product sales and subscription bundles.

**(4) Competitive Advantages:**

ARCOA will continue to strengthen its cooperation with FET in order to expand its mobile purchasing agent and share the advantages of this style of purchasing. ARCOA is also introducing IoT products, with unique talking-point products, creating a feeling of abundance and variety, in doing so, increasing selling power.

**(5) Positive and negative factors in long-term development prospects and corresponding countermeasures:**

A. Positive factors in long-term development:

- In 2016, ARCOA has continued to develop its smart logistics system SWMS. Besides, the EC market has grown rapidly in recent years, it has started to use its next generation logistics center to push the B2C digital interaction. It has been able to achieve this through guidance and subsidies from ITRI.
- Rapid repair is provided by the many business outlets around Taiwan and charter vehicle reverse logistics service. At the same time, repair system platforms are integrated to provide an FET single call for repair window and complete repair course and information to unify the repair process and increase the effectiveness of operations, enhance service and increase customer satisfaction.

B. Negative factors in long-term development:

The mobile users and telecommunications market in Taiwan has become increasingly saturated, and competition at the low-price point end of the market has led to decreases in gross profits. This has had a negative impact on mobile purchasing agent. Meanwhile, the voice market has declined continuously, and in particular the sales volume of pre-paid cards for foreign workers has decreased.

C. Corresponding countermeasures:

ARCOA will continue to focus on brand-name cell phones, accessories and exclusive IoT products with high gross profits in order to see off challenges in this competitive market. In terms of directly-managed stores, it continues to find new customers and is able to increase gross profits by deriving new ways to market each store using distinct characteristics at the same time as developing regional scale. ARCOA is also focused on transforming logistics services, as well as enforcing maintenance and management in each foreign country to ensure market share.

## 2-2 Main Features and Production Process of Major Products

### 2-2-1 FET

**(1) Main Features of Major Services**

| | |
|---|---|
| Voice Communication | GSM900/1800 communications; interconnection with other domestic operators' networks |
| Data Communication | GSM900/1800 communications; interconnection with other domestic operators' networks |
| GPRS Service | GSM900/1800 packet-switch data communication service |
| Short message service | GSM900/1800 communications; interconnection with other domestic operators' networks |
| 3G Service | WCDMA communications; interconnection with other domestic operators' networks |
| 3.5G & HSPA Service | WCDMA high speed wireless access function, providing 7M bps/21M bps/42 Mbps high-speed wireless access |
| WiFi Service | WLAN (Wireless Local Area Network) access service at hotspots allows overseas roaming with operators |
| 4G Service | LTE 700/1800/2600 high-speed wireless broadband service, providing 375M bps broadband data service |
| Smart Enterprise Network Services (MVPN) | The most powerful and flexible mobile service integration program within Taiwan. |

**(2) Production Process:**

FET is a mobile telecommunications operator, not a manufacturer, thus there is no manufacturing process engaged.

### 2-2-2 Subsidiary - NCIC

**(1) Main Features of Major Services**

| Major Service | Main features |
|---|---|
| FET 4G Conference Cloud | Providing internal and international Video Conference platform service |
| Home Phone | PSTN numbers are provided with advanced fiber-optics communication technology for local calls, domestic long-distance calls, international calls and calls made from mobile phones |
| Voice over Internet Protocol | E.164 numbers approved by the National Communications Commission are provided for local calls, domestic long-distance calls, international calls and calls made from mobile phones. |
| Data Communication | Provide circuit with arranged speed for data transmission, such as data transmission hotline Local Data Circuits and International Data Circuits. |
| Broadband Network | Provide the link to Internet or Virtual Network, such as ADSL, fiber and domestic/international virtual network service. |
| Internet Information service | Internet Data Center, Mail Management and i3nformation security service |
| Cloud Computing | Cloud Computing , which appear to be provided by real server hardware and are in fact served up by virtual hardware simulated by software running on one or more real machines and enterprise application CMS (Cloud Management System). |
| Cloud Application | Providing service of Enterprise Mobility Information Security Platform, EMMA Enterprise Mobility Platform, Enterprise Media Cloud, Enterprise Storage Cloud, Paperless Conference System and Health Management Platform Cloud, O365, Google G-Suite and other related applications. |

**(2) Production Process:** NCIC is a fixed-line telecommunications operator, not a manufacturer, thus there is no production engaged.

### 2-2-3 Subsidiary - ARCOA

**(1) Main Features of Major Services**

Currently, the main operations of ARCOA, a subsidiary of the Company, are acting as agent for and selling mobile phones, tablet computers and 3C digital products of various domestic and international brands, along with related accessories.

**(2) Production Process:** ARCOA is running a wholesale & retail business, thus there is no production engaged.

## 2-3 Supply of Raw Material

FET is a mobile operator, subsidiary NCIC is a fixed line operator, and subsidiary ARCOA is a retailer. In that respect, none are manufacturers, thus there is no raw material requirement.

## 2-4 Major Suppliers /or Customers Accounting for above 10% (inclusive) of Purchases /or Sales in Recent 2 Years

### 2-4-1 Suppliers accounting for above 10% (inclusive) of purchases in recent 2 years

2017/3/31; Unit: NT$'000, %

| Year / Item | 2015 | | | | 2016 | | | | 2017/03/31 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Company | Amount | % of Total Operating Cost | Relations with the Company | Company | Amount | % of Total Operating Cost | Relations with the Company | Company | Amount | % of Total Operating Cost | Relations with the Company |
| 1 | Company A | 15,040,647 | 25.59 | None | Company A | 9,899,447 | 17.62 | None | Company A | 3,706,552 | 28.08 | None |
| 2 | Company B | 7,492,611 | 12.75 | None | Company B | 6,542,200 | 11.64 | None | Company B | 1,264,261 | 9.58 | None |

(Note) The figures are on consolidated base.

### 2-4-2 Customers accounting for above 10% (inclusive) of sales in recent 2 years

2017/3/31; Unit: NT$'000, %

| Year / Item | 2015 | | | | 2016 | | | | 2017/03/31 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Company | Amount | % of Total Operating Cost | Relations with the Company | Company | Amount | % of Total Operating Cost | Relations with the Company | Company | Amount | % of Total Operating Cost | Relations with the Company |
| | None | | | | None | | | | None | | | |

(Note) The figures are on consolidated base.

### 2-4-3 Reasons for Variation of Major Suppliers and Customers

The above table shows that there was no significant change for suppliers in the recent two years; there was no customer whose sales amounted above 10% of the consolidated revenues for recent two years.

## 2-5 Production Volume for the Recent 2 Years: Not applicable.

## 2-6 Sales Volumes for Recent 2 Years

| Quantity / Year / Item | 2015 | | 2016 | |
|---|---|---|---|---|
| | Domestic | | Domestic | |
| | Quantity | Revenue (NT$'000) | Quantity | Revenue (NT$'000) |
| Mobile telecom service revenue | 7,393,905 Subscriber number as of the end of the year | 60,853,576 | 7,345,522 Subscriber number as of the end of the year | 59,328,723 |
| Domestic fixed communication service revenue | 853,621 Thousand minutes | 1,558,853 | 763,710 Thousand minutes | 1,398,606 |
| International communication service revenue | 680,437 Thousand minutes | 3,520,335 | 541,453 Thousand minutes | 2,701,537 |
| Data telecommunication service revenue | 334 Thousand Lines | 3,789,365 | 291 Thousand Lines | 3,886,334 |
| Sales & other operating revenue | Not Applicable | 27,571,089 | Not Applicable | 27,029,066 |
| Total | Not Applicable | 97,293,218 | Not Applicable | 94,344,266 |

* The figures disclosed above are on consolidated basis and there's no export sales information need to be disclosed.

## 3. Employee Information in 2 Recent Years up to the Annual Report being Published

( The NCIC Special Shareholders' Meeting in 2010 has commissioned its parent company, Far EasTone, to be in charge of NCIC business operations; therefore, "The Company" refers to both Far EasTone and NCIC.)

**The Company**

2017/3/31

| Year | | 2015 | 2016 | 2017/3/31 |
|---|---|---|---|---|
| Number of Employees | Total | 6,549 | 6,405 | 6,428 |
| Average Age | | 35.7 | 36.5 | 36.6 |
| Average Years of Service | | 7.2 | 7.8 | 8.0 |
| Breakdown of Educational Level (%) | Ph.D. | 0.02 | 0.02 | 0.02 |
| | Master | 12.08 | 12.94 | 12.76 |
| | College | 75.29 | 74.46 | 74.47 |
| | High School | 12.61 | 12.58 | 12.75 |
| | Below High School | 0 | 0 | 0 |

**Subsidiary- ARCOA**

2017/3/31

| Year | | 2015 | 2016 | 2017/3/31 |
|---|---|---|---|---|
| Number of Employees | Total | 477 | 476 | 462 |
| Average Age | | 33.9 | 35.8 | 35.9 |
| Average Years of Service | | 5.2 | 5.3 | 5.1 |
| Breakdown of Educational Level (%) | Ph. D | 0 | 0 | 0 |
| | Master | 2.3 | 3.4 | 3.7 |
| | College | 66.8 | 65.8 | 67.3 |
| | High School | 30.3 | 30.2 | 28.1 |
| | Below High School | 0.6 | 0.6 | 0.9 |

## 4. Environmental Protection Expenditure

Any loss or penalty due to environmental pollution from last year up to the annual report being published: None.

## 5. Employee Relations

### 5-1 Implementation of Policies and Programs related to Welfare, Learning, Training and Retirement of Employees, as well as various protections of Employee Rights and Benefits

( The NCIC Special Shareholders' Meeting in 2010 has commissioned its parent company, Far EasTone, to be in charge of NCIC business operations; therefore, "The Company" refers to both Far EasTone and NCIC.)

#### 5-1-1 The Company

#### (1) Welfare Policy

**A. Compensation and Benefit**

The Company provides competitive salary, annual bonus, performance incentives, sales incentives and special performance bonuses. In addition to complying with labor standard laws, the Company provides additional benefits to better the health and lifestyle of its employees, such as physical check-ups, group insurance, clinic service, employee consolation services, health and safety forums, a cafeteria, employee handset subsidy, and monthly airtime subsidy. Moreover, an employee welfare committee was founded to promote employee social activities, subsidize employee outings and event funding.

**B. Advanced Studies and Training**

The telecommunications industry is fast-changing, with continual technology innovation challenging our ability to adapt and also testing the ability of all employees.

In 2016, we reviewed existing talent within the Company. By adopting various training programs to keep and cultivate talent systematically, key talents are able to adapt within this competitive and changing telecom-industry, and are able to activate organizational competitiveness.

According to respective occupational abilities and career levels, as well as to the training blueprints of structural development, we have pinpointed areas of weakness with regards to ability and competency, and continue to reinforce training efficiency. We also plan leadership & management, professional, technical, and trend courses, cultural seminars, manager discussion workshops, management function roadmap, and department internal professional training guidance development courses, in order to deepen diverse learning skills and training development plans.

The Company has also worked to gradually build up five training systems for staff learning. This includes: talent and career development, core functional training, individual professional training (including telecommunications technology and divisional training), self-development training (including humanity lectures, subsidies for on-job-trainings), and orientation programs for new-joining employees and management

At the same time, to increase overall competitiveness and help outstanding employees learn and grow and nurture professional and technical talent, FET has planned the "Rules the management of in-service training subsidy", so that employee can apply for a subsidy towards the fees for in-service study on a program at a designated domestic and foreign educational institution.

A total of 2,588 training courses were conducted for 120,450 employees, with a total of 335,017 employee-training hours built up. This was conducted at a total expense of NTD 32,900,000 in 2016.

**C. Two-way Communications**

The Company recognizes the importance of listening to employees, and drives the concept of two-way communication channels through the following ways, as a way of showing resolve to continuously improve.

a. In order to understand and reflect employees' opinions on areas for improvement, an outsourced employee engagement survey is conducted when necessary.

b. Yearly employee update meetings are held to provide opportunities for employees to communicate with the executive team directly.

c. The "United Employee Welfare Committee" holds meetings quarterly, or whenever necessary, to plan and conduct employee activities that increase and enhance employees' welfare.

d. At the two-way quarterly meeting with officers, the operational policies and implementation effectiveness are communicated. Officers propose operation-related issues for discussion, and higher-level officers respond to these issues at the meeting, as a way of developing interactive communication.

e. The company share the information through the e-News and monthly e-Newsletter are issued electronically on the intranet, in order to assist employees in understanding Company events and, at the same time, to express their opinions.

f. Employees are also able to voice their creative proposals or seek assistances through the Employee Suggestion Box or Appeal Letter Boxes on the Intranet.

g. The departmental communication meeting was held either regularly or irregularly for employees in the same department to directly communicate their ideas, so as to promote mutual trust and cooperation among employees.

## (2) Retirements

The Company offers retirement benefits for permanent employees according to the Labor Standard Laws. An equivalent of 2% of employee's monthly base salary is allotted to the employee's retirement reserve, which is managed by its own supervisory committee, and deposited into the Bank of Taiwan under the name of Far EasTone Employee Retirement Fund Committee. Furthermore, the Labor Pension Act has been enforced as of July 1, 2005. The Company will contribute 6% of the insurance amount to the Labor Insurance Bureau on a monthly basis for employees who choose to apply to the new system.

## (3) Labor negotiations and protection of employee benefits

The Company has always complied with related labor laws and maintained good relations with its employees. Any amendments or additions concerning employee benefits only take place after discussion and communication with employees. As a result, there have not been any major disputes in recent years. The Company has established the Lantern-Legend Meeting and Employee Suggestion Box and Appealing Box on the Intranet to keep efficient communication channels open, and to better protect the rights of employees.

### (4) Company Work Environment and Employee Personal Safety Provisions

Regulations and documents related to occupational health and safety are published on the Company intranet. These are available to all employees at any time. A summary of the main measures are as follows:

- Established Occupational Health and safety Office, with full-time OSH personnel assigned to the Northern, Central and Southern regions: (1) Implement work environment improvements and ensure safe work practices (2) Educate and communicate with staff on measures related to accident prevention concepts irregularly (3) Arrange occupational training for all employees, and provide specific personnel with online training courses on occupational health and safety (4) Regularly conduct work site hazard inspections as mandated by law (5) Provide occupational equipment as necessary for work activities, and conduct regular maintenance and inspection (6) Formulate occupational health and safety regulations, and provide related training, in order to avoid accidents from improper work practices and clarify legal liability issues (7) Devise plans to automatically inspect equipment and environments (8) Formulate occupational injury solutions and provide prevention plans to avoid re-occurrence of incident.
- Established Occupational Health and Safety Committee: (1) Formulate occupational health and safety plans and automatic inspection plans (2) Hold regular meetings to review occupational health and safety plans improvement issues (3) Establish regional health and safety supervisors to carry out management and communication of accident prevention (4) Improvement of operating environment in safety inspections (5) Audit occupational health and safety (6) Review the accident investigation (7) Matters related to occupational health and safety
- Established full-time professional medical staff and contract doctor clinics: (1) Implement new recruit physical checkups and arrange for regular Companywide health checkups (2) Analysis of physical and health check record, evaluation, management and maintenance (3) Workplace injury and illness prevention, health consultation and first aid and emergency treatment (4) Health management, disease prevention, health education, health promotion, and other activities to ensure the health and protection of employees
- Provide visually impaired masseuses to reduce employee stress and improve health.
- The Company provides consultation services and employee assistance programs(EAP) through contracted professional consultation firms to solve various issues employees may encounter such as family, marriage, coping with pressure and interpersonal relationships in order to maintain their physical/mental well-being as a measure to ensure work safety, quality and productivity.
- Other: (1) Hold regular fire drills to reduce the danger of fire to employees and property (2) Train engineering staff so they can handle public protests and protect employees from harm and employee assistance programs.

### (5) Precautionary measures of sexual harassment

When the Gender Equality in Employment Act was enforced, the Company communicated with its employees throughout Taiwan with respect to the prevention of sexual harassment in the workplace. Nevertheless, in order to cope with the enforcement of Prevention Act of Sexual Harassment, the Company undertook relevant publicity in its major offices throughout Taiwan and established procedures for processing sexual harassment cases pursuant to the relevant requirements to keep a healthy workplace free from harassment and discrimination.

## 5-1-2 Subsidiary –ARCOA

### (1) Employee Welfare

#### A. Compensation and Benefit

ARCOA provides competitive salary, guaranteed annual bonus, performance incentives, sales incentives and special performance bonuses. In addition to complying with the Labor Standard Laws, the Company provides additional benefits to better the health and lifestyle of employees, such as physical check-ups, group insurance, clinic service, employee’s consolations service, safety and health forums, cafeteria, employee handset subsidy and airtime subsidy each month. Moreover, an employee welfare committee was founded to promote employee social activities, subsidize employee outings and event subsidy etc.

#### B. Advanced Studies and Training

Talent is the main driving force in any organization. In 2016, ARCOA focused on the annual training module, associated and analyzed the differences of the annual management strategy, made an inventory of the competency gap for annual management strategy and also established a training program based on TTQS to foster and cultivate talents effectively.With regards to training of our colleagues, ARCOA organizes lectures and courses in areas such as management skills, general capability, key job training and specialist skills, as required by staff’s key competencies in their work. We also provide training courses for our new staff, as well as tailor-made training camps for specific groups as required. Total 92 training courses were conducted for 1,102 employees with total 527 Employee Training Hours and expense NTD 605 thousand in 2016.

**C. Two-way Communications**

ARCOA recognizes the importance of listening to employees, and drives the concept of two-way communication channels through the following ways, as a way of showing resolve to continuously improve.

a. A yearly employee update meetings are held to provide opportunities for employees to communicate with the executive team directly.
b. The employee welfare committee held meetings either every quarter or whenever necessary to promote welfare improvement and organizational harmony.
c. The publication of the ARCOA magazine helps our colleagues to understand the Company’s activities, and provides them with a further channel through which to express their feelings and opinions.
d. Staff can feed back their opinions or report transgressions via the ‘Speak Your Mind’ letter box.

### (2) Retirements

ARCOA offers retirement benefits for permanent employees according to the Labor Standard Act. An equivalent of 2% of employee's monthly base salary is allotted to the employee's retirement reserve, which is managed by its own Employee Retirement committee, and deposited into the Bank of Taiwan under the name of Employee Retirement Fund Committee. Furthermore, Labor Pension Act has been enforced as of July 1, 2005. ARCOA will contribute 6% of the insurance amount to the Labor Insurance Bureau on a monthly basis for employees who choose to apply the new system.

### (3) Labor negotiations and protection of employee benefits

ARCOA is always complied with related labor laws and maintaines good relations with its employees. As a result, there have not been any major disputes in recent years. ARCOA also convenes labor-management meetings and dedicated channels for employees to file complaints as a measure to safeguard their rights.

### (4) Company work environment and employee personal safety provisions

ARCOA provides regular health check-ups and organizes safety training for all employees. We also hold regular fire drills in order to lower the risk posed by fire to our employees and property, as well as training factory and warehouse staff to ensure that they are able to maintain safety in their workplaces

### (5) Precautionary measures of sexual harassment

When the Gender Equality in Employment Act was enforced, Arcoa communicated with its employees throughout Taiwan with respect to the prevention of sexual harassment in the workplace. Nevertheless, in order to cope with the enforcement of Prevention Act of Sexual Harassment, Arcoa established procedures for processing sexual harassment cases pursuant to the relevant requirements to keep a healthy workplace free from harassment and discrimination

**5-2. Losses of the Company and its subsidiaries caused by labor disputes, and to disclose the estimated amounts and action plans of recent and future possible labor disputes from last year up to the Annual Report being Published:** None.

## 6. Major Contracts and Agreements

2017/4/30

| Contract Type | Counter Party | Contract Period | Description | Restricted Clauses |
|---|---|---|---|---|
| Procurement ( The Company ) | Ericsson Taiwan Ltd. | 1996.12.05 ~ Present | Purchase for 2G/3G/4G cell site, mobile phone system and network equipment, software, installation, system construction and technical service | Confidential Clause |
| | XunWei Tech. Co. Ltd | 2009.12.30 ~ Present | Frame Agreement For 3G & 3.5G RAN Acquisition and technical support | Confidential Clause |
| | Apple Asia LLC | 2010.01.29 ~ Present<br>2010.09.30 ~ Present | Procurement contract for iPhone<br>Promotion of ipad Wireless International Agreement | Confidential Clause |
| | Taiwan International Standard Electronics LTD. | 2014.08.01 ~ Present | Purchase Agreement for equipment. | Confidential Clause |
| Procurement ( Subsidiary - NCIC ) | Taiwan International Standard Electronics LTD. | 2013.01.30 ~ Present | Procurement Agreement for network equipment, software, installation, system implementation and technical services | Confidential Clause |
| Procurement ( Subsidiary - ARCOA ) | Samsung Electronics Taiwan Co., Ltd. | 2014.01.01 ~ Present | Procurement Agreement for Samsung cellphone and tablet. | Confidential Clause |
| | Sony Mobile Communications AB | 2004.07.26 ~ Present | Procurement Agreement for Sony cell phone | Confidential Clause |
| | HTC Corporation | 2013.01.10 ~ Present | Procurement Agreement for HTC cellphone | Confidential Clause |
| | ASUSTeK Computer Inc. | 2014.04.01 ~ Present | Procurement Agreement for ASUS cellphone and related product | Confidential Clause |
| | Far EasTone Telecommunications Co., Ltd. | 2011.07.01 ~ Present | Purchasing Agency Agreement for specific cellphones and related products | Confidential Clause |
| Strategic Alliance (The Company) | NTT DOCOMO, Inc.<br>StarHub Mobile FET Group ( FET and KGT)<br>Hutchison ( HongKong) | 2006.02.13 ~ Present | Strategic alliance among Asia Pacific Telecommunication operators | Confidential Clause |
| | All Conexus Members | 2007.03.01 ~ Present | Collaboration Agreement with Conexus Members | Confidential Clause |
| | | 2010.06.15 ~ Present | Collaboration Agreement with Conexus Members | Confidential Clause |
| | | 2010.06.15 ~ Present | Supplemental Agreement #4 to Conexus Mobile Alliance Agreement | Confidential Clause |
| | | 2010.07.01 ~ Present | Amended and Restated Conexus Mobile Alliance Agreement | Confidential Clause |
| | Vodafone Sales & Services Limited | 2013.05.01 ~ Present | Master Service Agreement | Confidential Clause |
| Commercial Cooperation ( The Company ) | China Mobile Limited | 2013.04.18 ~ Present | It's a business cooperation framework agreement. Based on Business Cooperation Frame Agreement, the Company and China Mobile Limited will continue exploring opportunities for long-term extensive cooperation between both parties in various fields of mobile communication business, and after the Taiwan laws and regulations permit investment in Type I Telecommunications Enterprise by China investors, both parties may reconsider the possibility of equity cooperation. | Confidential Clause |
| | Subsidiaries directly/indirectly established in the R.O.C .by North Haven Private Equity Asia IV L.P. (「NHPEA」)which is managed by Morgan Stanley Private Equity Asia IV, LLC (「MSPE Asia」) | 2015.07.30~2017.02.10 | (i)In order to take further steps towards digital convergence and accelerate the expansion into the smart home market, the Company plans to form a strategic alliance with MSPE Asia to partner with China Network Systems ("CNS") through a bond subscription. Thus, the Company plans to sign the "Cooperation Agreement" with subsidiaries established by NHPEA, which is managed by MSPE Asia, to regulate the rights and obligations of both sides regarding this partnership, including subscription by the Company of the corporate bonds at an amount of no more than NT$17,120 million issued by the subsidiaries directly/ indirectly established in the R.O.C. by NHPEA.<br>(ii)The Company will provide CNS Group with technology and advisory services as well as explore other potential opportunities for collaboration to the extent permissible under laws and regulation.<br>(iii) On February 10, 2017, the company was informed of contract termination. MSPE Asia subsidiaries will not issue the aforesaid corporate bonds, so the Company has no need to subscribe the aforesaid bonds. | Confidential Clause |
| | Subsidiaries directly/indirectly established in the R.O.C. by North Haven Private Equity Asia IV L.P. (「NHPEA」)which is managed by Morgan Stanley Private Equity Asia IV, LLC (「MSPE Asia」) and Evergreen Jade Sdn. Bhd. and Goodwill Tower Sdn. Bhd. which are original shareholder of CNS Group | 2015.07.30~2017.02.10 | In order to facilitate this project, if the relevant regulatory approvals is unable to be obtained due to the cause in connection with NHPEA, the original shareholders of CNS Group or their affiliates may, under certain conditions, replace NHPEA and step in to cooperate with the Company, as the strategic cooperator. Thus, the Company plans to sign the "Restructuring Agreement" with the subsidiary established by NHPEA, which is managed by MSPE Asia and the original shareholders of CNS Group to regulate the rights and obligations of the parties. | Confidential Clause |
| Inter - Company Loan ( Subsidiary-NCIC ) | Far EasTone Telecommunications Co., Ltd. | 2015.07.03 ~2016.06.22 | NCIC loans FET | Confidential Clause |
| | Far EasTone Telecommunications Co., Ltd. | 2016.06.23 ~ Present | NCIC loans FET | Confidential Clause |

# VI Review and Analysis of the Financial Condition, Operating Performance and Risk Issues

1. Financial Condition
2. Financial Performance
3. Cash Flow
4. Key Performance Indicator(KPI)
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6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement in the Recent Year and Future Investment Plan in the Coming year
7. Risk Issues
8. Impact of the Financial Distress Occurred to the Company and Affiliates from last year up to the Annual Report being Published
9. Others

## 1. Financial Condition

**Review and Analysis of Financial Condition**

2016/12/31; Unit: NTD'000

| Item \ Year | December 31, 2016 | December 31, 2015 | Variance | |
|---|---|---|---|---|
| | | | Amount | % |
| Current Assets | $26,557,388 | $34,299,373 | ($7,741,985) | (23) |
| Properties, Plants and Equipment | 49,849,572 | 52,045,655 | (2,196,083) | (4) |
| Intangible Assets | 52,458,457 | 45,677,996 | 6,780,461 | 15 |
| Other Assets | 3,941,905 | 4,858,147 | (916,242) | (19) |
| Total Assets | 132,807,322 | 136,881,171 | (4,073,849) | (3) |
| Current Liabilities | 30,980,704 | 21,683,305 | 9,297,399 | 43 |
| Non-current Liabilities | 30,104,017 | 42,538,970 | (12,434,953) | (29) |
| Total Liabilities | 61,084,721 | 64,222,275 | (3,137,554) | (5) |
| Capital Stocks | 32,585,008 | 32,585,008 | 0 | 0 |
| Capital Surplus | 10,166,874 | 12,058,158 | (1,891,284) | (16) |
| Retained Earnings | 28,387,615 | 27,388,411 | 999,204 | 4 |
| Other Shareholders' Equity Item | (133,479) | (125,212) | (8,267) | 7 |
| Non-controlling Interest | 716,583 | 752,531 | (35,948) | (5) |
| Total Shareholders' Equity | 71,722,601 | 72,658,896 | (936,295) | (1) |

### 1-1 Analysis of variation of plus-minus (+/-) 20%

(1) Current assets decreased and current liabilities increased mainly due to that Far Eastone paid for 2600MHz spectrum license fee in 2016. Cash/cash equivalent, short-term bank loans and commercial paper were utilized in support of license payment, so that balance of cash/cash equivalent decreased and short- term loans and commercial paper increased substantially.
(2) The increase in current liabilities mainly because the corporate bonds payable has been recognized as "current portion of corporate bond payable".
(3) The decrease in non-current liabilities mainly because the corporate bonds payable has been recognized as "current portion of corporate bond payable" and the decrease in long term bank loan.

**1-2 Impacts of change in financial condition:** No significant impacts on financial condition.

**1-3 Future response plans:** Not applicable.

## 2. Financial Performance

**Analysis of Financial Performance**

2016/12/31; Unit: NTD '000; %

| Item \ Year | 2016 | 2015 | Variance | |
|---|---|---|---|---|
| | Amount | Amount | Amount | (%) |
| Operating Revenues | $94,344,266 | $97,293,218 | ($2,948,952) | (3) |
| Operating Costs and Expenses | 79,319,916 | 81,900,181 | (2,580,265) | (3) |
| Operating Income | 15,024,350 | 15,393,037 | (368,687) | (2) |
| Non-Operating Incomes and (Expenditures): | | | | |
| Financial Costs | (441,781) | (442,567) | 786 | 0 |
| Losses on Disposal of Property, Plant, Equipment and Intangible Assets ( include impairment loss) | (997,497) | (962,734) | (34,763) | 4 |
| Share of the Loss of Associates | (164,917) | (277,267) | 112,350 | (41) |
| Other Profits or Losses | 369,180 | 227,397 | 141,783 | 62 |
| Income Before Income Tax | 13,789,335 | 13,937,866 | (148,531) | (1) |
| Income Tax Expense | 2,378,660 | 2,403,615 | (24,955) | (1) |
| Net Income | 11,410,675 | 11,534,251 | (123,576) | (1) |
| Other Comprehensive Income (Loss) | (42,178) | (45,367) | 3,189 | (7) |
| Total Comprehensive Income | 11,368,497 | 11,488,884 | (120,387) | (1) |
| Net Income Attributable to: | | | | |

| Item \ Year | 2016 | 2015 | Variance | |
|---|---|---|---|---|
| | Amount | Amount | Amount | (%) |
| Owners of Far EasTone | 11,391,303 | 11,485,695 | (94,392) | |
| Non-controlling interests | 19,372 | 48,556 | (29,184) | |
| Comprehensive Income Attributable to: | | | | |
| Owners of Far EasTone | 11,347,860 | 11,440,332 | (92,472) | |
| Non-controlling interests | 20,637 | 48,552 | (27,915) | |

### 2-1 Analysis of variation

1. Decrease in Share of the Loss of Associates: mainly due to the decreasing investment loss of "Far Eastern Electronic Toll Collection Co., Ltd.
2. Increase in Other Profits or Losses : mainly due to the substaintial increase of Non-Operating Incomes.

**2-2 For the estimated sales volume and the underlying rationale for the following year, the potential impacts on the Company's future business and action plans:** Please refer to the "Letter to Shareholders".

## 3. Cash Flow

### 3-1. 2016 Cash Flow Analysis

Unit: NT$ '000; %

| Item | 2016 | 2015 | Variance | Variance% |
|---|---|---|---|---|
| Net cash generated from operating activities | 27,074,691 | 21,051,754 | 6,022,937 | 28.6 |
| Net cash used in investing activities | (17,546,575) | (12,862,573) | (4,684,002) | (36.4) |
| Net cash generated from (used in) financing activities | (15,270,889) | 3,953,006 | (19,223,895) | (486.3) |
| Effect of exchange rate changes | 6,749 | (458) | 7,207 | 1,573.6 |
| Net increase in cash | (5,736,024) | 12,141,729 | (17,877,753) | (147.2) |

1. Operating activities: The increase in cash inflow from operating activities was due to decrease in inventories and income tax payment in 2016.
2. Investing activities: The increase in cash outflow was due to 4G concession payment in 2016.
3. Financing activities: The decrease in cash inflow from financing activities was due to higher borrowings repayment in 2016.

**3-2 Remedy plans for insufficient liquidity:** Not Applicable

### 3-3 Estimated Cash Flow Analysis for 2016

Unit: NT$ '000

| Cash and Cash Equivalents in the Beginning (1) | Forecast Net Cash Inflow from Operating Activities (2) | Forecast Total Cash Outflow (3) | Forecast Balance of Cash and Cash Equivalents (1) + (2) - (3) | Expected Remedy Plans for Negative Balance of Cash and Cash Equivalents | |
|---|---|---|---|---|---|
| | | | | Investment Plan | Financing Plan |
| 10,258,743 | 23,504,367 | 22,375,902 | 11,387,208 | - | - |

1. Operating activities: Forecast net cash inflow from operating activities are excepted to remain stable.
2. Investing activities: The net cash used in investing activities in 2017 are for network expansion and enhancement.
3. Financing activities: Mainly for cash dividend distribution.

## 4. Key Performance Indicator (KPI)

Unit: NT$ Mio

| KPI | 2016 Target | 2016 Actual | KPI Achievement Ratio |
|---|---|---|---|
| Total Revenue | $98,220 | $94,344 | 96.1% |
| EBITDA | $27,346 | $27,842 | 101.8% |
| Net Income | $11,088 | $11,391 | 102.7% |

## 5. Analysis of Major Capital Expenditure and Sources of Funding

**5-1 Major Capital Expenditure and Sources of Funding in 2016**

| Company | Plan Item | Actual or Estimated Source of Capital | Actual or Estimated Fund Utilization Schedule | Total Capital Needed (Unit: NT$ '000) |
|---|---|---|---|---|
| FET and its Subsidiaries | Network Expansion: including 4G network expansion and upgrade, and value added system implementation and expansion. | Working Capital | 2016 | 9,923,979 |

**5-2 Expected Benefit:** It will aid future Mobile Broadband Business (4G) development.

## 6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement in the Recent Year and Future Investment Plan in the Coming year

**6-1 Investment Policies**

The Company's long-term investments are for strategic purpose or develop new business.

**6-2 Reasons for Profit/Loss and Plans for Improvement**

In 2016, on a consolidated basis, the Company's losses from long-term investments under the equity method amounted to NT$164,917 thousand, as some of these investments has still not stabilized and some has not break-even. Continuously developing the business and controlling cost and expenses, the Company expects return on investment to be improved.

**6-3 Future Investment Plan**

No concrete investment plans at this moment.

## 7. Risk Issues

**7-1 Impact and Response to Interest Rates, Exchange Rates, and Inflation Levers on the Company in the Year Preceding Publication of Annual Report**

**7-1-1 Interest Rate Risk Analyses and Response strategy**

The Company performs its financial operations in a conservative manner. In an attempt to manage interest rate fluctuation risk, the Company's current outstanding liabilities are partially back up by long-term fixed-rate corporate bonds issuance (as of the end of 2016, fixed-rate corporate bonds accounted for 48% of total borrowings). Additionally, the Company raised funding by entering into fixed-rate financial facilities to fulfill its future funding needs; therefore, current interest expenses of the Company and its subsidiaries shall not be significantly impacted by interest rate fluctuations. With the anticipation of global inflation environment,the market is likely to encounter gradual rate hiking and larger fluctuations in interest rate. In light of risk considerations, the cash management of the Company and its subsidiaries will be handled in a fiscally conservative manner.

**7-1-2 Exchange Rate Analyses and Response strategy**

A. Sources of Exchange Gains/Losses

The foreign currency position was mainly to pay the charges of global roaming services and purchase equipments. The percentage of foreign exchange gains/losses over operating revenue and operating income in 2016 and Q1 2017 are as follows:

2017/3/31; Unit: NT$'000

| Item \ Year | 2016 | 2017 (as of March 31) |
|---|---|---|
| Foreign Exchange Gains (Losses) (A) | 29,775 | (5,815) |
| Operating Revenue (B) | 94,344,266 | 22,480,387 |
| % of Operating Revenue (A)/(B) | 0.032% | (0.026%) |
| Operating Income (C) | 15,024,350 | 3,781,321 |
| % of Operating Income (A)/(C) | 0.198% | (0.154%) |

As shown in the above table, the foreign exchange gains/losses accounted for a small percentage of operating revenue (0.032% in 2016 and (0.026%) in Q1 2017) and operating income (0.198% in 2016 and (0.154%) in Q1 2017).

B. Other Expected Gains or Losses Caused by Foreign Exchange Fluctuation

As of March 31, 2017, FET has forecast payments of around 51 million euros for the next 12 months, and FET's subsidiary, New Century InfoComm Tech Co., Ltd. ("NCIC"), holds short-term investments as foreign financial assets in amount of US$20 million. Investment gains or losses, as well as exchange rate gains or losses, resulted from executing disinvestment or forecasted deals, are expected to directly impact the net income of FET and NCIC. As a consequence, both FET and NCIC have enforced into partial currency hedges for the aforementioned foreign currency payments and foreign financial assets.

C. Actions in Response to Exchange Rate Fluctuation

FET and its subsidiary NCIC use financial intruments, such as: FX spot, forward and financial derivative products , to hedge foreign exchange rate risks according to foreign currency position and exchange rate movement.

**7-1-3 Inflation Analysis and Response Strategy**

At the present time, global economic growth is not consistent between countries, and even though the economic prospects of the United States continues to improve, Europe and China tend towards flat growth. Geopolitical disputes and trade disputes between U.S. and China, along with the decision of the United Kingdom to leave Europe, as well as continued easing of monetary policy within Japan are all factors which cannot be easily predicted, and will continue to have an impact on total global consumption and enterprise investments, thus it is expected that global inflation will be moderate in 2017. Separately, according to the meeting minutes of the Boarding meeting of Taiwan's Central Bank in December 2016 and March 2017, the international economy will begin to recover, and global trade volumes will return to growth, which will have benefits for Taiwan's exports. In addition, the government will adopt expansionary fiscal policies which will provide impetus for domestic investments. This should have a positive impact on the domestic labor market, even in spite of limited salary growth and consumer consumption which remains slow. The Directorate General of Budget, Accounting and Statistics predicts that the economic growth rate in 2017 will be around 1.92%, and Taiwan's Central Bank also estimates that in 2017 the consumer price index will increase by 1.25%, slightly lower than which increased 1.31% in 2016, thus the price of consumer goods remains relatively stable. It is expected that the U.S. Federal Reserve will raise interest rates by between 0.5% and 0.75% in 2017, but European and Japanese governments will continue to loose interest rates or even lower interest rates in order to ensure steady economic growth. Each country's central bank will be paying close attention to the topic of inflation, and the company will also closely control the running costs. In future there will be increased attention to implementation of effective controls on inflation, and as a consequence inflation is not expected to have a large influence on the Company's profit and loss.

**7-2 Hedge Accounting**

In order to achieve risk management targets, major hedging activities of the Company and its subsidiaries NCIC are to reduce the cash flow fluctuations on foreign exchange assets and expected future purchase transactions owing to the risk related to foreign exchange rates. When the transaction meets the criteria for hedge accounting, the profit or loss from changes in fair values of the hedging instrument and the hedged items could be offsetting recognized. The accounting treatments are: (FET and its subsidiary NCIC adopt cash flow hedges in 2016 until March 31, 2017)

**Cash flow hedge:**

The effective portion of changes in fair values of the hedging instruments is recognized in "Other Comprehensive Income". Also, the gains or losses that were recognized as other comprehensive income will be reclassified to profit or loss in the same period when the forecast transaction (hedged item) affects the profit or loss. The gains or losses relating to the ineffective portion are recognized immediately as profit or loss. If hedging would give rise to a non-financial asset or liability, the gain or loss will be recognized as an adjustment to the original cost or carrying amount of the hedged asset or liability. If the expected transaction does not occur as expected, the gains or losses previously recognized as Other Comprehensive Income should be immediately charged to profit or loss.

The forward exchange contracts ("Forward") and foreign exchange swap (" FX swap") held by the Company and its subsidiary, NCIC, are designated for the purpose of cash flow hedge and mainly aim to hedge the risk of foreign exchange rate fluctuations upon foreign financial assets and expected purchases. It is necessary to make new deals of or roll over the FX swap and Forward contracts in accordance with the duration and hedge cost of hedged assets/expected purchase transactions. The foresaid FX swap and Forward are mainly dealt, rollover and settled for 1 week to 6 months tenors. Because the period, currency and amount of the FX SWAP/ Forward are identical to hedged foreign assets or expected purchase transactions (with economic relationship between hedge instruments and hedged underlying) at the beginning and end of the hedging, the movement of cash flow resulting from the risk of foreign exchange rate fluctuations could be offset completely. As a result, this is qualified as cash flow hedge, according to the relevant accounting principles, and the gains or losses from the changes in fair values of the hedging instruments will thus be recognized in Other Comprehensive Incomes.When the hedged items affects profit or loss, the cumulative gain or loss of hedging instructments that previously recognized in Other Comprehensive Incomes will be reclassified immediately into profit or loss.

### 7-3 Policies for Risky or Highly Leveraged Investments, Lending, Endorsements, Derivative Financial Instruments, and Related Gains or Losses, in the Year Preceding Publication of Annual Report:

1. High risk or highly leveraged investments: The Company did not engage in high-risk or high-leverage investments in the period running from 2016 through until the annual report was published.
2. Capital lending: Until the annual report was published, the balance of capital lent to Q-ware was NT$ 190 million, and capital lent to the Company by subsidiary NCIC was NT$35 billion. In view of the consolidated relationship between these parties, it is considered that there was no capital lending for the Company and its subsidiaries at the date of the annual report being published.
3. Endorsements and guarantees provided: As of year ending 2016 through until annual report being published, there was no endorsements and guarantees for the Company and its subsidiaries
4. Derivative financial instruments: The Company and its subsidiary, NCIC, dealt the amount of 29.5 million Euros and US$20 million in 2016, and the amount of 21 million Euros and US$ 20 million through until March 31, 2017 in derivative transactions for non-trading purposes. These forward exchange contracts, or foreign exchange swaps were signed in order to prevent the risk of foreign exchange rate fluctuations in foreign currency assets or forecast transactions. These hedging strategies of the Company and its subsidiary NCIC are carried out in order to avoid the most of cash flow risks. Due to the hedging purposes of derivative transactions, for hedged foreign assets, it is recognized the offsetting effect of the changes in fair value of hedging instruments and hedged items. Therefore, no substantial gains or losses are expected; whilst for hedged forecast transactions, these deals are targeted to fix hedge cost and foreign exchange rate.

### 7-4 R&D Plans and Estimated Expenses in Recent Years and until the Annual Report being published

**(I) R&D Plans**

**▶ Far Eastone**

**A. Strategic Projects**

2017/03/31

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| 4G/4.5G-new network technology and small cell research and trials | This is a joint project undertaken in partnership with telecom vendors to verify network performance and design, as well to plan the LTE small cell.<br>Local vendors have also been invited to take part in small cell network design in order to obtain more knowledge and information. | Installation of HeNB has been completed to compensate for blind spots and expand hot spots in stores and important areas in 2016. It is expected to install new Small Cell equipment in 2017 which is easy to install and will improve users' experience as well.<br>The VoLTE 4G voice service has been launched after completion of the relevant validation tests. | It is expected that Small Cell equipment will be built in December 2017. | FET has plenty of experience in 2G/3G network operations, and continuously studies and plans the launch of new technologies through trials. Upon confirming the feasibility of new technologies in an experimental environment, it starts deploying equipment within the actual network to ensure that small cells can operate in the actual network, thereby reducing the chance of rework. |
| FET 5G laboratory | This project was initiated to deploy the next generation of communications technology early to keep in step with the world. A MOU (memorandum of understanding) was signed to develop 5G technology in cooperation of Ericsson, and the first plan is to build a 5G experimental environment. | It was officially announced at a Far EasTone press conference in Sep. 2016 that the first 5G laboratory in Taiwan (and Ericsson ninth 5G Lab in the world) has been established. At the press conference, the concept of 1Gbps download speed was successfully demonstrated by integrating with multiple LTE advanced technology. | Before 5G officially lanuch, complete research and testing for all possible Plug-INS advanced technology . | (1) 4x4 MIMO: Use Multiple Input/ Output antenna technology to reduce duration of simultaneous data transfers.<br>(2) 256QAM: Use high-level Quadrature Amplitude Modulation technology to increase band efficiency and boost data transfer rate.<br>(3) 3CC CA: Use Tri-band Carrier Aggregation technology to improve the ability to transfer data simultaneously. |

**B. System Projects**

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| 4G/4.5G wireless broadband internet access service and device | Since 2016, through the high bandwidth and internet efficiency of LTE, together with diversification of 4G/4.5G wireless network cards/routers, smartphones, as well as through the provision of corporate IoT ( Internet of Things )solutions, users are able to use the most advanced equipments, with cloud computing and Pre-5G technology, so that anytime and anywhere fast wireless internet may be enjoyed and paved a way toward 5G. | We provide diverse Mobile Internet Device terminals and IoT equipment, as well as smartphones with the latest Android, and iOS operating systems tethered to high speed 4G/4.5G networks and Far EasTone WIFI automatic network and connection services, all of which help to ensure strong network and IoT service qualities, and which help to speed up broadband wireless network service development. | Plan to complete in December 2017. | We provide customers with a fair price for broadband terminals /IoT equipment,cloud technologies, high quality broadband networks, and innovative solutions. We ensure users are able to receive not only basic voice and number services, but we also flexibly use mobile terminals to solve service needs and promote popularity of wireless broadband network services. |
| 3G/3.5G/4G/4.5G network expansion and upgrade | Expand 3G/3.5G /4G /4.5G capacities in high traffic areas and enhance coverage in poor signal and new-build areas to maintain 99.5% population coverage ratio in Taiwan. | Increase 4G base stations to expand transmission network and plan to execute annual network upgrade. | Plan to complete in December 2017. | Stay aware of customer demands for continuous improvement of the network. |
| ROADM Backbone Expansion | Keep enlarging and building ROADM to enhance its bandwidth and efficiency of Transmission Backbone.. | On going | Plan to complete in October 2017. | Provide higher speed bandwidth and better transmission quality. |
| LTE Core Network Expansion | To provide customers with faster mobile broadband access and fulfill 4G user growth by continuously expanding the LTE core network to enhance the network capacity and efficiency. | On going | Plan to complete in December 2017. | Provide higher speed bandwidth and smart network to provide E2E network with different data access based on customer service needs. |
| NFV (Network Function Virtualization) Trial | Introducing NFV (Network Function Virtualization) technology to build the flexible and efficient core network. | Plans being verified | Plan to complete in December 2017. | Leverage standard HW to implement core network function and build the flexible and efficient core network for providing enriched contents and innovative applications. |
| Value-added services (Cloud) | Provide an easy-to-use virtualized environment for application services deployment and operation. | On going | Plan to complete in December 2017. | Value-added services can be deployed directly in the value-added cloud in the future, thereby reducing construction costs and speeding up Time-to-Market. |

**C. Digital Content, Mobile Applications & Payment and E-Commerence:**

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| Digital Media & Entertainment Service Platform Upgrade | Continue to optimize and enrich the contents of our products. | ProductLaunched, Continuous optimization | Plan to complete by the end of 2017. | Upgrade the functions of all service platforms, thereby helping to boost customer satisfaction and increase revenues. |
| friDay Wallet | In order to satisfy user's demand for smart mobile consumption, we will continue to provide more popular mobile applications and services, to improve users' experience. | Product officially launched. The service optimizations and feature enhancements are on-going. | Officially launched in December 2016. | Improve user experience by daily service and event, provide more easy-to-use functions and promotion to develop customer dependence. |

**▶ Subsidiary-NCIC**

**A. Strategic Projects**

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| Research into Ipv6 network technology | The planning objective is to replace IPv4 with IPv6. IPv6 offers more space for IP addresses, as it uses 128-bit IP addresses, whereas IPv4 uses 32-bit addresses. Therefore, the problem of insufficient IP space is resolved. | The development of associated IPv6 systems and IPv4/IPv6 Dual Stack of IP transit products were completed in 2015. | The IPv6 services for enterprise optical fiber products are scheduled to complete roll out by the end of 2017. | NCIC has years' of experience in operating and maintaining Ethernet Networks, and makes use of the newest technology on an ongoing basis to conduct research and |

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| | | | | experiments that help to grow its networks. |
| Connect CMI with DanFu Cable | This project connects completed DanFu Cable with CMI existing 10G and 100G expansion | DanFu Cable was completed at the end of 2013. The backbone operation of CMI in China is currently under construction. | Plan to be complete 10G by the 2[th] quarter and 100G by the 4th quarter of 2017. | Both NCIC and CMI participate in the investment of DanFu Cable. |
| CU Bandwidth expansion wuth DanFu Cable | This project connects completed DanFu Cable with CU 10G expansion | DanFu Cable was completed at the end of 2013 and will start the 1[st] expansion plan at 2017 Q4. | Plan to expand 10G by the 4[th] quarter of 2017. | Both NCIC and CU participate in the investment of DanFu Cable. |

**B. System Projects:**

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| Expanding the new generation Fixed-Network Voice Communication Equipment. | Ever since NCIC's fixed networks first opened in Taiwan, traditional voice communication equipment has become increasingly outmoded, with little scope for expansion. We plan on rolling-out the new generation of fixed-network voice communication equipment, with the hope of offering a better-quality telephone service. | The E1 PRI / V5 circuits have been officially launched and are operational. The third phase of H.248 technology is scheduled to be completed at Q3, 2017. | E1 PRI has been launched and undergone commissioning since March 2016. The V5 circuit has been announced to be activated in March 2017. | Comprehensive and rigorous experience in operating and maintaining customer-oriented fixed-line networks. |

**C. E-Commerce and Multimedia Content Services Project:**

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| Cloud Switch Service (IP PBX Cloud) | To reduce clients' investment in switchboard equipments, this project provides Telecommunication Switchboard equipments and Hosting models to meet users'demands for flexibility and increase telecommunication services revenue.<br>The project started its trial operation for On-net E1 circuits in 2011, and corporations can apply for the service. In 2012, Hon Hai Precision Ind. Co., Ltd. successfully joined the project. In 2014, it began operating officially.<br><br>To expand and widen its multiple services, planning and development of the SIP Trunk Circuit began in early 2015. That could provide clients with the Off-net Side and could improve overall telecom. revenue. | IP PBX Cloud-SIP Trunk solution was developed in December 2015, and it officially began operating in January 2016. | Completed in January 2016. | Compliance with the corporate demands for flexible configuration. |
| EMMA Enterprise Mobility Platform | In response to corporate's demands for mobility, industry-specific solutions, such as BI, EMM, monitoring, helpdesk, attendance, mobile approval, patrol inspection and so on for industry-specific applications based on the EMMA Enterprise Mobility Platform have been developed. | EMM (Mobileiron), BI (Tableau) and Monitor (Nagios) solutions have been completed. FET continues to develop industry-specific solutions. | Plan to complete in September 2017. | The EMMA Enterprise Mobility Platform allows industry-specific applications to be developed quickly. Whether it's an interfacing system coded by the customer or outsourced to FET, itself could be accomplished rapidly. |
| 'Health Cloud' and 'HealthCare Cloud' Services | These services have been developed by FarEast Corporation incorporated in response to the new health trends of personal health management, remote care, and long-term care. The Personal Health Cloud and the Care Cloud join force with medical institutions to meet peoples' needs for health management and care. In | The basic system and service of the Personal Health Cloud and Care Cloud have been completed. In addition to the continuous development of advanced applications, the Long-Term Care Cloud | Plan to complete in December 2017. | FarEasTone will be the first service provider to work with FarEastern Hospital, a major medical center and various regional and community hospitals in Taiwan. The design and content of services is envisaged to meet |

| Project Name | Description | Progress | Mass Production Date | Key Success Factors |
|---|---|---|---|---|
| | 2017, the Long-Term Care Cloud for the next phase will be developed in response to the Long-Term Care 2.0 policies .Therefore ,more business could be brought forth by the policies. | platform will be developed for the next phase. | | demands and market trends. |
| Corporate Fleet Management System | By networking the in-vehicle information with OBDII terminals, the difficulty in fleet vehicle management compounding enterprises will be solved and, in turn, their utilization can be improved. On the basis of collection, analysis and application of in-vehicle information from the corporate fleets of business users, we are able to launch value-added IoV services and expedite the development of FET's IoV services. | Completed in November 2016 and officially launched in February 2017. | Completed in February 2017. | Business users will be benefitted from the single-window service, i.e. the one-stop integrated cloud service ranging from terminals to platform applications, provided by FET.<br>Customer requirements can be satisfied with the flexibility of the IoT platform and development can be completed quickly. |
| FET Smart Patrol Inspection | In response to industries such as medical, security and supply chain and logistics, as well as environmental management or security units within large organizations, which require regular inspection and audits of sites, items or equipment due to business obligations. The Smart Patrol Inspection can effectively replace the previous paper-based patrol inspection. This not only allows for more accurate patrol inspection, but also collection of key information on business operation to form the basis of enterprise data management. | Completed in December 2016 and officially launched in January 2017. | Completed in January 2017. | Currently, 90% of patrol inspection in the industry is paper-based, which might have the following problems:<br>1.Patrol inspection at the patrol inspection point can't be verified.<br>2.Low accuracy due to scribbled hand-writing at the patrol inspection point.<br>3.Instant response and feedback to problems is not possible due to data being compiled manually.<br>4.Difficulty in classification of and access to patrol inspection data.<br>5.Insufficient data analysis and control due to complex inspection entries.<br>6.The manager can quickly contain error situation with automated reminder.<br>7.Heterogeneous systems can be interfaced due to flexible design in order to meet the requirements from future application expansion. |
| Smart Owner | By incorporating FET's core competencies of existing cloud and smart mobility with strategic partners, we provide the ICT services and products, based on the concept of one-stop shopping, required for small business owners to start their business. This allows small business owners and directors to focus on business promotion and operation, avoiding the problems of the selection and procurement of ICT products and services needed to open a store. | 1. The integrated cloud POS and commercial monitoring service has been completed.<br>2. Commodification is in progress and expected to be completed in May 2017.<br>3. Available for small business related projects from January 2017. | Plan to complete in June 2017. | The provided products and services meet the small business market expectation and the trend of future development. |

**(II) The projected R&D expense is estimated at around NT$793,854 thousand in 2017.**

### 7.5 Company Impact and Response to Material Changes of Policies and Regulations in Taiwan and Foreign Countries in Year Preceding Publication of Annual Report:

(1) Legislation of the Digital Convergence Bills

In response to the maturing and development of the convergence environment, the new commissioners of the National Communications Commission (NCC) appointed in August 2016 announced a revised convergence management framework and two pieces of draft legislation based on the spirit of convergence at the end of December 2016. The two pieces of draft legislation were the "Digital Communications Bill"" aimed at Internet management and the "Telecommunications Administration Bill" based on a review of the "Telecommunications Act". Two public hearings and a request for public opinions have since been held so the draft legislation will now be submitted to the Executive Yuan for review.

The draft "Digital Communications Bill" is based on the spirit of "Internet Governance." The governance model will seek to satisfy the interests of the majority while respecting the needs of the minority. The development of a governance mechanism based on self-discipline and restraint will encourage business innovation and enhance consumer welfare; the draft "Telecommunications Administration Bill" introduces a new administrative framework at the convergence layer. By promoting the development of telecommunications infrastructure and encouraging the transformation/upgrade of the industry, a new comprehensive communications and broadcasting environment can be developed to pave the way for the digital economy.

In legislating the "Digital Convergence Bills", the NCC hopes to introduce new laws that can cope with the new services and impacts brought by technology. It also hopes to implement the "Digital Nation and Innovative Development Plan issued by the Executive Yuan. The creation of the regulatory environment will hopefully introduce new competition into the communications & broadcasting industry and boost the business efficiency of the industry. The passing of the new law will undoubtedly have a major effect on the industry so our company will continue to monitor the progress of the Digital Convergence Bills.

(2) Announcement of the "X value for the fixing or adjustment of the Telecommunications Bills" for the next 3 years.

On March 1, 2017, the NCC approved the "X value for the fixing or adjustment of the Telecommunications tariffs" for the next three years (2017 ~ 2020). Starting from April 1, 2017, for the next three consecutive years, the monthly tariff for retail xDSL circuits will be reduced by 3.19%; the tariffs for five wholesale services including domestic local and long-distance cable leased-circuits and peering will be reduced by 5.1794%; xDSL service tariffs will not be reduced but may not be increased either; other wholesale and retail service tariffs (including ADSL circuit tariffs) will be capped.

The latest adjustments focus on wholesale price. The NCC (National Communications Commission) hopes that lowering of wholesale prices will indirectly lead to lower retail prices as well. Increased service competition will help reduce market entry, lower circuit leasing and peering costs for telecommunications and IT service providers, and allow for different innovative services to be bundled together under the digital economy. The creation of policy incentives will encourage the roll-out of network infrastructure, lay the foundations for the development of a digital economy in Taiwan, and promote improved business efficiency in the industry.

(3) Reduction of "Radio Frequency Utilization Fee"

To lower operating costs for mobile broadband network operators, encourage their roll-out of mobile broadband networks in remote areas, optimize network coverage in remote areas, balance urban and rural development, and uphold digital human rights, the proposed amendments to the "Charge Standard of Utilization Fee of Radio Frequency" was issued by the NCC (National Communications Commission) on January 24, 2017. The Calculation standards table of Mobile Telecommunications frequency for mobile network operators was revised to include a "remote territory coverage factor" and " band factor." Apart from revising the "band factor" for different frequencies to reduce the frequency utilization fees for mobile broadband providers by 80~90%, the design of the "remote territory coverage factor" also encourages mobile broadband network operators to roll-out their network in remote areas. Under the draft proposal, discounts of up to 85 ~ 95% are available depending on the level of population coverage provided by high-speed transmission stations built by operators in remote areas.

As the progress of draft amendments to the "Charge Standard of Utilization Fee of Radio Frequency" will influence operating costs, our company is therefore closely monitoring related developments and measures.

(4) Encouraging the development of "IoT" and allowing "Overseas Sales of Telecommunications Numbers"

Due to the introduction of IoT services made possible by advances in communications & broadcasting technology, to encourage local telecommunications companies to expand overseas in support of the government's New Southward Policy, and provide visitors to Taiwan with more convenient communications services in the wake of increasing international tourism and business travel, amendments to the "Regulations Governing Telecommunications Numbers" were announced by the NCC (National Communications Commission) on February 16, 2017. In response to the different challenges offered by digital convergence and communications & broadcasting developments in the future, regulations governing the application and allocation of Type I Telecommunications Enterprises IoT Numbers were added. The ban on the reallocating, reselling or selling allocated telecommunications numbers overseas by operators was also removed.

The Executive Yuan's decision to treat IoT as one of the most important applications in the 4G and even future 5G era along with the removal of the ban on overseas transfers, resales or sales of telecommunications numbers by operators will help operators looking to develop their digital convergence services and international telecommunications market. The measures relating to the overseas reallocation, resell or sale of telecommunications numbers are still under discussion as well and our company will continue to monitor amendments to related management regulations.

## 7-6 Technology Developments and Impacts on the Company and its subsidiaries from last year up to the Annual Report being published:

### ▶ Far Eastone

FET owned the spectrum totals 2*50 MHz and TDD 25MHz (Total 125MHz spectrum). Compared to other operators, FET's spectrum hold advantages which could effectively increase the revenue and market share. Because of aggressive construction, FET leads the way in the quantity of 2600MHz stations in the telecommunications market, and this helps to not only improve customer experience but also get more advantages.

Besides 4G coverage which provides convenient mobile Internet, WiFi deployment in hot zones is becoming more important as a consequence of the popularity of mobile commerce. Therefore, FET continues to provide WiFi service to customers in specific hot zones in order to reduce broadband traffic volume, as well as to provide better user experiences of mobile broadband services.

3G mobile communications technology focuses on high mobility and wide coverage, while 4G/LTE technology focuses on high bandwidth and mobility, thus these two technologies are not only distinct services in terms of what they deliver, but they also have a complementary effect. FET will take advantage of existing 2G/3G operation experiences, as well as our expertise in international network services and 4G/LTE wireless broadband access technology, to gradually integrate our 2G/3G/WiFi/4G platforms to cater to market needs. By reinforcing our advantages in mobile network communications, we will be able to deliver diversified and integrated services to meet all kinds of service and bandwidth requirements.

FET is the sole telecommunication service operator in Taiwan, with comprehensive multi-technology experimental networks that include GSM, WCDMA, LTE and fixed line. As an independent and integrated experimental network for validation of new systems, and value added services before launch, FET has also established IoT test environments at T-Park to support local communication, device and chipset manufacturers, digital content providers, and academic institutions to perform relevant tests. At present, FET has conducted IoT tests successfully with many local device & chipset manufacturers and has collaborated with institutions including many universities, ITRI, III, etc. on multiple research projects. FET's laboratory has also been frequently chosen as a venue to be visited by local and foreign guests, as well as a site for international telecommunication exhibitions (For example: GTI Summit Conference), thereby consolidating FET's presence as Taiwan's leading Company in Telecommunication technology developments.

In 2016, for align with worldwide Telecom development trend, FET officially to publicly showed the first 5G laboratory in Taiwan in Q3, and signed an MOU to develop 5G technology with Ericsson. In addition, FET completed 5G prototype indoor and outdoors field trial, this was the first time that super-high frequency 5G prototypes which showcase the efficiency of download speeds (5Gbps above) have been put on display. FET invites experts from the industry and academia to visit and share research results. FET will assist in developing the telecommunication industry in Taiwan by taking part in tripartite collaboration between the industry, academia and research institutions. These three hold the key to success in the global communications industry.

For the coming year, with the prevalence of 4G/4.5G mobile services and smart phones, domestic mobile data usage has been growing rapidly, and telecom operators are facing the problem of insufficient bandwidth. This means they have to improve the coverage and quality of their service networks through integrating diversified services that develop application solutions; and build, expand, integrate, and maintain the heterogeneous networks efficiently (i.e. through quality, service and efficiency). Ultimately, profits will be made through aligning with customer demands.

In light of changes to service provision and market demands, FET has held strong with its strategy of satisfying customer, maintaining growth, and innovating continuously. FET will continue to increase 4G/4.5G base stations and capacities, raise the backhaul bandwidth and self-owned backhaul ratio, expand bandwidth on structural backbones on the east and west of Taiwan, complete VoLTE deployment , implement NFV step by step for providing more flexible and efficient core networks. FET had industry-leading of establishing the first 5G laboratory and will also ensure that a leading position in the telecommunications industry in Taiwan is maintained. In addition, FET will continue to expand and optimize the way in which we build our network in order to provide higher speed data services and superior user experiences. This huge investment in the new broadband licenses which were released by NCC will help to fulfill customer demands.

### ▶ Subsidiary- NCIC

Major technological changes in recent years have consisted largely in improved provision of broadband networks and the rapid spread of smart phone technology. These changes have led to a rapid decline in voice telecommunications. Our consumer groups are less clearly defined than those in other areas. In consideration of this, NCIC will continue to focus on developing customer-oriented services in the future, with multiple different suitable, flexible, fast and economical telecom services.

International companies in the industry such as Facebook, Google, Microsoft, Yahoo and Akamai, as well as ISPs from various countries such as AT&T, Comcast, Free Telecom, Internode and KDDI and network facilities providers such as Cisco and D-Link are already or will soon begin formally using the IPv6 service, the next generation of network addresses. On the December 30, 2011, the Executive Yuan passed the 'Promotion of Upgrades to Internet Protocol Bill', prioritizing the government's promotion of upgrades to IPv6, thereby boosting government and popular demand and an instigating an improvement in network infrastructure. Based on market demand, NCIC also recognizes that the era of IPv6 has arrived. As such, we have invested IPv6 testing platforms to provide testing for government units, financial groups and legal professionals, as well as actively planning and installing IPv6 network infrastructure and putting services online.

The proliferation of smart phones and a trend for BYOD (Bring Your Own Device) are increasingly clear. Corporate demand for instant messaging and cloud applications is flourishing, and NCIC has taken notice of this market trend and opportunity. We have therefore worked hard in recent years to develop related products, investing in specialized work teams and marketing. Our market strategies have focused on providing comprehensive mobile and cloud App services, in order to stand out from competitors and to develop a new revenue source outside of the traditional telecom revenue.

► **Subsidiary - ARCOA**

The saturation of the Taiwanese mobile and telecommunications market has led to intensified competition. Cut-price competition on unlimited plans has accelerated the decline of voice call volumes. 4G upgrades as well as the growing maturity of smart phone technology are expected to impact the development of the telecommunications market in 2017. Smart phone sales in the first half of 2017 will be very challenging due to the lack of support from flagship stores. The changes in the mobile phone market are expected to be unfavorable to purchasing activities. The continued decline in the voice market will also lead to a decline in revenues from foreign workers’ pre-paid plans. These are expected to have an impact on 2017 revenue and profits. Faced with these challenges, ARCOA will commit itself to the transformation into a logistics business by strengthening its repair services and boosting returns from company-owned stores.

**7-7 Changes of Corporate Image and Impacts on the Company's Crisis Management in the Recent Years:**
The Company and its subsidiaries have good corporate image and there’s no issue to result in the Company’s crisis.

**7-8 Expected Benefits and Risks from Mergers in Recent Years until the Annual Report being Published:**
None.

**7-9 Expected Benefits and Risks from Plant Expansion in Recent Years until the Annual Report being Published:**
Not applicable; the Company and its subsidiaries do not have any plant expansion plan.

**7-10 Risks from Concentration in Supply or Sales in the Recent Year until the Annual Report being Published:**
The major supplier of the Company and its subsidiaries was Company A,which accounted for 17.62% of the total amount of supply in 2016. The major customer accounted for less than 10% of the total amount of sales in 2016. Therefore, there was no issue of concentrationin supply or sales.

**7-11 Impacts and Risks from Changes in Directors and Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares in the Recent Yeas until the Annual Report being Published:** None.

**7-12 Impacts and Risks from Changes of Ownership in the Recent Year until the Annual Report being Published:**
None; the Company and its subsidiaries do not have such situation.

**7-13 Material Impacts on Shareholders’ Equity or Share Price from Litigations, non-Litigations or Administrative actions on the part of Company, Directors, President, Chairman, Shareholders with Greater than 10% Shareholding and Subsidiaries, in the Year Preceding Publication of the Annual Report:** None.

**7-14 Other Major Risks:** For more information about market risk, credit risk and liquidity risk, please refer to VIII-Financial Information “2016 Independent Auditors' Report, Consolidated Financial Statements and Notes” enclosure in the annual report.

## 8. Impact of the Financial Distress Occurred to the Company and Affiliates from last year up to the Annual Report being Published

None.

## 9. Others

None.

Far EasTone Telecommunications.Co., Ltd.
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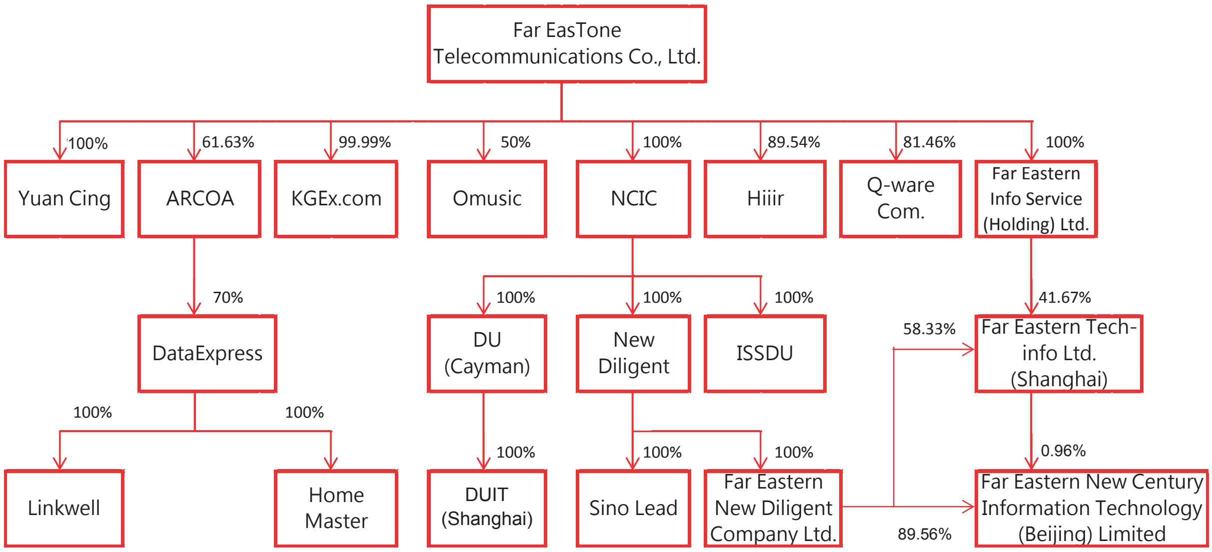
# VII Special Notes


1. Affiliated Companies
2. Private Placement Securities from last year up to the Annual Report being Published
3. The Company's Shares Held or Disposed by Subsidiaries from last year up to the Annual Report being Published
4. Other Supplementary Information
5. Material Event Impact, pursuant to Article 36-3-2 of the Securities and Exchange Act, on Shareholders' Equity or Share Price from last year up to the Annual Report being Published

## 1. Affiliated Companies

### 1-1 Consolidated Business Report of FET and Affiliates

**(1) Organizational chart:** **December 31, 2016**




**General information of Far EasTone Telecommunications Co., Ltd. and affiliates:**

Unit: In Thousands of New Taiwan Dollars, Unless Stated Otherwise

| Company | Date of Incorporation | Address | Common Stock Issued | Major Business Activities |
|---|---|---|---|---|
| Far EasTone Telecommunications Co., Ltd. | 1997/4/11 | 28th Floor, No. 207 Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C. | $ 32,585,008 | Wireless telecommunications service, leased circuit service, internet services, ISR and sale of cellular phone equipment and accessories |
| Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands) | 2002/7/17 | Clarendon House 2, Church Street Hamilton HM 11, Bermuda | RMB 99,240<br>(US$ 12,000) | Investment |
| KGEx.com Co., Ltd. | 2000/8/9 | 4th Floor, No. 468, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 789,074 | Type II telecommunications services |
| Far Eastern Tech-info Ltd. (Shanghai) | 2002/11/18 | 3rd Floor, Building No. 23, Pudong Software District, No. 498, Guoshoujing Rd., Jhangjiang High Tech District, Pudong Sin Section, Shanghai, P.R.C. | RMB 42,231,150 | Computer software, data processing and network information providing services |
| Yuan Cing Co., Ltd. | 2000/8/5 | 28th Floor, No. 207, Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C. | 20,000 | Call center services |
| ARCOA Communication Co., Ltd. | 1981/5/4 | 36th Floor, No. 207, Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C. | 1,342,800 | Sales of communications products and office equipment |
| Q-ware Communications Co., Ltd. | 2007/2/13 | 8th Floor, No. 220, Gangqian Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 417,149 | Type II telecommunications services |
| Omusic Co., Ltd. | 2010/10/5 | 12th floor, No. 468, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 50,000 | Electronic information providing services |
| DataExpress Infotech Co., Ltd. | 2004/7/22 | 2nd floor, No. 218, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 183,805 | Sale of communications products |
| Linkwell Technology Ltd. | 2005/4/8 | 2nd floor, No. 218, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 45,804 | Sale of communications products |

| Company | Date of Incorporation | Address | Common Stock Issued | Major Business Activities |
|---|---|---|---|---|
| Home Master Technology Ltd. | 2011/8/11 | 2nd floor, No. 218, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 12,725 | Sale of communications products |
| New Century InfoComm Tech. Co., Ltd. | 2000/6/1 | 1-11F., No. 218, Ruei Guang Rd., Neihu Dist., Taiwan, R.O.C. | 21,000,000 | Type I, II telecommunications services |
| New Diligent Co., Ltd. | 2001/5/2 | 1th Floor, No. 207 Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C. | 1,060,000 | Investment |
| Sino Lead Enterprise Limited | 2006/4/11 | Hong Kong Trade Centre, 7/F 161-167 Des Voeux Road Central, Hong Kong | 125 (HK$ 30,000) | Telecommunication services |
| Information Security Service Digital United Inc. | 2004/12/22 | 2th floor, No. 218, Ruei Guang Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 102,490 | Security and monitoring service via Internet |
| Digital United (Cayman) Ltd. | 2000/8/16 | P.O.Box 2681, Zephyt House, Mary Street, George Town, Grand Cayman, British West Indies | RMB 33,039,600 (US$ 4,320,000) | Investment |
| Digital United Information Technologies (shanghai) Ltd. | 2000/10/8 | Room 22301-918, Building No. 14, Pudong Software District, No. 498, Guoshoujing Rd., Jhangjiang High Tech District, Pudong Sin Section, Shanghai, P.R.C. | RMB 23,552,583 | Design and research of computer system |
| Far Eastern New Diligent Company Ltd. | 2010/7/27 | Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands | RMB 91,482,640 (US$ 14,300,000) | Investment |
| Hiiir Co., Ltd. | 2013/8/8 | 10th Floor, No. 220, Gangqian Rd., Nei Hu, Taipei, Taiwan, R.O.C. | 600,000 | Electronic information providing services |
| Far Eastern New Century Information Technology (Beijing) Limited | 2010/7/23 | 11/F, 9 Building, Wan Da Square, No. 93 Jian Guo Street, Chaoyang District, Beijing | RMB 74,326,183 | Electronic information providing services |

**3. Companies presumed to have a relationship of control and subordination with Far EasTone under Article 369-3 of the R.O.C. Company Law: None.**

**4. Industries covered by the business operated by the affiliates and description of the mutual dealings and division of work among such affiliates:**

Far EasTone and its subsidiaries and affiliates provide wireless telecommunications service, International Simple Resale (ISR) service, leased circuit service, internet service, mobile virtual network operator services, sale of cellular phone equipments and accessories, international and general investments, computer software, call center services, security and monitoring service via internet, and design and research of computer system.

The mutual dealings and division of work among such affiliates:

a. Far EasTone collects the international direct dialing revenue for KGEx.com through call-by-call selection service and routes the traffic through KGEx.com's telecommunication facilities.

b. Far EasTone purchases from/sells to ARCOA cellular phone equipments and accessories, and pays to ARCOA handset subsidies and commissions due to its promotion of Far EasTone's SIM card numbers.

c. Yuan Cing provides call center services to Far EasTone, NCIC, ARCOA and Hiiir.

d. Q-ware Com. provides marketing, activation and customer services to Far EasTone's mobile virtual network operator.

e. Far EasTone sells cellular phone equipments and accessories to DataExpress, Linkwell and Home Master, Far EasTone purchases computers and accessories products from DataExpress, and DataExpress also provides cellular phone maintain services to Far EasTone.

f. Far EasTone rents backbone/Access, office and telecommunication equipments from NCIC. Meanwhile, Far EasTone also leases telecommunication equipments to NCIC. Network interconnection services are provided between Far EasTone and NCIC.

g. Sino Lead Enterprise Limited provides international lease circuit service to NCIC.

h. Information Security Service Digital United sells security and monitoring equipments to Far EasTone and NCIC.

i. Far EasTone sells cellular phone equipments and accessories to Hiiir, and Hiiir provides electronic information services to Far EasTone.

j. Omusic provides electronic information services to Far EasTone.

**5. Directors, supervisors and general managers of Far EasTone and affiliates:**

Unit: Number of Shares; %

| Company | Title | Name of Representative | Registered Shares Owned | |
|---|---|---|---|---|
| | | | Shares | % of Ownership |
| Far EasTone Telecommunications Co., Ltd. | Chairman | Yuan Ding Investment Co., Ltd.<br>Douglas Hsu | 1,066,657,614 | 32.73 |
| | Managing Director | Yuan Ding Investment Co., Ltd.<br>Peter Hsu | 1,066,657,614 | 32.73 |
| | Managing Director | Yuan Ding Investment Co., Ltd.<br>Jan Nilsson | 1,066,657,614 | 32.73 |
| | Director | U-MING Marine Transport Corp.<br>Keisuke Yoshizawa | 331,000 | 0.01 |
| | Independence Director | Lawrence Juen-Yee LAU | - | - |
| | Director | Yuan Ding Co., Ltd.<br>Champion Lee | 4,163,500 | 0.13 |
| | Director | Yuan Ding Co., Ltd.<br>Jeff Hsu | 4,163,500 | 0.13 |
| | Independence Director | Kurt Roland Hellström | - | - |
| | Independence Director | Chung Laung Liu | - | - |
| | Director | Asia Investment Corporation<br>Bonny Peng | 1,426,303 | 0.04 |
| | Director | Ding Yuan International Investment Co., Ltd.<br>Toon Lim | 919,653 | 0.03 |
| | General manager | Yvonne Li | - | - |
| Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands) | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Yvonne Li | 1,200 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>T. Y. Yin | 1,200 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Eton Shu | 1,200 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jennifer Liu | 1,200 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Maggie Mei | 1,200 | 100.00 |
| | General manager | Yvonne Li | - | - |
| KGEx.com Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Mike Lee (Note 1) | 78,895,760 | 99.99 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Vacancy | 78,895,760 | 99.99 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jessica Chen | 78,895,760 | 99.99 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>James Lee | 78,895,760 | 99.99 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Hae-Shung Ju | 78,895,760 | 99.99 |
| | Supervisor | T.Y. Yin | - | - |
| | General manager | Mike Lee (Note 1) | - | - |

| Company | Title | Name of Representative | Registered Shares Owned | |
|---|---|---|---|---|
| | | | Shares | % of Ownership |
| Far Eastern Tech-info Ltd. (Shanghai) | Chairman | Far Eastern Info Service (Holding) Ltd.<br>Yvonne Li | - | 41.67 |
| | Director | Far Eastern Info Service (Holding) Ltd.<br>Eton Shu | - | 41.67 |
| | Director | Far Eastern Info Service (Holding) Ltd.<br>Jennifer Liu | - | 41.67 |
| | Director | Far Eastern Info Service (Holding) Ltd.<br>Maggie Mei | - | 41.67 |
| | Supervisor | Far Eastern New Diligent Company Ltd.<br>T.Y. Yin | - | 58.33 |
| Yuan Cing Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Eton Shu | 2,000,000 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Maggie Mei | 2,000,000 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jessica Chen | 2,000,000 | 100.00 |
| | Supervisor | T.Y. Yin | - | - |
| | General manager | Maggie Mei | - | - |
| ARCOA Communication Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Yvonne Li | 82,762,221 | 61.63 |
| | Vice-chairman | Wan-Shih-Shin Co., Ltd.<br>Gary Lin | 470,325 | 0.35 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Alan Tsai | 82,762,221 | 61.63 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Maxwell Cheng | 82,762,221 | 61.63 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Brian Chao | 82,762,221 | 61.63 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jessie Teng | 82,762,221 | 61.63 |
| | Director | Vacancy | - | - |
| | Supervisor | Francies Chen | - | - |
| | Supervisor | David Tsai | - | - |
| | Supervisor | Sharon Lin | - | - |
| | General manager | Jessie Teng | - | - |

(Continued)

| Company | Title | Name of Representative | Registered Shares Owned | |
|---|---|---|---|---|
| | | | Shares | % of Ownership |
| Q-ware Communications Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Yvonne Li | 33,982,812 | 81.46 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Mike Lee(Note 2) | 33,982,812 | 81.46 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Maxwell Cheng | 33,982,812 | 81.46 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Bruce Yu | 33,982,812 | 81.46 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Samuel Yuan | 33,982,812 | 81.46 |
| | Director | President Chain Store Co., Ltd.<br>Chia Hua Chang | 4,172,422 | 10.00 |
| | Director | President Chain Store Co., Ltd.<br>Hsing Jou Shen | 4,172,422 | 10.00 |
| | Supervisor | Uni-President Enterprises Co., Ltd.<br>Jin-Xing Chen | 3,337,192 | 8.00 |
| | Supervisor | Sharon Lin | - | - |
| | General manager | Dick Lin | - | - |
| O-music Co., Ltd. | Chairman | Universal Music Ltd.<br>Sunny Chang | 225,000 | 4.50 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Yvonne Li | 2,500,000 | 50.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jennifer Liu(Note 3) | 2,500,000 | 50.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Elliza Tu | 2,500,000 | 50.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Eton Shu | 2,500,000 | 50.00 |
| | Director | Forward Music Co., Ltd.<br>Barry Lee | 225,000 | 4.50 |
| | Director | Sony Music Entertainment Taiwan Ltd. | 225,000 | 4.50 |
| | Supervisor | T.Y. Yin | - | - |
| | Supervisor | Otiga Technologies Limited<br>Ipang Lin | 475,000 | 9.50 |
| | Supervisor | HIM International Music Inc.<br>Lydia Ho | 225,000 | 4.50 |
| | General manager | Belung Chang | 225,000 | 4.50 |
| DataExpress Infotech Co., Ltd. | Chairman | ARCOA Communication Co., Ltd.<br>Maxwell Cheng | 12,866,353 | 70.00 |
| | Director | Jing Ho Tech<br>Grace Chu | 3,490,724 | 18.99 |
| | Director | ARCOA Communication Co., Ltd.<br>Eric Li | 12,866,353 | 70.00 |
| | Director | ARCOA Communication Co., Ltd.<br>Brian Chao | 12,866,353 | 70.00 |
| | Supervisor | Ann Chang | - | - |
| Linkwell Technology Ltd. | Director | DataExpress Infotech Co., Ltd.<br>Maxwell Cheng | - | 100.00 |
| Home Master Technology Ltd. | Director | DataExpress Infotech Co., Ltd.<br>Maxwell Cheng | - | 100.00 |
| New Century InfoComm Tech Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Douglas Hsu | 2,100,000,000 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Yvonne Li | 2,100,000,000 | 100.00 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Mike Lee(Note 4) | 2,100,000,000 | 100.00 |
| | Supervisor | Far EasTone Telecommunications Co., Ltd.<br>T. Y. Yin | 2,100,000,000 | 100.00 |
| | General manager | Yvonne Li | - | - |

(Continued)

| Company | Title | Name of Representative | Registered Shares Owned | |
|---|---|---|---|---|
| | | | Shares | % of Owner-ship |
| New Diligent Co., Ltd. | Chairman | New Century InfoComm Tech Co., Ltd.<br>Eric Li | 106,000,000 | 100.00 |
| | Director | New Century InfoComm Tech Co., Ltd.<br>Mike Lee (Note 5) | 106,000,000 | 100.00 |
| | Director | New Century InfoComm Tech Co., Ltd.<br>James Lee | 106,000,000 | 100.00 |
| | Supervisor | New Century InfoComm Tech Co., Ltd.<br>T. Y. Yin | 106,000,000 | 100.00 |
| Sino Lead Enterprise Limited | Director | New Diligent Co., Ltd.<br>Mike Lee (Note 6) | - | 100.00 |
| Information Security Service Digital United | Chairman | New Century InfoComm Tech Co., Ltd.<br>Mike Lee | 10,249,047 | 100.00 |
| | Director | New Century InfoComm Tech Co., Ltd.<br>Mark Lee | 10,249,047 | 100.00 |
| | Director | New Century InfoComm Tech Co., Ltd.<br>Eric Li | 10,249,047 | 100.00 |
| | Supervisor | New Century InfoComm Tech Co., Ltd.<br>T. Y. Yin | 10,249,047 | 100.00 |
| Digital United (Cayman) Ltd. | Chairman | New Century InfoComm Tech Co., Ltd.<br>Mike Lee (Note 7) | 4,320,000 | 100.00 |
| | Director | New Century InfoComm Tech Co., Ltd.<br>T. Y. Yin | 4,320,000 | 100.00 |
| Digital Unite Information Technologies (Shanghai) Ltd. | Chairman | Digital United (Cayman) Ltd.<br>Mike Lee | - | 100.00 |
| | Director | Digital United (Cayman) Ltd.<br>Larry Liu | - | 100.00 |
| | Director | Digital United (Cayman) Ltd.<br>Eric Li | - | 100.00 |
| | Supervisor | Digital United (Cayman) Ltd.<br>T. Y. Yin | - | 100.00 |
| | General manager | Larry Liu | - | - |
| Far Eastern New Diligent Company Ltd. | Director | New Diligent Co., Ltd.<br>Jennifer Liu | - | 100.00 |
| | Director | New Diligent Co., Ltd.<br>T. Y. Yin | - | 100.00 |
| | Director | New Diligent Co., Ltd.<br>Mike Lee | - | 100.00 |
| Hiiir Co., Ltd. | Chairman | Far EasTone Telecommunications Co., Ltd.<br>Magdalina Lin | 53,726,000 | 89.54 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Jennifer Liu (Note 8) | 53,726,000 | 89.54 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Joann Chang | 53,726,000 | 89.54 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>Belinda Chen | 53,726,000 | 89.54 |
| | Director | Far EasTone Telecommunications Co., Ltd.<br>John Yeh | 53,726,000 | 89.54 |
| | Supervisor | Far EasTone Telecommunications Co., Ltd.<br>T. Y. Yin | 53,726,000 | 89.54 |
| | General manager | John Yeh | 2,185,000 | 3.64 |
| Far Eastern New Century Information Technology (Beijing) Limited | Chairman | Far Eastern Tech-info Ltd. (Shanghai)<br>Jennifer Liu | - | 0.96 |
| | Director | Yuan Dong New Century Company Ltd.<br>Jack Deng | - | 0.78 |
| | Director | Far Eastern Tech-info Ltd. (Shanghai)<br>Andrea Shen | - | 0.96 |
| | Director | Far Eastern Tech-info Ltd. (Shanghai)<br>T.Y. Yin | - | 0.96 |
| | Director | Far Eastern Tech-info Ltd. (Shanghai)<br>Eton Shu | - | 0.96 |
| | Supervisor | Far Eastern Tech-info Ltd. (Shanghai)<br>Sharon Lin | - | 0.96 |
| | General manager | Alex Chang | - | - |

(Concluded)

Note 1: Philip Tseng succeeded as chairman and general manager of KGEx.com since April 25, 2017.
Note 2: Philip Tseng succeeded as director of Q-ware since March 31, 2017.
Note 3: Magdalina Lin succeeded as director of o-music since March 31, 2017.
Note 4: Philip Tseng succeeded as director of NCIC since April 10, 2017.
Note 5: Philip Tseng succeeded as director of New Diligent since March 31, 2017.
Note 6: Philip Tseng succeeded as director of Sino Lead since April 25, 2017.
Note 7: Philip Tseng succeeded as director of Digital United (Cayman) since April 10, 2017.
Note 8: Sherman Lee succeeded as director of Hiiir since March 31, 2017.

## (6) Operation overview of Far EasTone and affiliates:

Unit: In Thousands of New Taiwan Dollars, Unless Stated Otherwise

| Company | Common Stock Issued | Total Assets | Total Liabilities | Total Stockholders' Equity | Total Operating Revenue | Operating Income (Loss) | Net Income (Loss) | Basic Earnings Per Share (NT$) |
|---|---|---|---|---|---|---|---|---|
| Far EasTone Telecommunications Co., Ltd. | $ 32,585,008 | $ 128,041,746 | $ 57,035,728 | $ 71,006,018 | $ 78,838,895 | $ 11,841,655 | $ 11,391,303 | $ 3.50 |
| Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands) | RMB 99,240 (US$ 12,000 ) | RMB 9,062,333 | - | RMB 9,062,333 | - | RMB (40,700 ) | RMB (254,729 ) | RMB (212 ) |
| KGEx.com Co., Ltd. | 789,074 | 948,172 | 80,190 | 867,982 | 567,121 | 61,816 | 73,240 | 0.87 |
| Far Eastern Tech-info Ltd. (Shanghai) | RMB 42,231,150 | RMB 22,831,127 | RMB 1,183,365 | RMB 21,647,762 | - | RMB (35,506 ) | RMB (519,802 ) | Note |
| Yuan Cing Co., Ltd. | 20,000 | 41,148 | 10,302 | 30,846 | 55,288 | 12,135 | 10,846 | 0.63 |
| ARCOA Communication Co., Ltd. | 1,342,800 | 3,497,481 | 1,731,863 | 1,765,618 | 18,152,652 | 151,328 | 163,563 | 1.20 |
| Q-ware Communications Co., Ltd. | 417,149 | 324,363 | 418,658 | (94,295 ) | 225,399 | (9,581 ) | (17,064 ) | (0.41 ) |
| Omusic Co., Ltd. | 50,000 | 89,711 | 73,419 | 16,292 | 228,586 | 7,558 | 8,442 | 1.69 |
| DataExpress Infotech Co., Ltd. | 183,805 | 1,230,067 | 999,450 | 230,617 | 3,488,488 | 25,640 | 24,929 | 1.36 |
| Linkwell Technology Ltd. | 45,804 | 207,817 | 168,217 | 39,600 | 946,312 | (5,327 ) | (3,813 ) | Note |
| Home Master Technology Ltd. | 12,725 | 140,534 | 148,950 | (8,416 ) | 490,805 | 803 | 761 | Note |
| New Century InfoComm Tech. Co., Ltd. | 21,000,000 | 27,271,760 | 3,226,234 | 24,045,526 | 12,880,646 | 3,072,019 | 2,201,146 | 1.05 |
| New Diligent Co., Ltd. | 1,060,000 | 632,607 | 140 | 632,467 | - | (251 ) | (169,673 ) | (1.60 ) |
| Sino Lead Enterprise Limited | 125 (HK$ 30,000 ) | 32,954 | 32,806 | 148 | 110,692 | 39 | 49 | Note |
| Information Security Service Digital United Inc. | 102,490 | 193,652 | 84,662 | 108,990 | 269,577 | 6,671 | 6,829 | 0.67 |
| Digital United (Cayman) Ltd. | RMB 33,039,600 (US$ 4,320,000 ) | RMB 6,973,766 | RMB 14,482 | RMB 6,959,284 | - | RMB (55,307 ) | RMB 441,781 | RMB 0.13 |
| Digital United Information Technologies (shanghai) Ltd. | RMB 23,552,583 | RMB 4,340,200 | RMB 1,893,499 | RMB 2,446,701 | RMB 2,946,544 | RMB 1,877,628 | RMB 1,885,642 | Note |
| Far Eastern New Diligent Company Ltd. | RMB 91,482,640 (US$ 14,300,000 ) | RMB 16,056,042 | RMB 4,352,696 | RMB 11,703,346 | - | RMB (67,661 ) | RMB (35,970,998 ) | Note |
| Hiiir Co., Ltd. | 600,000 | 192,320 | 309,505 | (117,185 ) | 973,973 | (262,384 ) | (258,936 ) | (4.32 ) |
| Far Eastern New Century Information Technology (Beijing) Limited | RMB 74,326,183 | RMB 4,687,778 | RMB 9,547,585 | RMB (4,859,807 ) | RMB (91,047) | RMB (36,222,366 ) | RMB (41,403,154 ) | Note |

Note: Not calculated as is a limited company that has not issued stock.

## 1-2 Declaration for the Consolidated Financial Statements of Affiliated Enterprises of the Company

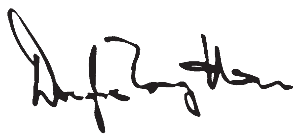
February 15, 2017

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

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By



**DOUGLAS HSU**
**Chairman**

## 1-3 Affiliation Report

### (1)Independent Auditor's Report

To: Far EasTone Telecommunications Co., Ltd.

According to the declaration of Far EasTone Telecommunications Co., Ltd. (the Company), the Affiliation Report of 2016 dated February 15, 2017 had been prepared in conformity with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates Enterprises ("the Criteria") and the information in the above report has no significant inconsistency from the notes to the financial statements as of and for the year ended December 31, 2016 ("the Notes"). The declaration is shown on the next page.

We have examined the Affiliation Report of the Company against the Criteria and the Notes. As stated in the above declaration, there was no significant inconsistency found between your 2016 Affiliation Report and the Criteria and the Notes for the year ended December 31, 2016.

March 31, 2017

By

**Deloitte and Touche Co.**

CPA, Annie Lin

CPA, Denny Kuo

(2) **Declaration for the Affiliation Report of the Company**

**DECLARATION FOR THE AFFILIATION REPORT OF FAR EASTONE TELECOMMUNICATIONS CO., LTD.**

February 15, 2017

We hereby declare that the Affiliation Report of 2016 had been prepared in conformity with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates Enterprises” and the information in the above report has no significant inconsistency from the Notes to the Financial Statements as of and for the year ended December 31, 2016.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By

**DOUGLAS HSU**

**Chairman**

(3) The relationship between the subordinate company and the parent company: Schedule A.

(4) Purchase (sale) of goods between the subordinate company and the parent company: Schedule B.

(5) Property transactions between the subordinate company and the parent company: None.

(6) Financing between the subordinate company and the parent company: None.

(7) Asset leasing between the subordinate company and the parent company: Schedule C.

(8) Endorsements and guarantees between the subordinate company and the parent company: None.

**SCHEDULE A**

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

### THE RELATIONSHIP BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY
### DECEMBER 31, 2016

(Unit: Number of Shares, %)

| Parent Company | For the Control Reason | Parent Company's Shareholding Information | | | Parent Company Appointed Directors or Managerial Officer | |
|---|---|---|---|---|---|---|
| | | Shareholding | % | Share Pledged | Title | Name |
| Yuan Ding Investment Co., Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 1,066,657,614 | 32.73 | 43,144,682 | Chairman<br>Managing director<br>Managing director | Douglas Hsu<br>Peter Hsu<br>Jan Nilsson |
| Yuan Ding Co., Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 4,163,500 | 0.13 | - | Director<br>Director | Champion Lee<br>Jeff Hsu |
| Fu Kwok Knitting & Garment Corporation | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 520,000 | 0.01 | - | - | - |
| Ding Yuan International Investment Co. Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 919,653 | 0.03 | - | Director | Toon Lim |
| Far Eastern New Century Corporation | Indirect control over the management of the personnel, financial or business operation of Far EasTone | - | - | - | - | - |
| Yuan Tong Investment Co., Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 100,237,031 | 3.08 | 34,100,000 | - | - |
| An Ho Garment Co., Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 40,817,592 | 1.25 | 21,049,646 | - | - |
| Kai Yuan International Investment Co., Ltd. | Indirect control over the management of the personnel, financial or business operation of Far EasTone | 34,149,031 | 1.05 | 23,800,000 | - | - |

**SCHEDULE B**

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

### PURCHASE (SALE) OF GOODS BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

| Parent Company | Transaction Details | | | | Transactions Between the Parent Company | | Normal Transactions | | Difference Reason | Accounts Receivable or (Payable) | | Overdue | | | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Purchase (Sale) | Amount | % to Total | Gross Profit | Unit Price | Payment Terms | Unit Price | Payment Terms | | Ending Balance | % to Total | Amount | Action Taken | Allowance for Doubtful Accounts | |
| Far Eastern New Century Corporation | Sale | $24 | 0.0002 | - | The terms and conditions conformed to normal transactions | | - | - | - | - | - | - | - | - | |
| Yuan Ding Co., Ltd. | Sale | $5 | 0.0000 | | The terms and conditions conformed to normal transactions | | | | | | | | | | |

**SCHEDULE C**

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

### ASSET LEASING BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

| Transaction | Target Asset | | Period | Type | Rental Terms | Payment Method | Comparison with Ordinary Leasing Price Level | Rental for This Period | Other Special Stipulations |
|---|---|---|---|---|---|---|---|---|---|
| | Name | Location Lease | | | | | | | |
| Far Eastern New Century Corporation | | | | | | | | | |
| Leasing | BTS00006744 | No. 180, Tu-Ti-Kung-Pu, Wen-Shan Li, Hsin-Pu Town, Hsin-Chu County | 1997.07.15-2017.07.14 | Operating | Same as normal leasing | Bank remittance annually | Same | 271 | None |
| Leasing | BTS00007807 | No. 3, King-Chen 6th Rd., Kuan-Ying, Industrial Area, Kuan-Yin Township, Tao-Yuan County | 2008.11.15-2019.11.14 | Operating | Same as normal leasing | Bank remittance monthly | Same | 320 | None |
| Leasing | Nei-Li MSC | No. 759, Yuan-Tung Section, Nei-Li Township, Tao-Yuan County | 2007.05.01-2017.04.30 | Operating | Same as normal leasing | Bank remittance monthly | Same | 2,867 | None |
| Leasing | BTS00007979 | No. 2, Alley 266, Desing Rd., Hu-Kuo Township, Hsin-Chu County | 2000.11.15-2020.11.14 | Operating | Same as normal leasing | Bank remittance monthly | Same | 793 | None |
| Leasing | BTS00051486 | 2F., No.7, Gongye 4th Rd., Kuan-Ying, Industrial Area, Kuan-Yin Township, Tao-Yuan County | 2012.2.1-2017.1.31 | Operating | Same as normal leasing | Bank remittance monthly | Same | 336 | None |
| **Total** | | | | | | | | $ 4,587 | |
| Yuan Ding Co., Ltd. | | | | | | | | | |
| Leasing | The Mall retail sales | 1F., No.209, Sec. 2, Dunhua S. Rd., Taipei City | 1995.08.15-2017.09.30 | Operating | Same as normal leasing | Bank remittance monthly | Same | 6,291 | |
| Leasing | The Mall stud | 1F., No.209, Sec. 2, Dunhua S. Rd., Taipei City | 2011.06.08-2017.09.30 | Operating | Same as normal leasing | Bank remittance monthly | Same | 360 | |
| Leasing | BT00015950 | 7F., No.89, Sec. W., Daxue Rd., East Dist., Tainan City | 2013.09.15-2018.09.14 | Operating | Same as normal leasing | Bank remittance monthly | Same | 162 | |
| Leasing | BT00044916 | 23F., No.89, Sec. W., Daxue Rd., East Dist., Tainan City | 2013.03.15-2018.03.14 | Operating | Same as normal leasing | Bank remittance monthly | Same | 162 | |
| Leasing | BT00047899 | B1., No.203, Sec. 2, Dunhua S. Rd., Taipei City | 2013.09.01-2018.08.31 | Operating | Same as normal leasing | Bank remittance monthly | Same | 680 | |

| Transaction | Target Asset | | Period | Type | Rental Terms | Payment Method | Comparison with Ordinary Leasing Price Level | Rental for This Period | Other Special Stipulations |
|---|---|---|---|---|---|---|---|---|---|
| | Name | Location Lease | | | | | | | |
| Leasing | BT00042 981 | No.201, Sec. 2, Dunhua S. Rd., Taipei City | 2013.09.01-2018.08.31 | Operating | Same as normal leasing | Bank remittance monthly | Same | 721 | |
| Leasing | BT00052 216 | No.16,18, Xinzhan Rd., Banqiao Dist., New Taipei City | 2014.10.01-2019.09.30 | Operating | Same as normal leasing | Bank remittance monthly | Same | 1,649 | |
| Leasing | BT00059 828 | No.207, Sec. 2, Dunhua S. Rd., Taipei City | 2016.11.01-2019.10.31 | Operating | Same as normal leasing | Bank remittance monthly | Same | 1,578 | |
| **Total** | | | | | | | | **$ 11,603** | |

## 2. Private Placement Securities from last year up to the Annual Report being Published

None.

## 3. The Company's Shares Held or Disposed by Subsidiaries from last year up to the Annual Report being Published

None.

## 4. Other Supplementary Information

None.

## 5. Material Event Impact, pursuant to Article 36-3-2 of the Securities and Exchange Act, on Shareholders' Equity or Share Price from last year up to the Annual Report being Published

None.

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# VIII Financial Information


1. Condensed Financial Statement for Recent 5 Years
2. Financial Analysis for Recent 5 Years
3. 2016 Audit Committee’s Review Report
4. 2016 Independent Auditors' Report, Consolidated Financial Statements and Notes
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# 1. Condensed Financial Statement for Recent 5 Years

## 1-1. Condensed Balance Sheet and Comprehensive Income Statement - International Financial Reporting Standards

### 1-1-1 Condensed Balance Sheet - by Standalone

2017/3/31; Unit: NT$' 000

| Item / Year | | 2017/1/1 ~ 2017/3/31 | Financial Information for Recent 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Current Assets | | Not Applicable | 12,431,062 | 26,860,174 | 12,249,998 | 12,013,097 | 11,689,499 |
| Properties, Plants and Equipment | | | 32,184,965 | 33,288,032 | 31,895,203 | 29,010,816 | 29,943,751 |
| Intangible assets | | | 51,207,871 | 44,399,748 | 46,286,658 | 47,375,765 | 16,843,918 |
| Other Assets | | | 32,217,848 | 34,063,071 | 32,749,617 | 30,937,732 | 35,132,575 |
| Total Assets | | | 128,041,746 | 138,611,025 | 123,181,476 | 119,337,410 | 93,609,743 |
| Current Liabilities | Before Distribution | | 27,599,086 | 24,926,487 | 23,745,078 | 23,299,694 | 17,883,205 |
| | After Distribution | | (Note 1) | 37,145,865 | 35,964,456 | 35,519,072 | 29,287,958 |
| Non-current Liabilities | | | 29,436,642 | 41,778,173 | 26,688,748 | 22,565,752 | 2,504,412 |
| Total Liabilities | Before Distribution | | 57,035,728 | 66,704,660 | 50,433,826 | 45,865,446 | 20,387,617 |
| | After Distribution | | (Note 1) | 78,924,038 | 62,653,204 | 58,084,824 | 31,792,370 |
| Capital Stocks | | | 32,585,008 | 32,585,008 | 32,585,008 | 32,585,008 | 32,585,008 |
| Capital Surplus | Before Distribution | | 10,166,874 | 12,058,158 | 14,009,061 | 15,919,097 | 17,790,049 |
| | After Distribution | | (Note 1) | 10,181,262 | 12,109,355 | 14,009,616 | 15,926,187 |
| Retained Earnings | Before Distribution | | 28,387,615 | 27,388,411 | 26,292,678 | 25,074,891 | 22,749,750 |
| | After Distribution | | (Note 1) | 17,045,929 | 15,973,006 | 14,764,994 | 13,208,859 |
| Other Shareholders' Equity Item | | | (133,479) | (125,212) | (139,097) | (107,032) | 97,319 |
| Total Shareholders' Equity | Before Distribution | | 71,006,018 | 71,906,365 | 72,747,650 | 73,471,964 | 73,222,126 |
| | After Distribution | | (Note 1) | 59,686,987 | 60,528,272 | 61,252,586 | 61,817,373 |

Note 1: The appropriation of 2016 earning has not been approved by the Shareholders' Meeting.

**Analysis of major variations:**

(1) Current assets decreased mainly due to that Far Eastone paid for portion of 2600MHz spectrum license fee in 2016 so that balance of cash/cash equivalent decreased substantially.

(2) 2016 the decrease in non-current liabilities mainly because the corporate bonds payable has been recognized as "current portion of corporate bond payable".

### 1-1-2 Condensed Comprehensive Income Statement – by Standalone

2017/3/31; Unit: Except EPS is NT dollar; others are NT$'000

| Item / Year | 2017/1/1 ~ 2017/3/31 | Financial Information for Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Operating Revenues | Not Applicable | 78,838,895 | 80,765,722 | 78,403,544 | 73,954,595 | 71,570,338 |
| Gross Profit | | 32,611,252 | 32,716,019 | 32,804,061 | 32,204,042 | 30,939,952 |
| Operating Income | | 11,841,655 | 12,098,334 | 12,127,124 | 13,411,215 | 11,830,643 |
| Non-Operating Income and Expenses | | 956,619 | 1,742,522 | 1,715,125 | 1,006,820 | 1,067,061 |
| Income before Tax | | 12,798,274 | 13,840,856 | 13,842,249 | 14,418,035 | 12,897,704 |
| Net Income from Operating Business | | 11,391,303 | 11,485,695 | 11,482,985 | 11,829,195 | 10,591,519 |
| Net Income (Loss) | | 11,391,303 | 11,485,695 | 11,482,985 | 11,829,195 | 10,591,519 |
| Other Comprehensive Income Loss (Net of income tax) | | (43,443) | (45,363) | 12,634 | (189,595) | 14,757 |
| Total Comprehensive Income | | 11,347,860 | 11,440,332 | 11,495,619 | 11,639,600 | 10,606,276 |
| Earnings Per Share | | 3.50 | 3.52 | 3.52 | 3.63 | 3.25 |

**Analysis of major variation**

The decrease in non-operating income and expenses in 2016 mainly came from the substantial decrease in investment income from NCIC.

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### 1-1-3 Condensed Balance Sheet-by Consolidated

2017/3/31; Unit: NT$' 000

| Item | | 2017/1/1 ~ 2017/3/31 (Note 1) | Financial Information In Recent 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Current Assets | | 24,611,252 | 26,557,388 | 34,299,373 | 20,806,012 | 19,345,807 | 28,238,250 |
| Properties, Plants and Equipment | | 48,688,721 | 49,849,572 | 52,045,655 | 50,938,477 | 48,034,681 | 48,884,549 |
| Intangible assets | | 51,721,414 | 52,458,457 | 45,677,996 | 47,703,750 | 48,869,963 | 18,385,061 |
| Other Assets | | 3,939,310 | 3,941,905 | 4,858,147 | 4,259,948 | 3,973,325 | 3,707,780 |
| Total Assets | | 128,960,697 | 132,807,322 | 136,881,171 | 123,708,187 | 120,223,776 | 99,215,640 |
| Current Liabilities | Before Distribution | 30,195,659 | 30,980,704 | 21,683,305 | 22,675,815 | 22,632,007 | 21,854,190 |
| | After Distribution | (Note 2) | (Note 2) | 33,986,190 | 34,980,300 | 34,949,072 | 33,355,341 |
| Non-current Liabilities | | 24,173,031 | 30,104,017 | 42,538,970 | 27,479,371 | 23,335,030 | 3,389,511 |
| Total Liabilities | Before Distribution | 54,368,690 | 61,084,721 | 64,222,275 | 50,155,186 | 45,967,037 | 25,243,701 |
| | After Distribution | (Note 2) | (Note 2) | 76,525,160 | 62,459,671 | 58,284,102 | 36,744,852 |
| Equity Attributable to Owners of Far EasTone | Before Distribution | 73,867,931 | 71,006,018 | 71,906,365 | 72,747,650 | 73,471,964 | 73,222,126 |
| | After Distribution | (Note 2) | (Note 2) | 59,603,480 | 60,528,272 | 61,252,586 | 61,817,373 |
| Capital Stocks | | 32,585,008 | 32,585,008 | 32,585,008 | 32,585,008 | 32,585,008 | 32,585,008 |
| Capital Surplus | Before Distribution | 10,166,874 | 10,166,874 | 12,058,158 | 14,009,061 | 15,919,097 | 17,790,049 |
| | After Distribution | (Note 2) | (Note 2) | 10,181,262 | 12,109,355 | 14,009,616 | 15,926,187 |
| Retained Earnings | Before Distribution | 31,223,861 | 28,387,615 | 27,388,411 | 26,292,678 | 25,074,891 | 22,749,750 |
| | After Distribution | (Note 2) | (Note 2) | 16,962,422 | 15,973,006 | 14,764,994 | 13,208,859 |
| Other Shareholders' Equity Item | | (107,812) | (133,479) | (125,212) | (139,097) | (107,032) | 97,319 |
| Non-controlling Interest | Before Distribution | 724,076 | 716,583 | 752,531 | 805,351 | 784,775 | 749,813 |
| | After Distribution | (Note 2) | (Note 2) | 669,024 | 720,244 | 687,088 | 653,415 |
| Total Shareholders' Equity | Before Distribution | 74,592,007 | 71,722,601 | 72,658,896 | 73,553,001 | 74,256,739 | 73,971,939 |
| | After Distribution | (Note 2) | (Note 2) | 60,272,504 | 61,248,516 | 61,939,674 | 62,470,788 |

Note:1 The financial statements for the first quarter of 2017 have been reviewed by CPA.
Note:2 The distribution of the 2016 earnings has not been approved by the Shareholders' Meeting.

**Analysis of major variations:**

(1) Current assets decreased and current liabilities increased mainly due to that Far Eastone paid for 2600MHz spectrum license fee in 2016. Cash/cash equivalent, short-term bank loans and commercial paper were utilized in support of license payment, so that balance of cash/cash equivalent decreased and short- term loans and commercial paper increased substantially.

(2) 2016 the increase in current liabilities mainly because the corporate bonds payable has been recognized as "current portion of corporate bond payable".

(3) 2016 the decrease in non-current liabilities mainly because the corporate bonds payable has been recognized as "current portion of corporate bond payable" and the decrease in long term bank loan .

### 1-1-4 Condensed Comprehensive Income Statement – by Consolidated

2017/3/31; Unit: Except EPS is NT dollar; others are NT$'000

| Item | 2017/1/1 ~ 2017/3/31 (Note 1) | Financial Information in Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Operating Revenues | 22,480,387 | 94,344,266 | 97,293,218 | 94,175,600 | 89,670,579 | 86,665,697 |
| Gross Profit | 9,281,510 | 38,151,119 | 38,509,786 | 38,022,308 | 36,765,967 | 35,169,779 |
| Operating Income | 3,781,321 | 15,024,350 | 15,393,037 | 15,052,589 | 15,478,698 | 13,747,957 |
| Non-Operating Income and Expenses | (334,467) | (1,235,015) | (1,455,171) | (1,068,930) | (924,308) | (738,830) |
| Income before Tax | 3,446,854 | 13,789,335 | 13,937,866 | 13,983,659 | 14,554,390 | 13,009,127 |
| Net Income from Operating Business | 2,843,655 | 11,410,675 | 11,534,251 | 11,565,631 | 11,906,383 | 10,634,451 |
| Net Income (Loss) | 2,843,655 | 11,410,675 | 11,534,251 | 11,565,631 | 11,906,383 | 10,634,451 |
| Other Comprehensive Income Loss (Net of income tax ) | 25,751 | (42,178) | (45,367) | 12,734 | (189,171) | 15,625 |
| Total Comprehensive Income | 2,869,406 | 11,368,497 | 11,488,884 | 11,578,365 | 11,717,212 | 10,650,076 |
| Net Income Attributable to Owners of Far EasTone | 2,836,246 | 11,391,303 | 11,485,695 | 11,482,985 | 11,829,195 | 10,591,519 |
| Net Income Attributable to Non-Controlling Interest | 7,409 | 19,372 | 48,556 | 82,646 | 77,188 | 42,932 |
| Comprehensive Income Attributable to Owners of Far EasTone | 2,861,913 | 11,347,860 | 11,440,332 | 11,495,619 | 11,639,600 | 10,606,276 |
| Comprehensive Income Attributable to Non-Controlling Interest | 7,493 | 20,637 | 48,552 | 82,746 | 77,612 | 43,800 |
| Earning Per Share | 0.87 | 3.50 | 3.52 | 3.52 | 3.63 | 3.25 |

Note 1: The financial statements for the first quarter of 2017 have been reviewed by CPA.

**Analysis of major variation** : Not Applicable.

## 1-2. Condensed Balance Sheet and Income Statement – ROC GAAP

### 1-2-1 Condensed Balance Sheet-The Parent Company

2016/12/31; Unit: NT$' 000

| Item / Year | | Financial Information In Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Current Assets | | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 12,004,004 |
| Fund and Investments | | | | | | 33,030,138 |
| Fixed Assets | | | | | | 32,120,399 |
| Intangible assets | | | | | | 14,667,270 |
| Other Assets | | | | | | 749,184 |
| Total Assets | | | | | | 92,570,995 |
| Current Liabilities | Before Distribution | | | | | 17,817,030 |
| | After Distribution | | | | | 29,221,783 |
| Long-term Liabilities | | | | | | - |
| Other Liabilities | | | | | | 1,831,086 |
| Total Liabilities | Before Distribution | | | | | 19,648,116 |
| | After Distribution | | | | | 31,052,869 |
| Capital Stocks | | | | | | 32,585,008 |
| Capital Surplus | Before Distribution | | | | | 17,867,334 |
| | After Distribution | | | | | 16,003,472 |
| Retained Earnings | Before Distribution | | | | | 22,366,064 |
| | After Distribution | | | | | 12,825,173 |
| Unrealized gains or loss on financial product | | | | | | 99,244 |
| Cumulative Translation Adjustment | | | | | | 5,229 |
| Unrecognized net loss on pension fund | | | | | | - |
| Total Shareholders' Equity | Before Distribution | | | | | 72,922,879 |
| | After Distribution | | | | | 61,518,126 |

**Analysis of major variations:** Not Applicable.

### 1-2-2 Condensed Income Statement-The Parent Company

2016/12/31; Unit: Except EPS is NT dollar; others are NT$'000

| Item / Year | Financial Information In Recent 5 Years | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Operating Revenues | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 71,645,648 |
| Gross Profit | | | | | 31,014,266 |
| Operating Income | | | | | 11,825,986 |
| Non-Operating Income and Gain | | | | | 2,172,155 |
| Non-Operating Expense and Loss | | | | | 1,092,048 |
| Income before Income Tax from Operating Business | | | | | 12,906,093 |
| Net Income from Operating Business | | | | | 10,599,908 |
| Net Income from Discontinued Business | | | | | - |
| Abnormal net income | | | | | - |
| Accumulated number from accounting principle changes | | | | | - |
| Net Income | | | | | 10,599,908 |
| Basic Earnings per Share (NT$) | | | | | 3.25 |

**Analysis of major variations:** Not Applicable

### 1-2-3 Condensed Balance Sheet- by Consolidated

2016/12/31; Unit: NT$' 000

| Item / Year | | Financial Information In Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Current Assets | | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 28,562,145 |
| Fund and Investments | | | | | | 1,183,073 |
| Fixed Assets | | | | | | 51,043,955 |
| Intangible assets | | | | | | 16,001,594 |
| Other Assets | | | | | | 1,376,465 |
| Total Assets | | | | | | 98,167,232 |
| Current Liabilities | Before Distribution | | | | | 21,776,655 |
| | After Distribution | | | | | 33,277,806 |

| Item \ Year | | Financial Information In Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Long-term Liabilities | | | | | | 96,703 |
| Other Liabilities | | | | | | 2,618,695 |
| Total Liabilities | Before Distribution | | | | | 24,492,053 |
| | After Distribution | | | | | 35,993,204 |
| Capital Stocks | | | | | | 32,585,008 |
| Capital Surplus | Before Distribution | | | | | 17,867,334 |
| | After Distribution | | | | | 16,003,472 |
| Retained Earnings | Before Distribution | | | | | 22,366,064 |
| | After Distribution | | | | | 12,825,173 |
| Unrealized Gain or Loss on Financial Products | | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 99,244 |
| Cumulative Translation Adjustment | | | | | | 5,229 |
| Unrecognized net loss on pension fund | | | | | | - |
| Minority shareholders' interest | Before Distribution | | | | | 752,300 |
| | After Distribution | | | | | 655,902 |
| Total Shareholders' Equity | Before Distribution | | | | | 73,675,179 |
| | After Distribution | | | | | 62,174,028 |

**Analysis of major variations:** Not Applicable.

### 1-2-4 Condensed Income Statement-By Consolidated

2016/12/31; Unit: Except EPS is NT dollar; others are NT$'000

| Item \ Year | Financial Information In Recent 5 Years | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Operating Revenues | | | | | 86,745,290 |
| Gross Profit | | | | | 35,254,045 |
| Operating Income | | | | | 13,748,736 |
| Non-Operating Income and gain | | | | | 553,562 |
| Non-Operating Expense and loss | | | | | 1,297,639 |
| Income before Income Tax from Operating Business | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 13,004,659 |
| Net Income from Operating Business | | | | | 10,629,983 |
| Consolidated Net Income | | | | | 10,629,983 |
| Consolidated Net Income Attributable to Owners of Far EasTone | | | | | 10,599,908 |
| Consolidated Income Attributable to Non-Controlling Interest | | | | | 30,075 |
| Basic Earning per Share (NT$) | | | | | 3.25 |

**Analysis of major variations:** Not Applicable.

### 1-3 Independent Auditor's Names and Auditor's Opinions for Past 5 Years

| Year | Audit Firm | Auditors' Name | Opinion |
|---|---|---|---|
| 2012 | Deloitte and Touche Co. | Annie Lin, Tony Chang | Unqualified opinion |
| 2013 | Deloitte and Touche Co. | Tony Chang, Denny Kuo | Unqualified opinion |
| 2014 | Deloitte and Touche Co. | Tony Chang, Denny Kuo | Modified Unqualified opinion |
| 2015 | Deloitte and Touche Co | Annie Lin, Denny Kuo | Unqualified opinion |
| 2016 | Deloitte and Touche Co | Annie Lin, Denny Kuo | Unqualified opinion |

Reason of Auditor change: Due to the internal job adjustment and arrangement in Deloitte and Touche Co., the auditor Annie Lin was replaced by Denny Kuo in 2013. The auditor Tony Chang was replaced by Annie Lin in 2015.

## 2. Financial Analysis for Recent 5 Years

### 2-1 Financial Ratio Analysis -International Financial Reporting Standards

#### 2-1-1. Financial Ratio Analysis- by Standalone

2017/3/31

| Item | Year | 2017/1/1~ 2017/3/31 | Financial Ratio Analysis for Recent 5 years 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| Financial Structure (%) | Debt to Asset Ratio | Not Applicable | 44.54 | 48.12 | 40.94 | 38.43 | 21.78 |
| | Long-term Funds to Properties, Plants and Equipment Ratio | | 312.08 | 341.52 | 311.76 | 331.04 | 252.90 |
| Liquidity Analysis (%) | Current Ratio (%) | | 45.04 | 107.76 | 51.59 | 51.56 | 65.37 |
| | Quick Ratio (%) | | 36.67 | 91.80 | 40.81 | 39.33 | 56.03 |
| | Times Interest Earned (times) | | 28.22 | 30.34 | 38.47 | 163.67 | 1,690.07 |
| Operating Performance | Accounts Receivable Turnover (times) | | 11.09 | 11.47 | 11.22 | 10.61 | 10.47 |
| | Average Collection Days | | 32.91 | 31.82 | 32.53 | 34.40 | 34.86 |
| | Inventory Turnover (times) | | 10.20 | 11.00 | 12.77 | 12.67 | 19.18 |
| | Accounts Payable Turnover (times) | | 16.40 | 13.70 | 11.44 | 9.58 | 9.46 |
| | Inventory Turnover Days | | 35.78 | 33.18 | 28.58 | 28.80 | 19.03 |
| | Properties, Plant and Equipment Turnover (times) | | 2.41 | 2.48 | 2.57 | 2.51 | 2.36 |
| | Total Assets Turnover (times) | | 0.59 | 0.62 | 0.65 | 0.69 | 0.78 |
| Profitability Analysis | Return on Assets (%) | | 8.84 | 9.07 | 9.72 | 11.18 | 11.53 |
| | Return on Equity (%) | | 15.94 | 15.88 | 15.71 | 16.13 | 14.61 |
| | Income before Tax to Capital ratio | | 39.28 | 42.48 | 42.48 | 44.25 | 39.58 |
| | Net Income Ratio (%) | | 14.45 | 14.22 | 14.65 | 16.00 | 14.80 |
| | Earnings per share (NT$) | | 3.50 | 3.52 | 3.52 | 3.63 | 3.25 |
| Cash flow | Cash Flow Ratio (%) | | 90.41 | 72.27 | 93.95 | 86.97 | 112.74 |
| | Cash Flow Equivalent Ratio (%) | | 71.98 | 75.24 | 72.89 | 75.62 | 105.64 |
| | Cash Reinvestment Ratio (%) | | 6.68 | 2.82 | 4.88 | 4.25 | 5.66 |
| Leverage Ratio | Operating Leverage (times) | | 2.60 | 2.46 | 2.34 | 2.12 | 2.28 |
| | Financial Leverage (times) | | 1.04 | 1.04 | 1.03 | 1.01 | 1.00 |

**Analysis of variation plus - minus (+/-)20% in recent 2 years:**

(1) Current Ratio (%): The main reason for this variation is the decrease in cash and cash equivalents compared to last year.
(2) Quick Ratio (%): The main reason for this variation is the decrease in cash and cash equivalents compared to last year.
(3) Cash Flow Ratio (%):The main reason for this change is the increase in net cash flow from operating activities compared to last year.
(4) Cash Reinvestment Ratio: The main reason for this change is the increase in net cash flow from operating activities and the decrease in working caipital compared to last year.

#### 2-1-2. Financial Ratio Analysis- by Consolidated

2017/3/31

| Item | Year | 2017/1/1~ 2017/3/31 (Note) | Financial Ratio Analysis for Recent 5 years 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| Financial Structure (%) | Debt to Asset Ratio | 42.16 | 45.99 | 46.92 | 40.54 | 38.23 | 25.44 |
| | Long-term Funds to Properties, Plants and Equipment Ratio | 202.85 | 204.27 | 221.34 | 198.34 | 203.17 | 158.25 |
| Liquidity Analysis (%) | Current Ratio (%) | 81.51 | 85.72 | 158.18 | 91.75 | 85.48 | 129.21 |
| | Quick Ratio (%) | 67.43 | 73.85 | 131.59 | 73.40 | 62.87 | 114.50 |
| | Times Interest Earned (times) | 32.92 | 32.21 | 32.49 | 41.49 | 124.32 | 280.70 |
| Operating Performance | Accounts Receivable Turnover (times) | 11.09 | 11.26 | 11.67 | 11.23 | 10.85 | 10.98 |
| | Average Collection Days | 32.91 | 32.41 | 31.27 | 32.50 | 33.64 | 33.24 |
| | Inventory Turnover (times) | 8.44 | 7.56 | 7.97 | 7.59 | 7.18 | 9.39 |
| | Accounts Payable Turnover (times) | 11.35 | 12.94 | 12.06 | 10.85 | 9.09 | 8.73 |
| | Inventory Turnover Days | 43.24 | 48.28 | 45.79 | 48.08 | 50.83 | 38.87 |
| | Properties, Plant and Equipment Turnover (times) | 1.83 | 1.85 | 1.89 | 1.90 | 1.85 | 1.76 |

| Item | Year | 2017/1/1~ 2017/3/31 (Note) | Financial Ratio Analysis for Recent 5 years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2014 | 2013 | 2012 |
| | Total Assets Turnover (times) | 0.69 | 0.70 | 0.75 | 0.77 | 0.82 | 0.89 |
| Profitability Analysis | Return on Assets (%) | 8.96 | 8.73 | 9.13 | 9.72 | 10.94 | 10.95 |
| | Return on Equity (%) | 15.55 | 15.81 | 15.78 | 15.65 | 16.06 | 14.52 |
| | Income before Tax to Capital ratio (%) | 42.31 | 42.32 | 42.77 | 42.91 | 44.67 | 39.92 |
| | Net Income Ratio (%) | 12.65 | 12.09 | 11.86 | 12.28 | 13.28 | 12.27 |
| | Earnings per share (NT$) | 0.87 | 3.50 | 3.52 | 3.52 | 3.63 | 3.25 |
| Cash flow | Cash Flow Ratio (%) | 24.96 | 87.39 | 97.09 | 112.83 | 96.77 | 107.84 |
| | Cash Flow Equivalent Ratio (%) | 73.45 | 75.75 | 79.19 | 85.04 | 88.84 | 128.11 |
| | Cash Reinvestment Ratio (%) | 3.48 | 6.79 | 3.78 | 5.74 | 4.50 | 6.69 |
| Leverage Ratio | Operating Leverage | 2.31 | 2.25 | 2.13 | 2.11 | 2.04 | 2.19 |
| | Financial Leverage | 1.03 | 1.03 | 1.03 | 1.02 | 1.01 | 1.00 |

Note: The financial statements for the first quarter of 2017 have been reviewed by CPA.

**Analysis of variation plus - minus (+/-)20% in recent 2 years:**

(1) Current Ratio (%): The main reason for this variation is the decrease of inventory and in cash and cash equivalents compared to last year.

(2) Quick Ratio (%): The main reason for this variation is the decrease of inventory and in cash and cash equivalents compared to last year.

(3) Cash Reinvestment Ratio (%): The main reason for this change is the increase in net cash flow from operating activities and the decrease in working caipital compared to last year.

**The formulas for the above table:**

1. Financial Structure
   (1) Debts to Assets Ratio = Total Liabilities / Total Assets
   (2) Long-term Funds to Properties, Plants and Equipment Ratio = (Total Shareholders' Equity plus Noncurrent Liabilities) / Net of Properties, Plants and Equipment
2. Liquidity Analysis
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expense) / Current Liabilities
   (3) Times Interest Earned Ratio = (Net Income before Income Tax and Interest Expenses) / Interest Expense
3. Operating Performance
   (1) Account Receivable* Turnover = Net Sales / Average Accounts Receivable*
   (* including Accounts Receivable and Notes Receivable originated from operating)
   (2) Average Collection Days = 365/ Accounts Receivable Turnover
   (3) Inventory Turnover = Costs of Good Sold / Average Inventory
   (4) Accounts Payable** Turnover = Costs of Good Sold / Average Accounts Payable**
   (** including Accounts payable and Notes Payable originated from operating)
   (5) Inventory Turnover Days = 365 / Inventory Turnover
   (6) Properties, Plants and Equipment Assets Turnover Ratio = Net Sales / Average of Net Properties, Plants and Equipment.
   (7) Total Assets Turnover Ratio = Net Sales / Average of Total Assets
4. Profitability Analysis
   (1) Return on Assets =[Net Income +Interest Expense×(1-Tax Rate)] / Average Total Assets
   (2) Return on Shareholders' Equity =Net Income / Average Shareholders' Equity
   (3) Net Income Ratio = Net Income / Net Sales
   (4) Earnings per Share = (Net Income Attributable to Owners of Far Eastone - Preferred Stock Dividend) / Weighted average Number of Outstanding Shares
5. Cash Flow
   (1) Cash Flow Ratio = Cash Flows from Operating Activities / Current Liabilities
   (2) Cash Flow Equivalent Ratio = Net Cash Flow from Operating Activities for the past 5 years / (Capital Expenditure + Increase in Inventory + Cash Dividends) for the past 5 years

(3) Cash Reinvestment Ratio = (Net Cash Flow from Operating Activities - Cash Dividends) / (Gross Properties, Plants and Equipment + Long-term Investment + Other Noncurrent Assets + Working Capital)

6. Leverage Ratio

(1) Operating Leverage = (Net Sales - Variable Operating Costs and Expenses) / Operating Income

(2) Financial Leverage = Operating Income / (Operating Income-Interest Expenses)

**2-2 Financial Ratio Analysis - ROC GAAP**

**2-2-1 Non-Consolidated Financial Ratio Analysis:**

2016/12/31

| Item | | Year | Financial Analysis for Recent 5 Years | | | | |
|---|---|---|---|---|---|---|---|
| | | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Financial Structure (%) | Debt to Asset Ratio | | | | | | 21.22 |
| | Long-term Funds to Fixed Assets Ratio | | | | | | 227.03 |
| Liquidity Analysis (%) | Current Ratio (%) | | | | | | 67.37 |
| | Quick Ratio (%) | | | | | | 58.01 |
| | Times Interest Earned (times) | | | | | | 1,691.16 |
| Operating Performance | Accounts Receivable Turnover (times) | | | | | | 10.48 |
| | Average Collection Days | | | | | | 34.82 |
| | Inventory Turnover (times) | | | | | | 19.18 |
| | Accounts Payable Turnover (times) | | | | | | 9.46 |
| | Inventory Turnover Days | | | | | | 19.03 |
| | Fixed Assets Turnover (times) | | | | | | 2.23 |
| | Total Assets Turnover (times) | | | | | | 0.77 |
| Profitability Analysis | Return on Assets (%) | | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 11.63 |
| | Return on Equity (%) | | | | | | 14.63 |
| | To Capital ratio (%) | Operating Income | | | | | 36.29 |
| | | Income Before Tax | | | | | 39.61 |
| | Net Income Ratio (%) | | | | | | 14.79 |
| | Basic EPS (NT$) | | | | | | 3.25 |
| | Diluted EPS (NT$) | | | | | | 3.25 |
| | Retrospective Adjustment to EPS (NT$) | | | | | | 3.25 |
| Cash flow | Cash Flow Ratio (%) | | | | | | 113.16 |
| | Cash Flow Equivalent Ratio (%) | | | | | | 105.08 |
| | Cash Reinvestment Ratio (%) | | | | | | 5.83 |
| Leverage Ratio | Operating Leverage | | | | | | 2.29 |
| | Financial Leverage | | | | | | 1.00 |

**Analysis of variation plus and minus 20% in recent 2 years:** Not applicable.

**2-2-2 Financial Ratio Analysis- by Consolidated:**

2016/12/31

| Item | Year | Financial Analysis for Recent 5 Years | | | | |
|---|---|---|---|---|---|---|
| | | 2016 | 2015 | 2014 | 2013 | 2012 |
| Financial Structure (%) | Debt to Asset Ratio | | | | | 24.95 |
| | Long-term Funds to Fixed Assets Ratio | | | | | 144.53 |
| Liquidity Analysis (%) | Current Ratio (%) | | | | | 131.16 |
| | Quick Ratio (%) | | | | | 116.39 |
| | Times Interest Earned (times) | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 280.60 |
| Operating Performance | Accounts Receivable Turnover (times) | | | | | 10.99 |
| | Average Collection Days | | | | | 33.23 |
| | Inventory Turnover (times) | | | | | 9.39 |
| | Accounts Payable Turnover (times) | | | | | 8.73 |
| | Inventory Turnover Days | | | | | 38.85 |

| Item | | | Year: Financial Analysis for Recent 5 Years 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | Fixed Assets Turnover (times) | | Not Applicable | Not Applicable | Not Applicable | Not Applicable | 1.70 |
| | Total Assets Turnover (times) | | | | | | 0.88 |
| Profitability Analysis | Return on Assets (%) | | | | | | 11.02 |
| | Return on Equity (%) | | | | | | 14.52 |
| | To Capital ratio (%) | Operating Income | | | | | 42.19 |
| | | Income Before Tax | | | | | 39.91 |
| | Net Income Ratio (%) | | | | | | 12.25 |
| | Basic EPS (NT$) | | | | | | 3.25 |
| | Diluted EPS (NT$) | | | | | | 3.25 |
| | Retrospective Adjustment to EPS (NT$) | | | | | | 3.25 |
| Cash flow | Cash Flow Ratio (%) | | | | | | 108.36 |
| | Cash Flow Equivalent Ratio (%) | | | | | | 128.23 |
| | Cash Reinvestment Ratio (%) | | | | | | 6.87 |
| Leverage Ratio | Operating Leverage | | | | | | 2.19 |
| | Financial Leverage | | | | | | 1.00 |

**Analysis of variation plus and minus 20% in recent 2 years:** Not applicable..

**The formulas for the above table:**

1. Financial Structure
   (1) Debts to Assets Ratio = Total Liabilities / Total Assets
   (2) Long-term Funds to Fixed Assets Ratio = (Total Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets
2. Liquidity Analysis
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expense) / Current Liabilities
   (3) Times Interest Earned Ratio = (Net Income before Income Tax and Interest Expenses) / Interest Expense
3. Operating Performance
   (1) Account Receivable* Turnover = Net Sales / Average Accounts Receivable*
   (* including Accounts Receivable and Notes Receivable originated from operating)
   (2) Average Collection Days = 365/ Accounts Receivable Turnover
   (3) Inventory Turnover = Costs of Good Sold / Average Inventory
   (4) Accounts Payable** Turnover = Costs of Good Sold / Average Accounts Payable**
   (** including Accounts payable and Notes Payable originated from operating)
   (5) Average Inventory Turnover Days = 365 / Inventory Turnover
   (6) Fixed Assets Turnover Ratio = Net Sales / Average Net Fixed Assets
   (7) Total Assets Turnover Ratio = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on Assets =[Net Income +Interest Expense×(1-Tax Rate)] / Average Total Assets
   (2) Return on Shareholders' Equity =Net Income / Average Shareholders' Equity
   (3) Net Income Ratio = Net Income / Net Sales
   (4) Earnings per Share = (Net Income - Preferred Stock Dividend) / Weighted-average Number of Outstanding Shares.
5. Cash Flow
   (1) Cash Flow Ratio = Cash Flows from Operating Activities / Current Liabilities
   (2) Cash Flow Equivalent Ratio = Net Cash Flow from Operating Activities for the past 5 years / (Capital Expenditure + Increase in Inventory + Cash Dividends) for the past 5 years
   (3) Cash Reinvestment Ratio = (Net Cash Flow from Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investment + Other Assets + Working Capital)
6. Leverage Ratio
   (1) Operating Leverage = (Net Sales - Variable Operating Costs and Expenses) / Operating Income
   (2) Financial Leverage = Operating Income / (Operating Income-Interest Expenses)

## 3. 2016 Audit Committee's Review Report

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2016 Business Report, the Financial Statements and the Proposal for Profit Distribution. The CPAs of Deloitte & Touche, Annie Lin and Denny Kuo have audited the Financial Statements (including the Stand-alone & the Consolidated Financial Reports) and issued the audit opinions. The Business Report, Financial Statements, and the Proposal for Profit Distribution have been reviewed and determined to be correct and accurate by the Audit Committee members of Far EasTone Telecommunications Co., Ltd. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Far EasTone Telecommunications Co., Ltd.

Chairman of the Audit Committee:

Lawrence Juen-Yee LAU

February 24, 2017

## INDEPENDENT AUDITORS' REPORT

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

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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



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

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

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

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

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

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

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

Recognition of Telecommunications Service Revenue

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

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

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

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

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

3. Test the accuracy of the billing calculation.

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

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

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

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

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

**Other Matter**

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 15, 2017

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

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

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

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

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

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

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

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

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

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

(Continued)



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

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

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

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

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

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

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

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

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

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

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

(Continued)



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

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

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

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 1. ORGANIZATION AND OPERATIONS

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

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

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

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

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

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



## 2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

1) IFRIC 21 "Levies"

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

2) Annual Improvements to IFRSs: 2010-2012 Cycle

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

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

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

3) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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

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

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



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

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

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

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

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

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

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

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

The impairment of financial assets

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

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



Hedge accounting

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

Transition

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

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

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

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

a) Identify the contract with the customer;

b) Identify the performance obligations in the contract;

c) Determine the transaction price;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3) IFRS 16 "Leases"

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

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

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

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



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

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Basis of Presentation

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

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

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

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

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

### Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

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

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

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

**Basis of Consolidation**

Principles for preparing consolidated financial statements

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

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

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

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

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

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

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

**Business Combinations**

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

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

**Foreign Currencies**

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

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

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



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

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

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

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

**Inventories**

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

**Investment in Associates**

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

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

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

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

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

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

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

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

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

**Property, Plant and Equipment**

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

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

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

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

**Investment Properties**

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

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

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



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

**Goodwill**

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

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

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

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

**Intangible Assets**

a. Intangible assets acquired separately

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

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

b. Intangible assets acquired in a business combination

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

c. Derecognition of intangible assets

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

**Impairment of Tangible and Intangible Assets Other Than Goodwill**

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

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

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

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

**Financial Instruments**

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

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

a. Financial assets

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

1) Measurement category

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

a) Available-for-sale financial assets

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



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

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

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

b) Loans and receivables

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

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

2) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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



c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

d. Derivative financial instruments

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

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

**Hedge Accounting**

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

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

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

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

**Provisions**

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

a. Decommissioning, restoration and similar liabilities

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

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

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

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

b. Warranties

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

**Revenue Recognition**

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

a. Services revenue

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

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

b. Sale of goods

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

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

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

3) The amount of revenue can be measured reliably;

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

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



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

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

c. Dividend and interest income

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

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

**Leasing**

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

a. The Group as a lessor

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

b. The Group as a lessee

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

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

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

**Borrowing Costs**

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

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

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

**Government Grants**

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

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

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

**Employee Benefits**

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Termination benefits

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

**Taxation**

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

a. Current tax

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

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



b. Deferred tax

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

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

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

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

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

c. Current and deferred tax for the year

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

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

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

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

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

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

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

b. Impairment of goodwill

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

c. Income tax

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

d. Estimated impairment of accounts receivable

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

## 6. CASH AND CASH EQUIVALENTS

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

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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



## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

**Cash Flow Hedge**

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

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

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

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

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

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

## 9. FINANCIAL ASSETS CARRIED AT COST

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

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

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET

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

## 11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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



### Accounts Receivable

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

The aging of receivables was as follows:

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

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

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

Movements of the allowance for doubtful accounts were as follows:

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

### Sale of Overdue Accounts Receivable

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

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

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

## 12. INVENTORIES

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

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

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

## 13. SUBSIDIARIES

### Entities Included in the Consolidated Financial Statements

Intercompany relationships and percentages of ownership are shown as follows:

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

(Continued)



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

(Concluded)

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

## 14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Investments in Associates

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

a. Material associates

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

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

Far Eastern Electronic Toll Collection Co., Ltd.

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

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

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

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

b. Aggregate information of associates that are not individually material

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



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

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

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

## 15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

## 16. INVESTMENT PROPERTIES

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

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

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

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

The fair value of investment properties were as follows:

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

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



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

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

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

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

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

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

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

## 17. INTANGIBLE ASSETS

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

(Continued)

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

(Concluded)

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

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

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



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

a. Expected future growth rate of the telecommunications industry

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

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

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

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

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

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

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

## 18. OTHER NONCURRENT ASSETS

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

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

## 19. BORROWINGS

a. Short-term borrowings

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

b. Short-term bills payable

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

c. Long-term borrowings

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

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

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



## 20. BONDS PAYABLE

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

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

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

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

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

## 21. OTHER LIABILITIES

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

(Continued)

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Noncurrent | | |
| Deferred revenue | | |
| Cable and lease line service fee | $ 193,188 | $ 214,367 |
| | | (Concluded) |

## 22. PROVISIONS

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

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

## 23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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



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

b. Defined benefit plans

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

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

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

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

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

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

(Concluded)

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

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

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

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



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

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

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

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

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

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

## 24. EQUITY

a. Share capital

1) Common shares

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

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

2) Global depositary receipts

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

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

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

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

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

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

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

a) Exercise voting rights;

b) Convert the GDRs into common stocks; and

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



b. Capital surplus

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

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

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

c. Retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

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

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

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

d. Special reserve

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



e. Other equity items

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

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

f. Non-controlling interests

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

## 25. REVENUE

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

## 26. CONSOLIDATED NET INCOME

Consolidated net income included some items as follows:

a. Other income

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

b. Depreciation and amortization

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



c. Finance costs

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

d. Employee benefit expense

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

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

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

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

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

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

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

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

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

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

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

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

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

## 27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

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



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

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

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

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

b. Income tax expense recognized in other comprehensive income

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

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

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

(Continued)

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

(Concluded)

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

For the year ended December 31, 2015

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

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



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

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

e. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2016 comprised:

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

f. Integrated income tax

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

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

g. Income tax assessments

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

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

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

## 28. EARNINGS PER SHARE

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

**Net Income for the Year**

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

**Weighted Average Number of Common Shares Used**

**(In Thousand Share)**

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



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

## 29. EQUITY TRANSACTION WITH NON-CONTROLLING INTERESTS

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

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

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

## 30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

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

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

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

The lease payments recognized as expenses were as follows:

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

b. The Group as lessor

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

## 31. CAPITAL MANAGEMENT

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

## 32. FINANCIAL INSTRUMENTS

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

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

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

2) Fair value hierarchy

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



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

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

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

1) Fair value hierarchy

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

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

(Continued)

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

(Concluded)

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

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

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

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

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

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

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



c. Financial instruments

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

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

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

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

d. Financial risk management objectives and policies

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

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

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

1) Market risk

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

a) Foreign currency risk

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

Foreign-currency sensitivity analysis

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

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

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

b) Interest rate risk management

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

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

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



Sensitivity analysis

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

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

c) Other price risks

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

Sensitivity analysis

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

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

2) Credit risk

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

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

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

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

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

3) Liquidity risk

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

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

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

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

## 33. TRANSACTIONS WITH RELATED PARTIES

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

a. Operating revenue

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

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



b. Operating costs and expenses

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

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

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

c. Property transactions

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

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

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

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

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

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

e. Hedging derivative financial liabilities - current

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



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

f. Receivables and payables - related parties

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

g. Refundable deposits

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

h. Others

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

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

i. Compensation of key management personnel

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

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

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

## 34. ASSETS PLEDGED OR MORTGAGED

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

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



## 35. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

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

a.

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

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

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

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

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

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

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

## 36. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

**(In Thousands, Except Exchange Rate)**

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



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

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

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

## 38. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: Schedule A

2) Endorsement/guarantee provided: Schedule B

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

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

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

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

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

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

9) Trading in derivative transactions: Note 8

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

11) Information on investees: Schedule G

b. Investment in Mainland China

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

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

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

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

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

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

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

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

## 39. SEGMENT INFORMATION

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

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

1) Mobile service business: Providing mobile telecommunications services;

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



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

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

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

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

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

Note: Represents sales between segments.

b. Geographical information

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

c. Information on major customers

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

SCHEDULE A

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

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

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

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

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

SCHEDULE B

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

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

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

SCHEDULE D

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

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

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

SCHEDULE E

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

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

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

**SCHEDULE F**

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

(Continued)

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

(Continued)

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

(Continued)

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

(Continued)

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

(Continued)

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

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

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

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

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

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

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

(Concluded)

SCHEDULE G

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

Note A: Subsidiary.

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

Note C: Equity-method investee of Far EasTone.

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

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

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

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

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

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

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

Note A: Investment type as follows:

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

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

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

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

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

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

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

**5. 2016 Independent Auditors' Report, Standalone Financial Statements and Notes**

**INDEPENDENT AUDITORS' REPORT**

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

**Opinion**

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

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

**Key Audit Matters**

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

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

<u>Impairment Loss of Property, Plant and Equipment and Intangible Assets (Including Goodwill)</u>

As of December 31, 2016, the balances of property, plant and equipment and intangible assets account for 65% of the total assets and are material for the financial statements as a whole. The economic trends, market competition, and technology development influence the operation of the Company and the management's evaluation and judgment on the expected economic benefits and recoverable amounts of the cash-generating unit to which an asset belongs, which in return is used for the evaluation of the asset's impairment. Thus, the impairment of property, plant and equipment and intangible assets is considered a key audit matter.



For the estimates and judgments related to property, plant and equipment and intangible assets, please refer to Note 5 to the financial statements. For other related disclosures, please refer to Note 11 and Note 13.

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

1. Obtain the Company's asset impairment evaluation reports for each cash-generating unit.
2. Evaluate the reasonableness of the Company's identification of asset impairment, the assumptions and sensitivity used in the asset impairment assessment, including the appropriateness of the classification of cash-generating unit, the cash flows forecasts and discount rates used.

<u>Recognition of Telecommunications Service Revenue</u>

The telecommunications service revenue is the main source of the revenue, and it accounts for 75% of the Company's total revenue of 2016. The calculation of telecommunications service revenue highly relies on automated systems and includes complicated data transmission. In order to meet market demands and remain competitive, the Company often launches different combinations of products and services which makes the calculation of revenue more complex and directly affects the accuracy and timing of revenue recognition. Therefore, the recognition of telecommunications service revenue is considered a key audit matter.

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

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

1. Review the contracts of mobile subscribers to confirm the accuracy of the information in the accounting system.
2. Perform test dialing to verify the accuracy and completeness of the traffic and information in the switch equipment.
3. Test the accuracy of the billing calculation.
4. Test the completeness and accuracy of the calculation and billing of monthly fees and airtime fees.
5. Test the completeness and accuracy of the calculation and billing of value-added service fees.

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

1. For the billed amounts, we compare if there is any difference between the reports generated from the accounting system and the billing system.
2. For the unbilled amounts, we recalculate the service revenue for services provided as of the balance sheet date based on the applied charge rates to confirm the accuracy.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 15, 2017

Notice to Readers

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

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4, 6 and 28) | $ 779,886 | 1 | $ 13,871,815 | 10 |
| Derivative financial assets for hedging - current (Notes 4 and 7) | 2,073 | - | 3,790 | - |
| Debt investments with no active market - current (Notes 4 and 28) | 48,198 | - | 9,741 | - |
| Notes receivable (Note 4) | 29,424 | - | 30,021 | - |
| Accounts receivable, net (Notes 4 and 8) | 6,136,547 | 5 | 5,660,525 | 4 |
| Accounts receivable - related parties (Notes 4, 8 and 28) | 302,662 | - | 201,983 | - |
| Other receivables - related parties (Note 28) | 79,562 | - | 680,383 | - |
| Inventories (Notes 4 and 9) | 1,261,852 | 1 | 2,877,153 | 2 |
| Prepaid expenses | 1,048,386 | 1 | 1,099,484 | 1 |
| Other financial assets - current (Notes 4 and 28) | 2,700,876 | 2 | 2,377,066 | 2 |
| Other current assets (Note 28) | 41,596 | - | 48,213 | - |
| Total current assets | 12,431,062 | 10 | 26,860,174 | 19 |
| NONCURRENT ASSETS | | | | |
| Financial assets carried at cost (Note 4) | 150,000 | - | 150,000 | - |
| Investments accounted for using the equity method (Notes 4, 10 and 28) | 30,047,042 | 23 | 30,831,700 | 22 |
| Property, plant and equipment, net (Notes 4, 11 and 28) | 32,184,965 | 25 | 33,288,032 | 24 |
| Investment properties (Notes 4 and 12) | 754,028 | 1 | 952,580 | 1 |
| Concessions, net (Notes 1, 4 and 13) | 38,383,531 | 30 | 31,834,869 | 23 |
| Computer software, net (Notes 4 and 13) | 2,541,309 | 2 | 2,281,848 | 2 |
| Goodwill (Notes 4 and 13) | 10,283,031 | 8 | 10,283,031 | 7 |
| Deferred income tax assets (Notes 4 and 22) | 829,824 | 1 | 656,892 | 1 |
| Refundable deposits (Note 28) | 436,954 | - | 469,208 | - |
| Other noncurrent assets (Note 4) | - | - | 1,002,691 | 1 |
| Total noncurrent assets | 115,610,684 | 90 | 111,750,851 | 81 |
| TOTAL | $ 128,041,746 | 100 | $ 138,611,025 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 4 and 14) | $ 2,400,000 | 2 | $ - | - |
| Short-term bills payable (Notes 4 and 14) | 2,799,387 | 2 | - | - |
| Derivative financial liabilities for hedging - current (Notes 4 and 7) | 40,229 | - | 5,691 | - |
| Notes payable | 9,613 | - | 10,543 | - |
| Accounts payable | 1,554,621 | 1 | 1,689,788 | 1 |
| Accounts payable - related parties (Note 28) | 1,124,819 | 1 | 1,248,552 | 1 |
| Other payables (Note 16) | 7,674,958 | 6 | 8,274,340 | 6 |
| Other payables - related parties (Note 28) | 1,077,282 | 1 | 7,509,968 | 6 |
| Current tax liabilities (Notes 4 and 22) | 1,603,206 | 1 | 1,683,974 | 1 |
| Guarantee deposits received - current | 219,343 | - | 237,716 | - |
| Unearned revenue (Note 4) | 2,303,684 | 2 | 2,418,595 | 2 |
| Current portion of long-term borrowings (Notes 4 and 15) | 6,197,478 | 5 | 1,599,112 | 1 |
| Other current liabilities (Notes 4 and 17) | 594,466 | 1 | 248,208 | - |
| Total current liabilities | 27,599,086 | 22 | 24,926,487 | 18 |
| NONCURRENT LIABILITIES | | | | |
| Bonds payable (Notes 4 and 15) | 12,190,103 | 10 | 18,381,236 | 13 |
| Long-term borrowings (Notes 4 and 14) | 14,048,345 | 11 | 20,490,001 | 15 |
| Provisions - noncurrent (Notes 4 and 17) | 318,447 | - | 299,022 | - |
| Deferred income tax liabilities (Notes 4 and 22) | 1,495,976 | 1 | 1,379,001 | 1 |
| Net defined benefit liabilities - noncurrent (Notes 4 and 18) | 763,723 | 1 | 731,851 | 1 |
| Guarantee deposits received - noncurrent | 265,089 | - | 272,517 | - |
| Other noncurrent liabilities (Notes 4, 10 and 16) | 354,959 | - | 224,545 | - |
| Total noncurrent liabilities | 29,436,642 | 23 | 41,778,173 | 30 |
| Total liabilities | 57,035,728 | 45 | 66,704,660 | 48 |
| EQUITY | | | | |
| Capital stock | | | | |
| Common stock | 32,585,008 | 25 | 32,585,008 | 23 |
| Capital surplus | 10,166,874 | 8 | 12,058,158 | 9 |
| Retained earnings | | | | |
| Legal reserve | 16,270,878 | 13 | 15,127,206 | 11 |
| Special reserve | 769,907 | - | 824,480 | 1 |
| Unappropriated earnings | 11,346,830 | 9 | 11,436,725 | 8 |
| Total retained earnings | 28,387,615 | 22 | 27,388,411 | 20 |
| Other equity | (133,479) | - | (125,212) | - |
| Total equity | 71,006,018 | 55 | 71,906,365 | 52 |
| TOTAL | $ 128,041,746 | 100 | $ 138,611,025 | 100 |

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | 2016 Amount | 2016 % | 2015 Amount | 2015 % |
|---|---|---|---|---|
| OPERATING REVENUES (Notes 4, 20 and 28) | $ 78,838,895 | 100 | $ 80,765,722 | 100 |
| OPERATING COSTS (Notes 4, 9, 21 and 28) | 46,227,643 | 59 | 48,049,703 | 59 |
| GROSS PROFIT | 32,611,252 | 41 | 32,716,019 | 41 |
| OPERATING EXPENSES (Notes 4, 21 and 28) | | | | |
| Marketing | 16,199,526 | 20 | 15,848,195 | 20 |
| General and administrative | 4,570,071 | 6 | 4,769,490 | 6 |
| Total operating expenses | 20,769,597 | 26 | 20,617,685 | 26 |
| OPERATING INCOME | 11,841,655 | 15 | 12,098,334 | 15 |
| NONOPERATING INCOME AND EXPENSES | | | | |
| Other income (Notes 4, 21 and 28) | 143,137 | - | 154,004 | - |
| Other gains and losses (Notes 4, 10 and 12) | 54,108 | - | 66,029 | - |
| Financial costs (Notes 4, 21 and 28) | (470,159) | (1) | (471,705) | (1) |
| Share of the profit of subsidiaries and associates (Notes 4 and 10) | 2,159,787 | 3 | 2,866,834 | 4 |
| Losses on disposal of property, plant, equipment and intangible assets (Note 4) | (616,691) | (1) | (872,640) | (1) |
| Impairment losses recognized on property, plant and equipment (Notes 4 and 11) | (313,563) | - | - | - |
| Total nonoperating income and expenses | 956,619 | 1 | 1,742,522 | 2 |
| INCOME BEFORE INCOME TAX | 12,798,274 | 16 | 13,840,856 | 17 |
| INCOME TAX (Notes 4 and 22) | 1,406,971 | 2 | 2,355,161 | 3 |
| NET INCOME | 11,391,303 | 14 | 11,485,695 | 14 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 18) | (34,528) | - | (59,014) | - |
| Share of other comprehensive income of subsidiaries and associates (Notes 4 and 19) | (648) | - | (234) | - |
| | (35,176) | - | (59,248) | - |

(Continued)



## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | 2016 Amount | 2016 % | 2015 Amount | 2015 % |
|---|---|---|---|---|
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations (Notes 4 and 19) | $ (198) | - | $ (74) | - |
| Unrealized losses on available-for-sale financial assets (Notes 4 and 19) | (4,752) | - | (14,714) | - |
| Cash flow hedges (Notes 4, 7 and 19) | (26,814) | - | (4,980) | - |
| Share of other comprehensive income of subsidiaries and associates (Notes 4 and 19) | 23,497 | - | 33,653 | - |
| | (8,267) | - | 13,885 | - |
| Total other comprehensive income, net of income tax | (43,443) | - | (45,363) | - |
| TOTAL COMPREHENSIVE INCOME | $ 11,347,860 | 14 | $ 11,440,332 | 14 |
| EARNINGS PER SHARE, NEW TAIWAN DOLLARS (Note 23) | | | | |
| Basic | $3.50 | | $3.52 | |
| Diluted | $3.49 | | $3.52 | |

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

(Concluded)

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | Share Capital (Note 19) | | | Retained Earnings | | | Other Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares (Thousand share) | Amounts | Capital Surplus (Notes 4 and 19) | Legal Reserve (Note 19) | Special Reserve (Note 19) | Unappropriated Earnings (Notes 4 and 19) | Exchange Differences on Translating Foreign Operations (Notes 4 and 19) | Unrealized Gains (Losses) on Available-for-sale Financial Assets (Notes 4 and 19) | Cash Flow Hedges (Notes 4 and 19) | Total |
| BALANCE AT JANUARY 1, 2015 | 3,258,501 | $ 32,585,008 | $ 14,009,061 | $ 13,978,791 | $ 755,749 | $ 11,558,138 | $ 2,156 | $ 99,084 | $ (240,337) | $ 72,747,650 |
| Appropriation of the 2014 earnings | | | | | | | | | | |
| Legal reserve | - | - | - | 1,148,415 | - | (1,148,415) | - | - | - | - |
| Special reserve | - | - | - | - | 68,731 | (68,731) | - | - | - | - |
| Cash dividends - NT$3.167 per share | - | - | - | - | - | (10,319,672) | - | - | - | (10,319,672) |
| Cash dividends from capital surplus - NT$0.583 per share | - | - | (1,899,706) | - | - | - | - | - | - | (1,899,706) |
| Adjustments to share of changes in equities of associates | - | - | (51,197) | - | - | (11,042) | - | - | - | (62,239) |
| Net income for the year ended December 31, 2015 | - | - | - | - | - | 11,485,695 | - | - | - | 11,485,695 |
| Other comprehensive income (losses) for the year ended December 31, 2015 | - | - | - | - | - | (59,248) | (1,327) | (84,459) | 99,671 | (45,363) |
| BALANCE AT DECEMBER 31, 2015 | 3,258,501 | 32,585,008 | 12,058,158 | 15,127,206 | 824,480 | 11,436,725 | 829 | 14,625 | (140,666) | 71,906,365 |
| Appropriation of the 2015 earnings | | | | | | | | | | |
| Legal reserve | - | - | - | 1,143,672 | - | (1,143,672) | - | - | - | - |
| Special reserve | - | - | - | - | (54,573) | 54,573 | - | - | - | - |
| Cash dividends - NT$3.174 per share | - | - | - | - | - | (10,342,482) | - | - | - | (10,342,482) |
| Cash dividends from capital surplus - NT$0.576 per share | - | - | (1,876,896) | - | - | - | - | - | - | (1,876,896) |
| Adjustments to share of changes in equities of subsidiaries and associates | - | - | (14,388) | - | - | (14,441) | - | - | - | (28,829) |
| Net income for the year ended December 31, 2016 | - | - | - | - | - | 11,391,303 | - | - | - | 11,391,303 |
| Other comprehensive income (losses) for the year ended December 31, 2016 | - | - | - | - | - | (35,176) | 3,809 | (60,497) | 48,421 | (43,443) |
| BALANCE AT DECEMBER 31, 2016 | 3,258,501 | $ 32,585,008 | $ 10,166,874 | $ 16,270,878 | $ 769,907 | $ 11,346,830 | $ 4,638 | $ (45,872) | $ (92,245) | $ 71,006,018 |

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

## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 12,798,274 | $ 13,840,856 |
| Adjustments for: | | |
| Depreciation | 7,351,816 | 6,577,924 |
| Amortization | 644,334 | 669,623 |
| Amortization of concessions | 2,581,338 | 2,041,126 |
| Allowance for doubtful accounts | 296,273 | 270,389 |
| Financial costs | 470,159 | 471,705 |
| Interest income | (24,740) | (29,149) |
| Share of the profit of subsidiaries and associates | (2,159,787) | (2,866,834) |
| Loss on disposal of property, plant, equipment and intangible assets | 616,691 | 872,640 |
| Gain on disposal of financial assets | (265) | (25,652) |
| Impairment loss recognized on financial assets | - | 17,273 |
| Impairment loss recognized on property, plant and equipment | 313,563 | - |
| Reversal of write-down of inventories | (29,444) | (12,493) |
| Loss on change in fair value of investment properties | 198,552 | 10,335 |
| Deferred loss on derivative assets for hedging | (4,500) | (7,250) |
| Net changes in operating assets and liabilities | | |
| Notes receivable | 597 | (9,856) |
| Accounts receivable | (772,295) | (56,491) |
| Accounts receivable - related parties | (100,679) | 118,889 |
| Other receivables - related parties | 173,193 | (5,538) |
| Inventories | 1,644,745 | (1,479,812) |
| Prepaid expenses | 51,098 | 75,559 |
| Other current assets | (207) | (22,881) |
| Notes payable | (930) | 769 |
| Accounts payable | (135,167) | (764,986) |
| Accounts payable - related parties | (123,733) | (353,765) |
| Other payables | (53,338) | 335,866 |
| Other payables - related parties | 77,679 | 43,203 |
| Provisions | (7,419) | 2,489 |
| Unearned revenue | (114,911) | (91,611) |
| Other current liabilities | 332,781 | 20,792 |
| Net defined benefit liabilities | (9,728) | (8,629) |
| Cash generated from operations | 24,013,950 | 19,634,491 |
| Interest received | 25,801 | 27,415 |
| Dividend received | 2,907,365 | 2,294,788 |
| Interest paid | (465,727) | (433,528) |
| Income taxes paid | (1,530,158) | (3,508,101) |
| Net cash generated from operating activities | 24,951,231 | 18,015,065 |

(Continued)



## FAR EASTONE TELECOMMUNICATIONS CO., LTD.

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

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds of the disposal of available-for-sale financial assets | $ 190,134 | $ - |
| Acquisition of debt investments with no active market | (38,457) | (5,786) |
| Acquisition of investments accounted for using the equity method | (30,000) | (79,500) |
| Proceeds from the disposal of investments accounted for using the equity method | - | 19,600 |
| Proceeds from capital reduction of investments accounted for using the equity method | 217,936 | - |
| Proceeds from capital return on liquidation of investments accounted for using the equity method | - | 127,157 |
| Acquisition of property, plant and equipment | (7,751,175) | (9,037,527) |
| Proceeds from the disposal of property, plant and equipment | 40,249 | 43,391 |
| Increase in refundable deposits | (125,896) | (123,858) |
| Decrease in refundable deposits | 158,150 | 123,519 |
| Increase in financing provided by other receivables - related parties | - | (241,000) |
| Decrease in financing provided by other receivables - related parties | 241,000 | - |
| Acquisition of intangible assets | (9,033,843) | (823,839) |
| Increase in other financial assets | (323,810) | (780,117) |
| Increase in other noncurrent assets | - | (1,000,000) |
| Net cash used in investing activities | (16,455,712) | (11,777,960) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 2,400,000 | - |
| Proceeds from short-term bills payable | 2,799,387 | - |
| Repayments of bonds payable | (1,600,000) | - |
| Proceeds from long-term borrowings | 1,699,831 | 19,740,001 |
| Repayment of long-term borrowings | (8,141,487) | (3,350,000) |
| Increase in guarantee deposits received | 77,965 | 105,274 |
| Decrease in guarantee deposits received | (103,766) | (161,564) |
| Increase in financing obtained from other payables - related parties | - | 6,500,000 |
| Decrease in financing obtained from other payables - related parties | (6,500,000) | (4,400,000) |
| Decrease in other noncurrent liabilities | - | (7,495) |
| Cash dividends paid | (12,219,378) | (12,219,378) |
| Net cash (used in) generated from financing activities | (21,587,448) | 6,206,838 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (13,091,929) | 12,443,943 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 13,871,815 | 1,427,872 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | $ 779,886 | $ 13,871,815 |

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 1. ORGANIZATION AND OPERATIONS

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

The Company provides 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 the Company to provide services for 15 years from 1997. The National Communications Commission (NCC) approved the renewal of the licenses when they were due. The license of GSM1800 island-wide was returned to the National Communications Commission (NCC) in April 2015, and the license of GSM900 for the northern region of Taiwan was renewed and is valid from the application date to June 30, 2017.

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

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

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

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

## 2. APPROVAL OF FINANCIAL STATEMENTS

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



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

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

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

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

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

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

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

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

1) IFRIC 21 "Levies"

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

2) Annual Improvements to IFRSs: 2010-2012 Cycle

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

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

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

3) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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

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

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



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

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

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

Except for the above impacts, as of the date the financial statements were authorized for issue, the Company continues assessing other possible impacts that application of the aforementioned amendments will have on the Company's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

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

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

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

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

The impairment of financial assets

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

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



Hedge accounting

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

Transition

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

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

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

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3) IFRS 16 "Leases"

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

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

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

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



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

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Basis of Preparation

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

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

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

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

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

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

### Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

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

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

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

**Foreign Currencies**

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

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

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

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

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

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

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to noncontrolling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

**Inventories**

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

**Investments in Subsidiaries**

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

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



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

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

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

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

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

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

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

**Investments in Associates**

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

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

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

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

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

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

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

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

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

**Property, Plant and Equipment**

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

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



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

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

**Investment Properties**

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

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

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

**Goodwill**

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

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

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

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

**Intangible Assets**

a. Intangible assets acquired separately

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

b. Intangible assets acquired in a business combination

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

c. Derecognition of intangible assets

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

**Impairment of Tangible and Intangible Assets Other Than Goodwill**

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

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

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

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

**Financial Instruments**

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

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

a. Financial assets

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



1) Measurement category

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

<u>Loans and receivables</u>

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

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

2) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

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

c. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

d. Derivative financial instruments

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



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

**Hedge Accounting**

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

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

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

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

**Provisions**

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

a. Decommissioning, restoration and similar liabilities

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

1) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

2) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

3) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

b. Warranties

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products, at the Company's best estimate of the expenditure required to settle the Company's obligation.

**Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Since the future values of operating revenue resulting from receivables within one year approximate the fair values of these receivables, the fair values are not recalculated using the pro forma interest rate method. Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Related revenues are recognized as follows:

a. Services revenue

Usage revenue from cellular services and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) monthly fees are accrued every month, and (b) prepaid and recharge services are recognized as income based upon actual usage by customers.

b. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

1) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

2) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

3) The amount of revenue can be measured reliably;

4) It is probable that the economic benefits associated with the transaction will flow to the Company; and

5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where the Company enters into transactions which involve both the service of air time bundled with products such as data card and handset, 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 Company's award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the services and inventories supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value, the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the Company's obligations have been fulfilled.

c. Dividend and interest income

Dividend income from investments is recognized when the stockholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.



Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Company as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Company as a lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Government Grants**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire noncurrent assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Employee Benefits**

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's income tax expenses.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are recognized only to the extent that it is probable that there will be sufficient taxable profits



against which to use the benefits of the temporary differences and are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Impairment of property, plant and equipment and intangible assets other than goodwill

For impairment test of assets, the Company evaluates and decides on certain assets' independent cash flows, the useful lives of the assets, and the probable future profit or loss which is based on subjective judgement, utilized asset mode, and telecommunications industry characteristics. Any changes in national and local economic conditions or the Company's strategy may cause significant impairment loss.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of using value requires the Company's management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Income tax

As of December 31, 2016 and 2015, the realizability of the deferred tax asset (liability) mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

d. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cash on hand | $ 10,436 | $ 10,426 |
| Checking and demand deposits | 769,450 | 2,867,895 |
| Cash equivalents | | |
| Commercial paper purchased under resell agreements | - | 10,993,494 |
| | $ 779,886 | $ 13,871,815 |

## 7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets - current | | |
| Cash flow hedges | | |
| Forward exchange contracts | $ 2,073 | $ 3,790 |
| Financial liabilities - current | | |
| Cash flow hedges | | |
| Forward exchange contracts | $ 40,229 | $ 3,916 |
| Cross-currency swap contracts | - | 1,775 |
| | $ 40,229 | $ 5,691 |



**Cash Flow Hedge**

The Company used forward exchange contracts and cross-currency swap contracts to hedge against adverse cash flow fluctuations on its foreign currency-denominated assets and expected future transactions. These contracts were negotiated in accordance with the contracts on the hedged items. The outstanding contracts of the Company at the end of the reporting period were as follows:

| | Currency | Maturity Date | Notional Amount (In Thousands) |
|---|---|---|---|
| December 31, 2016 | | | |
| Forward exchange contracts | NT$ to EUR | 2017.01.25-2017.10.25 | EUR 29,500 |
| December 31, 2015 | | | |
| Forward exchange contracts | NT$ to EUR | 2016.01.25-2016.06.27 | EUR 18,500 |
| Cross-currency swap contracts | US$ to NT$ | 2016.01.15 | US$ 5,000 |

The Company invested in overseas mutual funds, used cross-currency swap contracts to hedge against adverse cash flow fluctuations, and used forward exchange contracts to hedge against fluctuations of exchange rates for expected future purchases. Both contracts were designated as cash flow hedge.

Gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line item in the statements of comprehensive income:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other gains and losses | $ (41,589) | $ (5,621) |

For the years ended December 31, 2016 and 2015, expected future trading exposures on foreign exchange swap contracts, amounting to $(26,814) thousand and $(4,980) thousand were recognized in other comprehensive income. The expected cash flows will occur when the hedge target is sold or expected future purchase transactions take place, and will be reclassified from equity to profit or loss.

## 8. ACCOUNTS RECEIVABLE

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Accounts receivables | | |
| Accounts receivable (including related parties) | $ 7,304,553 | $ 6,855,761 |
| Less: Allowance for doubtful accounts | (865,344) | (993,253) |
| | $ 6,439,209 | $ 5,862,508 |

**Accounts Receivables**

The Company's average credit period for the sale of inventories is 30 to 45 days, and the average credit period for telecommunications services is 30 to 60 days. When deciding the recoverability of accounts receivable, the Company considers any change in the credit quality from the date credit was initially granted up to the end of the reporting period. The Company has recognized an allowance for doubtful accounts of 100% against all receivables past due over 120 days because the historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowance for doubtful accounts is recognized against accounts receivable past due among 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and the analysis of its current financial position.

The aging of receivables was as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Not overdue | $ 6,148,849 | $ 5,610,279 |
| Overdue | | |
| 0-60 days | 228,535 | 194,982 |
| 61 days or more | 61,825 | 57,247 |
| | $ 6,439,209 | $ 5,862,508 |

The above aging schedule was based on the past due date.

The Company does not have accounts receivable with the aging being past due but not impaired.

Movements of the allowance for doubtful accounts were as follows:

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|---|---|---|
| Balance at January 1, 2016 | $ - | $ 993,253 | $ 993,253 |
| Add: Accounts recovered during the period | - | 209,372 | 209,372 |
| Add: Impairment losses/bad debts | 397 | 295,876 | 296,273 |
| Less: Amounts written off during the period as uncollectible | - | (633,554) | (633,554) |
| Balance at December 31, 2016 | $ 397 | $ 864,947 | $ 865,344 |
| Balance at January 1, 2015 | $ - | $ 984,063 | $ 984,063 |
| Add: Accounts recovered during the period | - | 284,524 | 284,524 |
| Add: Impairment losses/bad debts | - | 270,389 | 270,389 |
| Less: Amounts written off during the period as uncollectible | - | (545,723) | (545,723) |
| Balance at December 31, 2015 | $ - | $ 993,253 | $ 993,253 |

**Sale of Overdue Accounts Receivable**

Under agreements on sales of accounts receivable signed in the years ended December 31, 2016 and 2015, the Company sold to asset management companies the overdue accounts receivable that had been written off. Thus, as of December 31, 2016 and 2015, the Company was not under the risk of irrecoverable receivables.



Related information as of December 31, 2016 and 2015 is as follows:

| Counterparties | Amounts of Accounts Receivable Sold | Proceeds of the Sale of Accounts Receivable |
|---|---|---|
| 2016 | | |
| E-Hao Management Consultant Co., Ltd. | $ 1,130,887 | $ 62,468 |
| 2015 | | |
| Long Sun Asset Management Co., Ltd. | $ 1,325,848 | $ 69,829 |

## 9. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Cellular phone equipment and accessories | $ 1,192,401 | $ 2,792,465 |
| Others | 69,451 | 84,688 |
| | $ 1,261,852 | $ 2,877,153 |

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 were $21,835,666 thousand and $24,449,926 thousand, respectively.

The inventory reversal of write-downs of $29,444 thousand and $12,493 thousand were included in the cost of sales for the years ended December 31, 2016 and 2015, respectively.

## 10. INVESTMENTS ACCOUNTED FOR USING EQUITY-METHOD

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Investments in subsidiaries | $ 29,039,142 | $ 29,799,694 |
| Investments in associates | 1,007,900 | 1,032,006 |
| | $ 30,047,042 | $ 30,831,700 |

a. Investments in subsidiaries

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unlisted companies | | |
| New Century InfoComm Tech Co., Ltd. | $ 26,829,827 | $ 27,274,470 |
| ARCOA Communication Co., Ltd. | 1,299,781 | 1,311,282 |
| KGEx.com Co., Ltd. | 870,542 | 948,235 |
| Yuan Cing Co., Ltd. | 30,846 | 137,951 |
| Omusic Co., Ltd. | 8,146 | 3,925 |

(Continued)

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Far Eastern Info Service (Holding) Ltd. | $ (49,568) | $ (49,267) |
| Q-ware Communications Co., Ltd. | (76,817) | (62,915) |
| Hiiir Co., Ltd. | (109,380) | 123,831 |
| | 28,803,377 | 29,687,512 |
| Credit balance on carrying values of investments accounted for using equity method reclassified to other liabilities | 235,765 | 112,182 |
| | $ 29,039,142 | $ 29,799,694 |

(Concluded)

| | Proportion of Ownership and Voting Rights December 31 2016 | 2015 |
|---|---|---|
| New Century InfoComm Tech Co., Ltd. | 100.00% | 100.00% |
| ARCOA Communication Co., Ltd. | 61.63% | 61.63% |
| KGEx.com Co., Ltd. | 99.99% | 99.99% |
| Yuan Cing Co., Ltd. | 100.00% | 99.99% |
| Omusic Co., Ltd. | 50.00% | 50.00% |
| Far Eastern Info Service (Holding) Ltd. | 100.00% | 100.00% |
| Q-ware Communications Co., Ltd. | 81.46% | 81.46% |
| Hiiir Co., Ltd. | 89.54% | 89.54% |

Investment in Far Eastern Info Service (Holding) Ltd. is accounted for by the equity method. As the result of continuous operating loss, the carrying amount exceeded the recoverable amount. The Company recognized impairment loss on investment of $17,273 thousand in 2015, which was included in other gains and losses.

Refer to Note 32 for the details of subsidiaries indirectly held by the Company.

The investments of subsidiaries accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were based on the subsidiaries' financial statements audited by the auditors for the same years, except for the financial statements for the year ended December 31, 2015 of E. World (Holdings) Ltd. and Far EasTron Holding Ltd. Management believes there would have been no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income had the financial statements of E. World (Holdings) Ltd. and Far EasTron Holding Ltd. been audited.

b. Investments in associates

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Material associates | | |
| Far Eastern Electronic Toll Collection Co., Ltd. | $ 685,125 | $ 631,848 |
| Associates that are not individually material | 256,292 | 367,126 |
| | 941,417 | 998,974 |
| Credit balance on carrying values of investments accounted for using equity method reclassified to other liabilities | 66,483 | 33,032 |
| | $ 1,007,900 | $ 1,032,006 |



1) Material associates

| Name of Associate | Nature of Activities | Principal Place of Business | Proportion of Ownership and Voting Rights December 31 2016 | 2015 |
|---|---|---|---|---|
| Far Eastern Electronic Toll Collection Co., Ltd. | Electronic information services | Taiwan | 39.42% | 39.42% |

Summarized financial information in respect of each of the Company's material associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Far Eastern Electronic Toll Collection Co., Ltd.

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Current assets | $ 624,831 | $ 1,524,271 |
| Noncurrent assets | 7,057,459 | 6,366,374 |
| Current liabilities | (1,263,956) | (992,517) |
| Noncurrent liabilities | (4,678,843) | (5,295,144) |
| Equity | $ 1,739,491 | $ 1,602,984 |
| Proportion of the Company's ownership | 39.42% | 39.42% |
| Carrying amount | $ 685,125 | $ 631,848 |

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Operating revenue | $ 1,990,204 | $ 1,934,248 |
| Net profit for the year | $ (30,408) | $ (264,208) |
| Other comprehensive income | 166,916 | 198,437 |
| Total comprehensive income for the year | $ 136,508 | $ (65,771) |

The usage rate of electronic toll collection (ETC) services had not reached the requirement stated in the contract of the Electronic Toll Collection BOT Project ("ETC Project") as of June 30, 2011. Thus, Far Eastern Electronic Toll Collection Co., Ltd. (FETC) filed a lawsuit against the Taiwan Area National Freeway Bureau (TANFB), and the Supreme Court remanded this case to the Taipei District Court Civil Division in September 2015. FETC had accrued the related penalties.

FETC failed to complete the taximeter system infrastructure within a specified period under the ETC Project requirements. The Taipei District Court Civil Division pronounced on May 20, 2016 that FETC should pay $71,250 thousand compensation for breach of contract to TANFB. FETC had filed an appeal on May 31, 2016 and accrued related penalties.

2) Aggregate information of associates that are not individually material

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| The Company's share of: | | |
| Net profit for the year | $ (138,607) | $ (120,136) |
| Other comprehensive income | - | (29) |
| Total comprehensive income for the year | $ (138,607) | $ (120,165) |

For the year ended December 31, 2015, the Company has disposed an associate that is not individually material, and gained $2,422 thousand on the disposal of investment.

The Company has one or more representation on the boards of directors of some associates that are not individually material according to original agreement or other agreements, therefore the Company has significant influence over these associates.

The calculation of investments accounted for by the equity method and the share of profit or loss and other comprehensive income of the investments in the associates were based on the associates' audited financial statements except those of Alliance Digital Technology Co., Ltd. and Yuan Hsin Digital Payment Co., Ltd. Management believes there would have been no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income had the financial statements of Alliance Digital Technology Co., Ltd. and Yuan Hsin Digital Payment Co., Ltd. been audited.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Building | Operating Equipment | Computer Equipment | Office Equipment | Leasehold Improvements | Miscellaneous Equipment | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| Balance at January 1, 2015 | $ 1,170,782 | $ 2,292,213 | $ 117,296,098 | $ 9,859,681 | $ 972,973 | $ 3,061,365 | $ 586,917 | $ 3,927,978 | $ 139,168,007 |
| Additions | - | - | 36,939 | - | - | 946 | 1,037 | 8,846,451 | 8,885,373 |
| Disposals | - | (50,158 ) | (21,736,477 ) | (373,934 ) | (30,941 ) | (366,549 ) | (17,150 ) | (17,553 ) | (22,592,762 ) |
| Adjustments and reclassification | - | 32,387 | 9,552,044 | 1,061,848 | 10,053 | 192,569 | 66,722 | (10,915,623 ) | - |
| Balance at December 31, 2015 | $ 1,170,782 | $ 2,274,442 | $ 105,148,604 | $ 10,547,595 | $ 952,085 | $ 2,888,331 | $ 637,526 | $ 1,841,253 | $ 125,460,618 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2015 | $ - | $ (968,391 ) | $ (94,604,355 ) | $ (8,357,552 ) | $ (867,650 ) | $ (1,985,289 ) | $ (489,567 ) | $ - | $ (107,272,804 ) |
| Depreciation expense | - | (73,089 ) | (5,400,943 ) | (724,412 ) | (36,717 ) | (298,423 ) | (44,340 ) | - | (6,577,924 ) |
| Disposals | - | 45,984 | 20,915,184 | 373,612 | 30,151 | 296,068 | 17,143 | - | 21,678,142 |
| Adjustments and reclassification | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2015 | $ - | $ (995,496 ) | $ (79,090,114 ) | $ (8,708,352 ) | $ (874,216 ) | $ (1,987,644 ) | $ (516,764 ) | $ - | $ (92,172,586 ) |
| Carrying amount at December 31, 2015 | $ 1,170,782 | $ 1,278,946 | $ 26,058,490 | $ 1,839,243 | $ 77,869 | $ 900,687 | $ 120,762 | $ 1,841,253 | $ 33,288,032 |
| Cost | | | | | | | | | |
| Balance at January 1, 2016 | $ 1,170,782 | $ 2,274,442 | $ 105,148,604 | $ 10,547,595 | $ 952,085 | $ 2,888,331 | $ 637,526 | $ 1,841,253 | $ 125,460,618 |
| Additions | - | - | 21,227 | - | - | 696 | - | 7,189,345 | 7,211,268 |
| Disposals | - | (40,234 ) | (9,610,420 ) | (328,990 ) | (7,544 ) | (280,736 ) | (59,761 ) | (29,299 ) | (10,356,984 ) |
| Adjustments and reclassification | (95 ) | 37,801 | 6,345,923 | 539,364 | 6,671 | 142,545 | 100,605 | (7,172,814 ) | - |
| Balance at December 31, 2016 | $ 1,170,687 | $ 2,272,009 | $ 101,905,334 | $ 10,757,969 | $ 951,212 | $ 2,750,836 | $ 678,370 | $ 1,828,485 | $ 122,314,902 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Balance at January 1, 2016 | $ - | $ (995,496 ) | $ (79,090,114 ) | $ (8,708,352 ) | $ (874,216 ) | $ (1,987,644 ) | $ (516,764 ) | $ - | $ (92,172,586 ) |
| Depreciation expense | - | (77,076 ) | (6,104,674 ) | (785,275 ) | (29,143 ) | (289,560 ) | (66,088 ) | - | (7,351,816 ) |
| Impairment loss | - | - | (313,563 ) | - | - | - | - | - | (313,563 ) |
| Disposals | - | 40,226 | 9,003,061 | 328,596 | 7,352 | 270,204 | 58,589 | - | 9,708,028 |
| Adjustments and reclassification | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2016 | $ - | $ (1,032,346 ) | $ (76,505,290 ) | $ (9,165,031 ) | $ (896,007 ) | $ (2,007,000 ) | $ (524,263 ) | $ - | $ (90,129,937 ) |
| Carrying amount at December 31, 2016 | $ 1,170,687 | $ 1,239,663 | $ 25,400,044 | $ 1,592,938 | $ 55,205 | $ 743,836 | $ 154,107 | $ 1,828,485 | $ 32,184,965 |



The 2G license will expire in June 2017, and related service will be terminated. Accordingly, the future cash inflows of 2G operating equipment are expected to decline, which results in the recoverable amount being less than the carrying amount. Therefore, the Company recognized an impairment loss of $313,563 thousand for the year ended December 31, 2016.

The following useful lives of property, plant and equipment are used in the calculation of depreciation by the straight-line method:

| | |
|---|---|
| Building | |
| Main building | 41-55 years |
| Other building equipment | 5-10 years |
| Operating equipment | 2-15 years |
| Computer equipment | 3-10 years |
| Office equipment | 3-10 years |
| Leasehold improvements | 2-11 years |
| Miscellaneous equipment | 2-10 years |

## 12. INVESTMENT PROPERTIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Investment properties | $ 754,028 | $ 952,580 |

The fluctuations of investment properties' carrying amounts result from the changes in fair value of investment properties.

The lease terms of investments properties were 3-6 years. The rights of lease term extension contain clauses for market rental reviews. The lessee does not have a bargain purchase option to acquire the investment property at the expiry of the lease period.

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| No later than 1 year | $ 13,784 | $ 14,463 |
| Later than 1 year and not later than 5 years | 20,632 | 25,295 |
| | $ 34,416 | $ 39,758 |

The fair value of investment properties were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Independent valuation | $ 754,028 | $ 952,580 |

The fair value of the investment properties as of December 31, 2016 and 2015 were based on the valuations carried out on January 17, 2017 and January 29, 2016, respectively, by independent qualified professional valuer, Ms. Hu, Chun-Chun, from DTZ | Cushman & Wakefield, a member of certified ROC real estate appraisers.

The fair value of investment properties was estimated using unobservable inputs (Level 3). The unrealized gains (losses) on the fair value changes of investment properties are recognized in other gains and losses.

The fair value of investment properties was measured using the income approach. The significant assumptions used were stated below. The increase in estimated future net cash inflows, or the decrease in discount rates would result in increase in the fair value.

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Expected future cash inflows | $ 1,297,763 | $ 1,196,466 |
| Expected future cash outflows | (33,383) | (28,956) |
| Expected future cash inflows, net | $ 1,264,380 | $ 1,167,510 |
| Discount rate | 2.00%-2.15% | 2.1%-2.39% |

The market rentals in the area where the investment property is located were between $1 thousand and $15 thousand per ping per month (i.e. 1 ping = 3.3 square meters). The market rentals for comparable properties were between $1 thousand and $15 thousand per ping per month.

All of the investment properties had been leased out under operating leases. The rental incomes generated for the years ended December 31, 2016 and 2015 were $14,941 thousand and $15,133 thousand, respectively.

The expected future cash inflows generated by investment properties referred to rental income, interest income on rental deposits, and loss on vacancy rate of space and disposal value. The rental income was extrapolated using the comparative market rentals covering 10 years, excluding too-high and too-low values, taking into account the annual rental growth rate, loss on vacancy rate of space was extrapolated using the vacancy rates of the neighboring stores and factories, the interest income on rental deposits was extrapolated using 1.04%, the interest rate announced by the central bank for the one-year average deposit interest rate of five major banks, and the disposal value was determined using the direct capitalization method under the income approach. The expected future cash outflows on investment property included expenditures such as land value taxes, house taxes, insurance premium, management fee, maintenance costs, replacement allowance and depreciation. The expenditure was extrapolated on the basis of the current level of expenditure, taking into account the future adjustment to the government-announced land value and the tax rate promulgated under the House Tax Act.

The discount rate was determined by reference to the local same class product, a reasonable rental income level and the selling price of investment properties taking into consideration the liquidity, potential risk, appreciation and the complexity of management; in addition, the discount rate should not be lower than the interest rate for two-year time deposits of Chunghwa Post Co., Ltd plus 0.75%.



## 13. INTANGIBLE ASSETS

| | Concessions | Computer Software | Goodwill | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at January 1, 2015 | $ 41,484,000 | $ 13,714,184 | $ 10,283,031 | $ 65,481,215 |
| Additions | - | 823,839 | - | 823,839 |
| Disposals | - | (46,765) | - | (46,765) |
| Balance at December 31, 2015 | $ 41,484,000 | $ 14,491,258 | $ 10,283,031 | $ 66,258,289 |
| Accumulated amortization | | | | |
| Balance at January 1, 2015 | $ (7,608,005) | $ (11,586,552) | $ - | $ (19,194,557) |
| Amortization | (2,041,126) | (669,623) | - | (2,710,749) |
| Disposals | - | 46,765 | - | 46,765 |
| Balance at December 31, 2015 | $ (9,649,131) | $ (12,209,410) | $ - | $ (21,858,541) |
| Carrying amount at December 31, 2015 | $ 31,834,869 | $ 2,281,848 | $ 10,283,031 | $ 44,399,748 |
| Cost | | | | |
| Balance at January 1, 2016 | $ 41,484,000 | $ 14,491,258 | $ 10,283,031 | $ 66,258,289 |
| Additions | 9,130,000 | 903,843 | - | 10,033,843 |
| Disposals | - | (1,684,634) | - | (1,684,634) |
| Balance at December 31, 2016 | $ 50,614,000 | $ 13,710,467 | $ 10,283,031 | $ 74,607,498 |
| Accumulated amortization | | | | |
| Balance at January 1, 2016 | $ (9,649,131) | $ (12,209,410) | $ - | $ (21,858,541) |
| Amortization | (2,581,338) | (644,334) | - | (3,225,672) |
| Disposals | - | 1,684,586 | - | 1,684,586 |
| Balance at December 31, 2016 | $ (12,230,469) | $ (11,169,158) | $ - | $ (23,399,627) |
| Carrying amount at December 31, 2016 | $ 38,383,531 | $ 2,541,309 | $ 10,283,031 | $ 51,207,871 |

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 |

The Company has identified the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

As of December 31, 2016 and 2015, the carrying values of the tangible and intangible assets used by the Company were $83,392,836 thousand and $77,687,780 thousand, respectively. The Company's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast at the discount rates of 5.83% and 6.82% on December 31, 2016 and 2015, respectively. The operating revenue forecast was based on the expected future growth rate of the telecom industry along with the projected advancement of the Company's own business.

The principal assumptions and the relevant measurement of the recoverable amounts of the Company are summarized as follows:

a. Expected future growth rate of the telecommunications industry

   1) Mobile voice service (MVS): The anticipated MVS is measured based on the actual effective customer base and minutes of usage of previous years, while the development trend of the market is taken into account.

   2) Mobile data service (MDS): The anticipated MDS is measured based on the proportion of MDS to the total telecommunications service revenue of previous years, while the demands and changes of the market are taken into account.

b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenues: The expected ratio is anticipated based on the historical ratio of EBITDA to operating revenues, while the possible influence of each revenue, cost and expense are taken into account.

   Based on the key assumptions of each cash-generating unit, the information about the assets' impairment for the year ended December 31, 2016 is disclosed in Note 11. As for the year ended December 31, 2015, the Company's management believes that the carrying amounts of operating assets and goodwill did not exceed their recoverable amounts even if there were reasonable changes in the critical assumptions used to estimate recoverable amounts.

## 14. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured bank loans | | |
| Credit loans | $ 2,400,000 | $ - |
| Interest rate | 0.70%-0.87% | - |

b. Short-term bills payable

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Commercial papers | $ 2,800,000 | $ - |
| Less: Unamortized discount | 613 | - |
| | $ 2,799,387 | $ - |
| Interest rate | 0.858%-0.888% | - |



c. Long-term borrowings

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Unsecured bank loans | | |
| Credit loans | $ 12,150,000 | $ 13,500,000 |
| Long-term commercial paper payables | 1,900,000 | 7,000,000 |
| Less: Unamortized discount | 1,655 | 9,999 |
| Long-term borrowings | $ 14,048,345 | $ 20,490,001 |

1) The credit loans are payable in New Taiwan dollars. The repayment of the principal will be made once when it's due with interest payment. Under some contracts, loans are treated revolving credit facilities, and the maturity dates of the loans are based on terms under the contracts. The loans are all repayable by December 2018. The interest rates were 0.74%-1.13% and 0.903%-1.10% on December 31, 2016 and 2015, respectively.

2) The long-term commercial paper payables are treated revolving credit facilities under contracts. The interest rates were 0.993%-1.0447% and 1.0323%-1.0875% on December 31, 2016 and 2015, respectively, and the last repayment date is in December 2018.

## 15. BONDS PAYABLE

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| 4th unsecured domestic bonds | $ 4,995,406 | $ 4,994,089 |
| 5th unsecured domestic bonds | 4,997,042 | 4,995,133 |
| 6th unsecured domestic bonds | 8,395,133 | 9,991,126 |
| | 18,387,581 | 19,980,348 |
| Less: Current portion | 6,197,478 | 1,599,112 |
| | $ 12,190,103 | $ 18,381,236 |

On June 27, 2013, the Company issued the fourth seven-year unsecured domestic bonds, with an aggregate principal amount of $5,000,000 thousand and a par value of $10,000 thousand and a coupon interest rate of 1.33%, with simple interest due annually. Repayment will be made in the fifth and seventh years in equal installments.

On October 15, 2013, the Company issued the fifth unsecured domestic bonds, with an aggregate principal amount of $5,000,000 thousand and a par value of $10,000 thousand. The bonds included four-year bonds and five-year bonds, with the principal amounts of $1,000,000 thousand and $4,000,000 thousand, and coupon interest rates of 1.46% and 1.58%, respectively, with simple interest due annually. Repayment will be made in the fourth and fifth years in the full amount. The four-year bonds will be repaid within one year from December 31, 2016.

On December 24, 2013, the Company issued the sixth unsecured domestic bonds, with an aggregate principal amount of $10,000,000 thousand and a par value of $10,000 thousand. The bonds included three-year bonds, four-year bonds and six-year bonds, with principal amounts of $1,600,000 thousand, $5,200,000 thousand and $3,200,000 thousand, respectively, and coupon interest rates of 1.17%, 1.27% and 1.58%, respectively, with simple interest due annually. Full repayment will be made in the third, fourth and sixth years. The repayment of the three-year bonds was made on December 24, 2016. The four-year bonds will be repaid within one year from December 31, 2016.

In addition, the Company issued the first five-year unsecured domestic bonds of 2016 on January 5, 2017, with an aggregate principal amount of $5,200,000 thousand and a par value of $10,000 thousand and a coupon interest rate of 1.17%, with simple interest due annually. Repayment will be made in the full amount at maturity.

## 16. OTHER LIABILITIES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Other payables | | |
| Commission | $ 2,424,406 | $ 1,997,382 |
| Acquisition of properties | 1,211,537 | 1,754,061 |
| Salary and bonus | 1,155,576 | 1,255,693 |
| Professional service fee | 363,217 | 545,657 |
| Employees' compensation and remuneration to directors | 356,603 | 385,628 |
| Other | 2,163,619 | 2,335,919 |
| | $ 7,674,958 | $ 8,274,340 |
| Noncurrent | | |
| Credit balance on carrying value of equity method investments | $ 302,248 | $ 145,214 |
| Lease payable | 52,711 | 79,331 |
| | $ 354,959 | $ 224,545 |

## 17. PROVISIONS

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current | | |
| Product warranty | $ 35,323 | $ 21,266 |
| Dismantling obligation | 16,924 | 29,401 |
| | $ 52,247 | $ 50,667 |
| Noncurrent | | |
| Dismantling obligation | $ 318,447 | $ 299,022 |



| | Dismantling Obligation | Product Warranty |
|---|---|---|
| Balance at January 1, 2015 | $ 300,467 | $ 2,863 |
| Additional provisions recognized | 43,869 | 32,755 |
| Reductions arising from payments | (15,913) | (14,352) |
| Balance at December 31, 2015 | $ 328,423 | $ 21,266 |
| Balance at January 1, 2016 | $ 328,423 | $ 21,266 |
| Additional provisions recognized | 28,424 | 31,777 |
| Reductions arising from payments | (21,476) | (17,720) |
| Balance at December 31, 2016 | $ 335,371 | $ 35,323 |

## 18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Present value of defined benefit obligation | $ 1,715,688 | $ 1,668,205 |
| Fair value of plan assets | (951,965) | (936,354) |
| Net defined benefit liability | $ 763,723 | $ 731,851 |

Movements in net defined benefit liability (asset) were as follows:

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Balance at January 1, 2015 | $ 1,573,665 | $ (904,286) | $ 669,379 |
| Service cost | | | |
| Current service cost | 12,868 | - | 12,868 |
| Net interest expense (income) | 35,303 | (20,647) | 14,656 |
| Recognized in profit or loss | 48,171 | (20,647) | 27,524 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (3,342) | (3,342) |
| Actuarial loss - changes in financial assumptions | 59,925 | - | 59,925 |
| Actuarial loss - experience adjustments | 14,518 | - | 14,518 |
| Recognized in other comprehensive income | 74,443 | (3,342) | 71,101 |
| Contributions from the employer | - | (36,153) | (36,153) |
| Benefits paid | (28,074) | 28,074 | - |
| Balance at December 31, 2015 | $ 1,668,205 | $ (936,354) | $ 731,851 |
| Balance at January 1, 2016 | $ 1,668,205 | $ (936,354) | $ 731,851 |
| Service cost | | | |
| Current service cost | 12,260 | - | 12,260 |
| Net interest expense (income) | 33,254 | (18,977) | 14,277 |
| Recognized in profit or loss | 45,514 | (18,977) | 26,537 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 12,343 | 12,343 |
| Actuarial loss - changes in financial assumptions | 268 | - | 268 |
| Actuarial loss - experience adjustments | 28,989 | - | 28,989 |
| Recognized in other comprehensive income | 29,257 | 12,343 | 41,600 |
| Contributions from the employer | - | (36,265) | (36,265) |
| Benefits paid | (27,288) | 27,288 | - |
| Balance at December 31, 2016 | $ 1,715,688 | $ (951,965) | $ 763,723 |

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.



The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate | 1.50% | 2.00% |
| Expected rate of salary increase | 1.75% | 2.25% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Discount rate(s) | | |
| 0.25% increase | $ (58,399) | $ (59,925) |
| 0.25% decrease | $ 60,997 | $ 62,690 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 60,702 | $ 62,392 |
| 0.25% decrease | $ (58,408) | $ (59,937) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| The expected contributions to the plan for the next year | $ 36,000 | $ 36,000 |
| The average duration of the defined benefit obligation | 14.1 years | 14.9 years |

## 19. EQUITY

a. Share capital

1) Common shares

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Shares authorized (in thousands) | 4,200,000 | 4,200,000 |
| Capital authorized | $ 42,000,000 | $ 42,000,000 |
| Issued and fully paid shares (in thousands) | 3,258,501 | 3,258,501 |
| Issued capital | $ 32,585,008 | $ 32,585,008 |

Issued common shares, which have a par value of NT$10, are entitled to one vote per share and a right to dividend.

2) Global depositary receipts

The Company's global depositary receipts (GDRs) as of December 31, 2016 were as follows:

| | | GDRs (In Thousand Units) | Equivalent Common Stock (In Thousand Shares) |
|---|---|---|---|
| Initial offering | a) | 10,000 | 150,000 |
| Converted from overseas unsecured convertible bonds | b) | 165 | 2,473 |
| Net decrease due to capital increase or capital reduction | c) | (362) | (5,426) |
| Reissued within authorized units | d) | 24,804 | 372,067 |
| GDRs transferred to common stock | | (33,897) | (508,461) |
| Outstanding GDRs issued | | 710 | 10,653 |

a) On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell to foreign investors 150,000 thousand shares of the Company's common stock in the form of 10,000 thousand units of GDRs. One GDR unit represents 15 shares of the Company'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 the Company's request to issue new common stock in the form of GDRs amounting to US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 2016, there had been 165 thousand units of GDRs issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common shares.

c) In 2003, the Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represented 4,448 thousand common shares. Furthermore, in 2008, the Company canceled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represented 9,874 thousand common shares.

d) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2016, the Company had reissued 24,804 thousand units of GDRs representing 372,067 thousand common shares.

The owners of GDRs have the same rights as holders of common stock, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the depositary agreements and the relevant ROC laws and regulations:

a) Exercise voting rights;

b) Convert the GDRs into common stocks; and

c) Receive dividends and exercise preemptive rights or other rights and interests.



b. Capital surplus

| | December 31 2016 | December 31 2015 |
|---|---|---|
| May be used to offset a deficit, distributed as cash dividends or transferred to share capital (1) | | |
| Share issuance in excess of par value | $ 1,684,493 | $ 3,561,389 |
| From business combination | 8,482,381 | 8,482,381 |
| May be used to offset a deficit only (2) | | |
| Arising from changes in percentage of ownership interest in subsidiaries | - | 14,388 |
| | $ 10,166,874 | $ 12,058,158 |

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or may be transferred to share capital once a year within a certain percentage of the Company's capital surplus.

2) Such capital surplus arises from the effect of changes in ownership interest in a subsidiary, with these changes treated as equity transactions instead of actual disposal or acquisition of ownership interests, or from changes in capital surplus of subsidiaries.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 16, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' and directors' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses in previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to Note 21, d. on employee benefit expense.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures or plans to improve financial structure.

Legal reserve may be used to offset a deficit. If the Company has no deficit and the legal reserve exceeds 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings of 2015 and 2014 have been approved in the stockholders' meeting on June 16, 2016 and June 18, 2015, respectively, were as follows:

| | Appropriation of Earnings For the Year Ended December 31 | | Dividends Per Share (NT$) For the Year Ended December 31 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Legal reserve | $ 1,143,672 | $ 1,148,415 | | |
| Special reserve | (54,573) | 68,731 | | |
| Cash dividends | 10,342,482 | 10,319,672 | $3.174 | $3.167 |

In addition to distributing cash dividends at NT$3.174 and NT$3.167 per share from the unappropriated earnings, the Company's stockholders also approved to distribute cash of $1,876,896 thousand and $1,899,706 thousand, respectively, from the above-mentioned additional paid-in capital - share issuance in excess of par value at NT$0.576 and NT$0.583 per share, respectively, with the Company's stockholders to receive NT$3.75 per share in 2015 and 2014, respectively.

The appropriation of earnings for 2016 was proposed by the Company's board of directors on February 15, 2017. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 1,134,683 | |
| Special reserve | 13,560 | |
| Cash dividends | 10,195,849 | $ 3.129 |

In addition to distributing cash dividends at NT$3.129 per share from unappropriated earnings, the Company's board of directors approved the cash distribution of $2,023,529 thousand from the additional paid-in capital-share issuance in excess of par value and from business combination at NT$0.621 per share. Thus, the Company's stockholders will receive NT$3.75 per share in 2017.

The appropriation of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 23, 2017.

d. Special reserve

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Beginning balance | $ 824,480 | $ 755,749 |
| (Reverse) appropriation in respect of | | |
| Application of the fair value model to investment properties | (40,688) | 36,666 |
| Debit to other equity items | (13,885) | 32,065 |
| Ending balance | $ 769,907 | $ 824,480 |



e. Other equity items

Other adjustment for the years ended December 31, 2016 and 2015 and 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 Cash Flow Hedge | Total |
|---|---|---|---|---|
| For the year ended December 31, 2016 | | | | |
| Beginning balance | $ 829 | $ 14,625 | $ (140,666) | $ (125,212) |
| Recorded as adjustments to stockholders' equity | - | 2,482 | (61,333) | (58,851) |
| Recorded as profit or loss | - | (7,234) | 34,519 | 27,285 |
| Share of other comprehensive income of subsidiaries and associates | 3,809 | (55,745) | 75,235 | 23,299 |
| Ending balance | $ 4,638 | $ (45,872) | $ (92,245) | $ (133,479) |
| For the year ended December 31, 2015 | | | | |
| Beginning balance | $ 2,156 | $ 99,084 | $ (240,337) | $ (139,097) |
| Recorded as adjustments to stockholders' equity | - | 8,305 | (9,645) | (1,340) |
| Recorded as profit or loss | (4) | (23,019) | 4,665 | (18,358) |
| Share of other comprehensive income of subsidiaries and associates | (1,323) | (69,745) | 104,651 | 33,583 |
| Ending balance | $ 829 | $ 14,625 | $ (140,666) | $ (125,212) |

## 20. REVENUE

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Sales of inventories | $ 15,659,302 | $ 16,574,214 |
| Telecommunications service revenue | 59,414,591 | 61,146,690 |
| Other | 3,765,002 | 3,044,818 |
| | $ 78,838,895 | $ 80,765,722 |

## 21. NET INCOME

Net income included some items as follows:

a. Other income

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Rent revenue | $ 63,280 | $ 65,906 |
| Management service revenue | 50,470 | 52,377 |
| Interest revenue | 24,740 | 29,149 |
| Government grant | 4,647 | 6,572 |
| | $ 143,137 | $ 154,004 |

b. Depreciation and amortization

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | $ 7,351,816 | $ 6,577,924 |
| Intangible asset | 644,334 | 669,623 |
| | $ 7,996,150 | $ 7,247,547 |
| Depreciation expense categorized by function | | |
| Operating costs | $ 6,528,558 | $ 5,819,309 |
| Operating expenses | 823,258 | 758,615 |
| | $ 7,351,816 | $ 6,577,924 |
| Amortization expense categorized by function | | |
| Operating costs | $ 231,546 | $ 273,181 |
| Marketing expenses | 92,722 | 83,533 |
| General and administrative expenses | 320,066 | 312,909 |
| | $ 644,334 | $ 669,623 |

c. Finance costs

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Interest expense on bank loans and commercial paper | $ 109,655 | $ 57,582 |
| Unwinding of discounts on provisions | 6,501 | 5,984 |
| Interest on financial liabilities measured at amortized cost | 350,919 | 345,593 |
| Levied interest on income tax reexamination | - | 60,002 |
| Other finance costs | 3,084 | 2,544 |
| | $ 470,159 | $ 471,705 |



d. Employee benefit expense

| | For the Year Ended December 31, 2016 Operating Costs | Operating Expenses | Costs or Expenses Deduction | Total |
|---|---|---|---|---|
| Retirement benefit | | | | |
| Defined contribution plans | $ 39,673 | $ 160,763 | $ 42,492 | $ 242,928 |
| Defined benefit plans | 5,253 | 21,284 | - | 26,537 |
| Other employee benefits | | | | |
| Salary | 737,590 | 3,594,468 | 781,367 | 5,113,425 |
| Insurance | 58,133 | 326,305 | 61,070 | 445,508 |
| Other | 20,665 | 239,035 | 25,628 | 285,328 |
| | $ 861,314 | $ 4,341,855 | $ 910,557 | $ 6,113,726 |

| | For the Year Ended December 31, 2015 Operating Costs | Operating Expenses | Costs or Expenses Deduction | Total |
|---|---|---|---|---|
| Retirement benefit | | | | |
| Defined contribution plans | $ 39,377 | $ 195,811 | $ 45,943 | $ 281,131 |
| Defined benefit plans | 5,416 | 22,108 | - | 27,524 |
| Other employee benefits | | | | |
| Salary | 660,135 | 3,629,680 | 812,515 | 5,102,330 |
| Insurance | 55,666 | 318,922 | 67,147 | 441,735 |
| Other | 18,625 | 229,882 | 25,493 | 274,000 |
| | $ 779,219 | $ 4,396,403 | $ 951,098 | $ 6,126,720 |

The Company provided management services to certain equity-method subsidiaries. The employee expenses were charged on the basis of agreed-upon terms and recorded as reduction of operating costs or expenses.

There were 6,412 and 6,560 employees in the Company as of December 31, 2016 and 2015, respectively.

1) Employees' compensation and remuneration to directors during 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles resolved by the stockholder's meeting in June 2016, the amendments stipulate distribution of employees' compensation and remuneration to directors at the rates of 1% to 2% and no higher than 1%, respectively, of net profit before income tax, employees' compensation and remuneration to directors. For the years ended December 31, 2016 and 2015, the employees' compensation and the remuneration to directors represented 2% and 0.72%, respectively, of the net profit before income tax.

The accrued employees' compensation and remuneration to directors for the years ended December 31, 2016 and 2015 were as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Employees' compensation | $ 262,208 | $ 283,550 |
| Remuneration to directors | $ 94,395 | $ 102,078 |

If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

There was no difference between the actual amounts of the bonus to employees and the remuneration to directors and supervisors during 2015 and the amounts recognized in the financial statements for the years ended December 31, 2015.

Information on employees' compensation and the remuneration to directors resolved by the Company's board of directors during 2017 and 2016 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration to directors and supervisors for 2014

The bonuses to employees and remuneration to directors and supervisors for 2014 which have been approved in the shareholders' meetings on June 18, 2015, were as follows:

| | For the Years Ended December 31, 2014 | |
|---|---|---|
| | Cash | Share |
| Bonus to employees | $ 205,340 | $ - |
| Remuneration of directors and supervisors | 102,670 | - |

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the Company's shareholders' meeting on June 18, 2015 and the amounts recognized in the financial statements for the years ended December 31, 2014.

Information on the bonus to employees and remuneration to directors and supervisors approved by the Company's shareholders' meetings during 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 22. INCOME TAX

a. The major components of tax expense recognized in profit or loss

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | $ 1,449,391 | $ 1,991,192 |
| Deferred tax | (42,420) | 363,969 |
| Income tax expense recognized in profit or loss | $ 1,406,971 | $ 2,355,161 |



A reconciliation of accounting profit and income tax expenses is as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit before tax | $ 12,798,274 | $ 13,840,856 |
| Income tax expense computed at statutory tax rate | $ 2,175,707 | $ 2,352,946 |
| Add (deduct) tax effects of: | | |
| Equity-method investment | (619,535) | (493,754) |
| Other | (151,685) | 437,001 |
| Prior year's adjustment | 2,484 | 58,968 |
| Income tax expense | $ 1,406,971 | $ 2,355,161 |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Company in ROC.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

b. Income tax expense recognized in other comprehensive income

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax | | |
| Current year: | | |
| Unrealized gains and losses on available-for-sale financial assets | $ (463) | $ 3,014 |
| Fair value changes of hedging instruments for cash flow hedges | 6,928 | 1,020 |
| Remeasurement on defined benefit plan | 7,072 | 12,087 |
| Income tax recognized in other comprehensive income | $ 13,537 | $ 16,121 |

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Allowance for doubtful accounts | $ 296,681 | $ 35,008 | $ - | $ 331,689 |
| Property, plant and equipment | 56,888 | 51,891 | - | 108,779 |

(Continued)

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Defined benefit obligation | $ 123,077 | $ (1,654) | $ 7,072 | $ 128,495 |
| Others | 180,246 | 74,150 | 6,465 | 260,861 |
| | $ 656,892 | $ 159,395 | $ 13,537 | $ 829,824 |
| Deferred tax liabilities | | | | |
| Amortization of goodwill | $ 1,344,702 | $ 134,473 | $ - | $ 1,479,175 |
| Investment property | 34,299 | (17,498) | - | 16,801 |
| | $ 1,379,001 | $ 116,975 | $ - | $ 1,495,976 |

(Concluded)

For the year ended December 31, 2015

| | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Allowance for doubtful accounts | $ 348,922 | $ (52,241) | $ - | $ 296,681 |
| Property, plant and equipment | 259,526 | (202,638) | - | 56,888 |
| Defined benefit obligation | 112,457 | (1,467) | 12,087 | 123,077 |
| Others | 148,160 | 28,052 | 4,034 | 180,246 |
| | $ 869,065 | $ (228,294) | $ 16,121 | $ 656,892 |
| Deferred tax liabilities | | | | |
| Amortization of goodwill | $ 1,210,232 | $ 134,470 | $ - | $ 1,344,702 |
| Investment property | 33,094 | 1,205 | - | 34,299 |
| | $ 1,243,326 | $ 135,675 | $ - | $ 1,379,001 |

d. Integrated income tax information is as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Unappropriated earnings generated on and after 1998 | $ 11,346,830 | $ 11,436,725 |
| Balance of imputation credit account (ICA) | $ 1,394,481 | $ 2,197,359 |



| | For the Years Ended December 31 2016 (Expected) | For the Years Ended December 31 2015 |
|---|---|---|
| Creditable ratio for distribution of earnings | 18.30% | 20.48% |

e. Income tax assessments

Income tax returns through 2014 of the Company had been assessed by the tax authorities.

## 23. EARNINGS PER SHARE

The earnings and weighted average number of common shares used in the calculation of basic earnings per share were as follows:

**Net Income**

| | For the Years Ended December 31 2016 | For the Years Ended December 31 2015 |
|---|---|---|
| Net income | $ 11,391,303 | $ 11,485,695 |
| Effect of dilutive potential common stock: | | |
| Employees' compensation | - | - |
| Earnings used in the calculation of diluted earnings per share | $ 11,391,303 | $ 11,485,695 |

**Common Stock**

**(In Thousand Shares)**

| | For the Years Ended December 31 2016 | For the Years Ended December 31 2015 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings per share | 3,258,501 | 3,258,501 |
| Effect of dilutive potential common stock: | | |
| Employees' compensation | 4,150 | 5,652 |
| Weighted average number of common shares used in the calculation of diluted earnings per share | 3,262,651 | 3,264,153 |

If the Company offers to settle compensation or bonuses paid to employees in cash or shares, the Company will assume the entire amount of the compensation or bonus will be settled in shares, and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares will be included in the calculation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 24. EQUITY TRANSACTION WITH NONCONTROLLING INTERESTS

The subsidiary of the Company subscribed for new common shares issued by Far Eastern New Century Information Technology (Beijing) at a percentage different from existing ownership percentage for the year ended December 31, 2016, and hence increased its interest.

The above transaction was accounted for as an equity transaction, since the Company did not lose control over the subsidiary. Related information is shown on Note 29 of the financial statements of the Company as of and for the year ended December 31, 2016.

## 25. OPERATING LEASE ARRANGEMENTS

a. The Company as lessee

Operating leases relate to leases of buildings, cell sites and office space with lease terms of between 1 and 15 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews.

The future minimum lease payments of noncancellable operating lease commitments are as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Not later than 1 year | $ 3,052,304 | $ 3,255,988 |
| Later than 1 year and not later than 5 years | 4,803,145 | 5,911,670 |
| Later than 5 years | 26,921 | 38,967 |
| | $ 7,882,370 | $ 9,206,625 |

The lease payments recognized as expenses were as follows:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Minimum lease payment | $ 3,524,520 | $ 3,602,151 |

b. The Company as lessor

Operating leases relate to the investment properties owned by the Company please refer to Note 12.

## 26. CAPITAL MANAGEMENT

The Company is required to maintain sufficient capital to meet the minimum paid-in capital requirements for the telecommunication industry, and to finance the upgrade of its telecommunications network. Thus, the Company's capital management focuses on its operating plan to ensure good profitability and financial structure and to meet the demand for working capital, capital expenditures, debt repayment and dividends for the next 12 months.



## 27. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

1) Except as detailed in the following table, the Company consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

| | December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Refundable deposits | $ 436,954 | $ 435,782 | $ 469,208 | $ 467,614 |
| Financial liabilities | | | | |
| Bonds payable | 18,387,581 | 18,585,857 | 19,980,348 | 20,057,401 |

2) Fair value hierarchy

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Refundable deposits | $ - | $ - | $ 435,782 | $ 435,782 |
| Financial liabilities | | | | |
| Bonds payable | $ 18,585,857 | $ - | $ - | $ 18,585,857 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Refundable deposits | $ - | $ - | $ 467,614 | $ 467,614 |
| Financial liabilities | | | | |
| Bonds payable | $ 20,057,401 | $ - | $ - | $ 20,057,401 |

The fair values of the financial assets included in the Level 3 category above have been determined in accordance with discounted cash flow approach based on average discount rate of commercial papers.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Hedging derivative financial assets | | | | |
| Forward exchange contracts | $ - | $ - | $ 2,073 | $ 2,073 |
| Hedging derivative financial liabilities | | | | |
| Forward exchange contracts | $ - | $ - | $ 40,229 | $ 40,229 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Hedging derivative financial assets | | | | |
| Forward exchange contracts | $ - | $ - | $ 3,790 | $ 3,790 |
| Hedging derivative financial liabilities | | | | |
| Forward exchange contracts | $ - | $ - | $ 3,916 | $ 3,916 |
| Cross-currency swap contracts | - | - | 1,775 | 1,775 |
| | $ - | $ - | $ 5,691 | $ 5,691 |

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

2) Reconciliation of Level 3 fair value measurements of financial instruments:

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Hedging derivative financial instruments | | |
| Beginning balance | $ (1,901) | $ (3,150) |
| Recognized in profit or loss (included in other gains and losses) | 41,589 | 5,621 |
| Recognized in other comprehensive income | (77,844) | (4,372) |
| Ending balance | $ (38,156) | $ (1,901) |

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

| Financial Instruments | Valuation Techniques and Inputs |
|---|---|
| Forward exchange contracts | Cash flow is discounted. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates are discounted at a rate that reflects the credit risk of various counterparties. |
| Cross-currency swap contracts | 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. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Financial assets | | |
| Derivative financial assets for hedging | $ 2,073 | $ 3,790 |
| Loans and receivables (Note 1) | 10,516,800 | 23,311,473 |
| Available-for-sale financial assets (Note 2) | 150,000 | 150,000 |
| Financial liabilities | | |
| Derivative financial liabilities for hedging | 40,229 | 5,691 |
| Measured at amortized cost (Note 3) | 49,667,176 | 59,834,636 |

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), lease receivables, refundable deposits, other financial assets and loans and receivables measured at amortized cost.

Note 2: The balances included the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balances included the carrying amount of short-term borrowings, notes payable, accounts payable (including related parties), other payables (including related parties), lease payables, bonds payable (including current portion), long-term borrowings and guarantee deposits received, which were measured at amortized cost.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, accounts payable, bonds payable and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include currency risk, interest rate risk, credit risk and liquidity risk. In order to reduce financial risk, the Company is committed to identify, assess and avoid the uncertainty of the market and reduce the market changes against the Company's financial performance potential downside effects.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The compliance with policies and exposure limits are reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function is reviewed by the Company's board of directors in accordance with related rules and internal control system. The Company should implement the overall financial management objective as well as observe the levels of delegated authority and ensure that those with delegated authority carry out their duties.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company managed the risk of change in the foreign currency exchange through cross-currency swap contracts and forward exchange contracts.

a) Foreign currency risk

The Company undertakes transactions and expected future purchase denominated in foreign currencies; consequently, the exposures to exchange rate fluctuations arise. Exchange rate exposures are managed through cross-currency swap contracts and forward exchange contracts.

Foreign currency sensitivity analysis

The Company was mainly exposed to U.S. dollars and Euro.

The following table details the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (NTD) against the U.S. dollar and EUR. The 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel, and it represents management's basis for assessing the reasonable possible changes in foreign exchange rates for reasonableness. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items, for which their translation at period end is adjusted for a 5% change in foreign currency rates. The positive number shown in the currency impact table below indicates an increase in profit or equity where the NTD strengthened 5% against the U.S. dollar and EUR. For a 5% weakening of the NTD against U.S. dollar and EUR, shown by the negative amount below, there was a decrease in profit or equity.

| | Impact For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit or loss | | |
| USD | $ (15,944) | $ (23,738) |
| EUR | $ 11,485 | $ 8,403 |

b) Interest rate risk

The Company is exposed to interest rate risk because entities in the Company borrow loans at both fixed and floating interest rates. To manage this risk, the Company maintains an appropriate mix of fixed and floating rate borrowings.

The carrying amount of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Fair value interest rate risk | | |
| Financial assets | $ 2,719,805 | $ 13,438,846 |
| Financial liabilities | 34,877,538 | 33,111,444 |
| Cash flow interest rate risk | | |
| Financial assets | 1,205,633 | 3,502,577 |
| Financial liabilities | 3,348,345 | 14,490,001 |



Sensitivity analysis

The sensitivity analysis described below was based on the Company's exposure to interest rates for financial assets and financial liabilities at the end of the reporting period. An increase or decrease of 25 basis points is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. For 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.

If interest rates had been 25 basis points higher/lower and all other variables been held constant, the income before income tax for the years ended December 31, 2016 and 2015 would have decreased/increased by $5,357 thousand and $27,469 thousand, respectively, mainly affected by borrowings and deposits with floating interest rate.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations, resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Company is arising from:

a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and

b) The amount of contingent liabilities in relation to financial guarantee issued by the Company.

The Company 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 Company did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. The Company's unutilized overdraft and bank loan facilities amounted to $33,138,367 thousand and $33,094,830 thousand as of December 31, 2016 and 2015, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on undiscounted contractual payments but did not include the financial liabilities with carrying amounts that approximated contractual cash flows:

| | Book Value | Contract Cash Flows | Less than 1 Year | 1-5 Years | More than 5 Years |
|---|---|---|---|---|---|
| December 31, 2016 | | | | | |
| Short-term borrowings | $ 2,400,000 | $ 2,401,450 | $ 2,401,450 | $ - | $ - |
| Short-term commercial papers | 2,799,387 | 2,800,000 | 2,800,000 | - | - |
| Long-term borrowings | 14,048,345 | 14,266,585 | 108,370 | 14,158,215 | - |
| Bonds payable | 18,387,581 | 18,958,220 | 6,460,900 | 12,497,320 | - |
| | $ 37,635,313 | $ 38,426,255 | $ 11,770,720 | $ 26,655,535 | $ - |
| December 31, 2015 | | | | | |
| Other payables - related parties | $ 6,500,000 | $ 6,534,863 | $ 6,534,863 | $ - | $ - |
| Long-term borrowings | 20,490,001 | 20,803,785 | 27,875 | 20,775,910 | - |
| Bonds payable | 19,980,348 | 20,837,840 | 1,879,620 | 18,958,220 | - |
| | $ 46,970,349 | $ 48,176,488 | $ 8,442,358 | $ 39,734,130 | $ - |

## 28. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, details of transactions between the Company and its related parties are disclosed below.

a. Operating revenue

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Far Eastern New Century | $ 3,218 | $ 3,822 |
| Subsidiaries of Far Eastern New Century | 164,361 | 54,995 |
| Subsidiaries | 1,279,410 | 1,270,067 |
| Other related parties | 26,373 | 26,385 |
| | $ 1,473,362 | $ 1,355,269 |

Operating revenue from related parties include revenue from sales of inventories, telecommunication service and leased circuit, of which the terms and conditions conformed to normal business practice.

b. Operating costs and expenses

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Cost of telecommunications service | | |
| Subsidiaries of Far Eastern New Century | $ 2,726 | $ - |
| Subsidiaries | 4,094,135 | 4,145,437 |
| | $ 4,096,861 | $ 4,145,437 |



| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Purchase | | |
| Subsidiaries | $ 13,554,628 | $ 15,353,465 |
| Rental (included in operating cost) | | |
| Far Eastern New Century | $ 1,720 | $ 1,549 |
| Subsidiaries of Far Eastern New Century | 7,452 | 7,370 |
| Subsidiaries | 21,334 | 20,714 |
| Other related parties | 19,576 | 18,615 |
| | $ 50,082 | $ 48,248 |
| Rental (included in operating expense) | | |
| Far Eastern New Century | $ 2,867 | $ 2,849 |
| Subsidiaries of Far Eastern New Century | 41,463 | 42,280 |
| Subsidiaries | 57,436 | 57,280 |
| Other related parties | 46,719 | 64,639 |
| | $ 148,485 | $ 167,048 |
| Marketing expense | | |
| Subsidiaries of Far Eastern New Century | $ 59,061 | $ 52,144 |
| Subsidiaries | 594,020 | 633,888 |
| Other related parties | 8,423 | 18,815 |
| | $ 661,504 | $ 704,847 |
| Service fee | | |
| Far Eastern New Century | $ 595 | $ 571 |
| Subsidiaries of Far Eastern New Century | 106,585 | 106,058 |
| Subsidiaries | 25,672 | 21,365 |
| Other related parties | 12 | 27,308 |
| | $ 132,864 | $ 155,302 |
| Telephone fee | | |
| Subsidiaries | $ 56,824 | $ 51,630 |
| Other related parties | 56 | 3 |
| | $ 56,880 | $ 51,633 |
| Other expense | | |
| Far Eastern New Century | $ 130,027 | $ 102,923 |
| Subsidiaries of Far Eastern New Century | 19,852 | 232 |
| Subsidiaries | 21,207 | 16,000 |
| Other related parties | 11,313 | 4,386 |
| | $ 182,399 | $ 123,541 |

The above companies provide telecommunication services to the Company. The terms and conditions conformed to normal business practice.

All the terms and conditions of above rental contract conformed to normal business practice.

c. Property transactions

| | For the Years Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Acquisition of equity-method investment | | |
| Associates | $ 30,000 | $ - |
| Subsidiaries of Far Eastern New Century | - | 79,500 |
| | $ 30,000 | $ 79,500 |
| Acquisition of property, plant and equipment and intangible assets | | |
| Subsidiaries of Far Eastern New Century | $ 2,201 | $ 7,741 |
| Subsidiaries | 20,008 | 4,909 |
| | $ 22,209 | $ 12,650 |
| Disposal of available-for-sale financial assets | | |
| Other related parties | $ - | $ 181,419 |

The fund transaction between the Company and Opas Fund Segregated Portfolio Company ("Opas Company") was carrying out investment to acquisition and disposal the overseas fund including Opas Fund Segregated Portfolio Tranche "D" through the trading platform of Opas Company. The decisions on overseas mutual funds with different tranches were made by the investment committee which is formed with the Company and other investors. For the year ended December 31, 2015, the Company disposed of funds with carrying amounts of $158,400 thousand. The disposal proceed was $181,419 thousand, and the gains on fund disposal was $23,019 thousand. As of December 31, 2015, the Company has not received the proceeds which were included in other receivables - related parties.

For the expansion of future business, the Company participated in the issuance for cash by the associates and the subsidiaries of Far Eastern New Century.

d. Bank deposits, debt investments with no active market and other financial assets

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other related parties | $ 2,964,632 | $ 2,811,934 |

The Company had bank deposits in Far Eastern International Bank (FEIB). These deposits included a portion of the proceeds of the Company's sale of prepaid cards. This portion, which referred to sold but unused prepaid cards, had been consigned to FEIB as trust fund and was included in other financial assets - current.



e. Receivables and payables - related parties

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Accounts receivable - related parties | | |
| Far Eastern New Century | $ 11 | $ 10 |
| Subsidiaries of Far Eastern New Century | 33,615 | 10,757 |
| Subsidiaries | 249,332 | 171,575 |
| Other related parties | 19,704 | 19,641 |
| | $ 302,662 | $ 201,983 |
| Other receivables - related parties (not including loans to related parties) | | |
| Subsidiaries of Far Eastern New Century | $ 2,625 | $ 4,255 |
| Subsidiaries | 74,130 | 244,085 |
| Other related parties | 2,807 | 191,043 |
| | $ 79,562 | $ 439,383 |
| Lease receivables (including current portion) | | |
| Subsidiaries | $ 2,691 | $ 10,730 |
| Accounts payable - related parties | | |
| Subsidiaries of Far Eastern New Century | $ - | $ 152 |
| Subsidiaries | 1,124,636 | 1,248,400 |
| Other related parties | 183 | - |
| | $ 1,124,819 | $ 1,248,552 |
| Other payables - related parties (not including loans from related parties) | | |
| Far Eastern New Century | $ 32,393 | $ 32,982 |
| Subsidiaries of Far Eastern New Century | 91,977 | 74,744 |
| Subsidiaries | 947,112 | 888,862 |
| Other related parties | 5,800 | 13,380 |
| | $ 1,077,282 | $ 1,009,968 |

f. Refundable deposits

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Refundable deposits | | |
| Subsidiaries of Far Eastern New Century | $ 30,810 | $ 34,309 |
| Subsidiaries | 4,414 | 4,414 |
| Other related parties | 1,491 | 1,641 |
| | $ 36,715 | $ 40,364 |

g. Other

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Management service revenue | | |
| Subsidiaries | $ 50,470 | $ 52,377 |
| Interest revenue (not including interest revenue of loans to related parties) | | |
| Subsidiaries of Far Eastern New Century | $ 21 | $ 24 |
| Subsidiaries | 42 | 90 |
| Other related parties | 18,781 | 22,375 |
| | $ 18,844 | $ 22,489 |
| Rental revenue | | |
| Subsidiaries | $ 38,673 | $ 40,208 |

All the terms and conditions of the above rental contracts conformed to normal business practice.

h. Endorsement and guarantee

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Endorsement and guarantee fee income | | |
| Subsidiaries | $ 7 | $ 23 |

Under the NCC's policy effective April 1, 2007, the Company had provided performance guarantees amounting to $45,000 thousand to KGEx. The guarantee service revenue was charged on the basis of actual appropriation amounts multiplied at the agreed rate. The endorsement was terminated on May 1, 2016.

i. Loans to related parties (included in other current assets)

| | December 31 2016 | 2015 |
|---|---|---|
| Other receivables | | |
| Subsidiaries | $ - | $ 241,000 |

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Interest revenue | | |
| Subsidiaries | $ 1,015 | $ 2,590 |

The Company provided Q-ware Com. with short-term loans of rates comparable to the market rate of interest.



j. Loans from related parties (included in other payables - related parties)

| | December 31 2016 | 2015 |
|---|---|---|
| Subsidiaries | $ - | $ 6,500,000 |

The Company obtained loans at rates comparable to market interest rates for the loans from New Century Infocomm Tech Co., Ltd. The interest expense was $64,469 thousand and $58,721 thousand as of and for the years ended 2016 and 2015, respectively.

k. Compensation of key management personnel

| | For the Years Ended December 31 2016 | 2015 |
|---|---|---|
| Short-term benefits | $ 286,835 | $ 284,623 |
| Post-employment benefits | 2,736 | 2,918 |
| | $ 289,571 | $ 287,541 |

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 29. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2016 and 2015 were as follows:

a.

| | December 31 2016 | 2015 |
|---|---|---|
| Acquisition of property, plant and equipment under contracts | $ 4,679,037 | $ 5,437,777 |
| Less: Payments for acquisition of property, plant and equipment | 1,543,214 | 1,446,484 |
| | $ 3,135,823 | $ 3,991,293 |
| Acquisition of cellular phone equipment under contract | $ 12,699,022 | $ 11,563,115 |
| Less: Payments for acquisition of cellular phone equipment | 7,564,042 | 7,837,254 |
| | $ 5,134,980 | $ 3,725,861 |

b. In May 2015, the Company applied to the Taipei District Court for a temporary injunction order against Taiwan Mobile Co., Ltd. (TWM) for TWM's violation of the agreement between the Company and TWM and prohibited TWM from using the C1 spectrum till TWM escheats the C4 spectrum to NCC. On July 1, 2015, the Taipei District Court approved the issuance of a preliminary injunction.

On April 28, 2016, the Taipei District Court ruled on the other application for a temporary injunction order that TWM has to return the C4 spectrum to NCC and is prohibited from any use of the spectrum.

As of February 15, 2017, the Company has lodged $1,200,000 thousand in negotiable certificates of deposit as security for the execution of the provisional injunction order ruling while TWM provided a counter-security of $1,474,119 thousand to waive the provisional injunction order ruling.

On July 28, 2015, the Company filed a civil litigation against TWM, asking TWM to escheat the C4 spectrum immediately and declared that TWM should refrain from using the C1 spectrum even before escheating the C4 spectrum. At the same time, the Company demanded a compensation of $1,005,800 thousand from TWM.

The Taipei District Court pronounced the judgement on May 23, 2016 that TWM has to return the C4 spectrum immediately and is prohibited from any use of the spectrum. The Company lodged $321,000 thousand in negotiable certificates of deposit as security for the provisional execution of the judgment. However, the provisional execution was waived after TWM provided a counter-security of $961,913 thousand. Both the Company and TWM appealed against the judgment in terms of their unfavorable parts.

## 30. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

To enter the cable television market and strengthen the domain of digital convergence, the Company planned to enter into a strategic alliance with Morgan Stanley Private Equity Asia IV, LLC (MSPE Asia) and seek opportunities to cooperate with China Network Systems Group (CNS Group) by acquiring corporate bonds in the future. For this alliance, on July 30, 2015, the board of directors of the Company resolved to enter into a cooperation agreement with the subsidiaries to be individually established by North Haven Private Equity Asia IV Holdings Limited (NHPEA), which is managed by MSPE Asia to regulate future rights and obligations between the Company and MSPE Asia. Under the cooperation agreement, the Company may subscribe for the corporate bonds to be issued by the subsidiaries to be directly/indirectly owned by NHPEA and to be established in the ROC in order to provide certain technology and advisory services as well as to explore other potential opportunities for collaboration as allowed under ROC laws and regulations. The Company's total subscription of the subsidiaries' corporate bonds should not exceed $17,120,000 thousand.

If the Company cannot acquire the permission from the government authorities, then the original shareholders of CNS Group or its related parties could become the Company's strategic cooperative partners under certain conditions. For this cooperative partnership, the board of directors of the Company resolved to sign a contract with the above subsidiaries, and Evergreen Jade Sdn. Bhd. and Goodwill Tower Sdn. Bhd., both of whom are shareholders of CNS Group, to regulate the rights and obligations of each party. However, the Company received a notice of termination of all relevant contracts as the original shareholders of CNS Group and MSPE Asia are in the process of withdrawing the application for the CNS transaction with relevant competent authorities. Thus, the subsidiaries owned by NHPEA will not issue the aforementioned corporate bonds, and the Company suspends the plan from subscribing the bonds. All related contracts signed by the Company are ineffective accordingly.



## 31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

**(In Thousands, Except Exchange Rate)**

| | December 31, 2016 | | |
|---|---|---|---|
| | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 12,772 | 32.25 | $ 411,896 |
| EUR | 151 | 33.90 | 5,132 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,885 | 32.25 | 93,025 |
| EUR | 6,927 | 33.90 | 234,828 |
| Nonmonetary items | | | |
| USD | 1,537 | 32.25 | 49,568 |

| | December 31, 2015 | | |
|---|---|---|---|
| | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 22,382 | 32.825 | $ 734,685 |
| EUR | 72 | 35.88 | 2,566 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 7,918 | 32.825 | 259,922 |
| EUR | 4,756 | 35.88 | 170,629 |
| Nonmonetary items | | | |
| USD | 1,501 | 32.825 | 49,267 |

The significant foreign exchange gains (losses) were as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| **Foreign Currencies** | **Exchange Rate** | **Net Foreign Exchange Gains (Losses)** | **Exchange Rate** | **Net Foreign Exchange Gains (Losses)** |
| EUR | 35.7 (EUR:NTD) | $ 14,600 | 35.24 (EUR:NTD) | $ 10,446 |
| USD | 32.263 (USD:NTD) | 3,069 | 31.739 (USD:NTD) | (6,526) |
| | | $ 17,669 | | $ 3,920 |

**32. SEPARATELY DISCLOSED ITEMS**

a. Information about insignificant transactions and the Company's investees:

1) Financing provided to others: Schedule A

2) Endorsement/guarantee provided: Schedule B

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities): Schedule C

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: None

5) Acquisition of real estate at costs of at least NT$300 million or 20% of the paid-in capital: None

6) Disposal of real estate at prices of at least NT$300 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule D

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule E

9) Trading in derivative transactions: Note 7

10) Information on investees: Schedule F

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Schedule G

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as rendering or receiving services.

SCHEDULE A

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**FINANCING PROVIDED TO OTHERS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| No. | Lender | Borrower | Financial Statement Account | Related Parties | Highest Balance for the Period | Ending Balance | Actual Borrowing Amount | Interest Rate | Nature of Financing | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral | | Financing Limit for Each Borrower (Notes A and B) | Aggregate Financing Limits (Notes A and B) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | Far EasTone Telecommunications Co., Ltd. | Q-ware Communications Co., Ltd. | Other receivables - related parties | Yes | $ 250,000 | $ - | $ - | 1.45%-1.53% | Short-term financing | $ - | For business operations | $ - | - | $ - | $ 7,100,602 | $ 35,503,009 |
| 1 | New Century InfoComm Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Other receivables - related parties | Yes | 4,500,000 | 4,200,000 | - | 0.83%-1% | Short-term financing | - | For business operations | - | - | - | 4,809,105 | 12,022,763 |
| | | Far EasTone Telecommunications Co., Ltd. | Other receivables - related parties | Yes | 4,000,000 | 4,000,000 | - | 0.83%-1% | Transaction | 4,287,402 | - | - | - | - | 4,287,402 | 12,022,763 |
| | | Q-ware Communications Co., Ltd. | Other receivables - related parties | Yes | 250,000 | 250,000 | 190,000 | 1.33%-1.43% | Short-term financing | - | For business operations | - | - | - | 4,809,105 | 12,022,763 |

Note A: The maximum total financing provided amount should not exceed 50% of the Company'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 the Company's net worth of the most current audited or reviewed financial statements.

Note B: Where New Century InfoComrn Co., Ltd. ("NCIC") provides loans for business transactions and short-term financing needs, the amount of loans is limited to 50% of NCIC's net worth. A) For business transactions: The individual loan amount should not exceed the amount of business transaction amount between two parties. The business transaction amount referred to the estimated amount of the year of loan contract signing or the prior year's actual transaction amount. B) For short-term financing needs, the individual loan amount should not exceed 20% of NCIC's net worth.

SCHEDULE B

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**ENDORSEMENT/GUARANTEE PROVIDED**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| No. | Endorser/Guarantor | Endorsee/Guarantee | | Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note) | Maximum Amounts Endorsed/ Guaranteed During the Year | Outstanding Endorsement/ Guarantee at the End of the Year | Actual Borrowing Amount | Amount Endorsed/ Guaranteed by Collaterals | Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statement (%) | Aggregate Endorsement/ Guarantee Limit (Note) | Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries | Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent | Endorsement/ Guarantee Given on Behalf of Companies in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Relationship | | | | | | | | | | |
| 0 | Far EasTone Telecommunications Co., Ltd. | KGEx.com Co., Ltd. | Subsidiary | $ 35,503,009 | $ 45,000 | $ - | $ - | $ - | - | $ 71,006,018 | Yes | - | - |

Note: The maximum total endorsement/guarantee amount was equal to the Company's net worth, while the limit of endorsement/guarantee amount for each counterparty should not exceed 50% of the Company's net worth.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**MARKETABLE SECURITIES HELD**
**DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| Far EasTone Telecommunications Co., Ltd. | Stock | | | | | | | |
| | App Works Fund II Co., Ltd. | - | Financial assets carried at cost - noncurrent | 15,000,000 | $ 150,000 | 11.11 | $ - | B |
| ARCOA Communication Co., Ltd. | Stock | | | | | | | |
| | THI consultants | - | Financial assets carried at cost - noncurrent | 1,213,594 | 12,190 | 18.32 | - | B |
| | Web Point Co., Ltd. | - | Financial assets carried at cost - noncurrent | 160,627 | 1,618 | 0.63 | - | B |
| New Century InfoComm Tech Co., Ltd. | Stock | | | | | | | |
| | Kaohsiung Rapid Transit Corporation | - | Financial assets carried at cost - noncurrent | 8,858,191 | 50,000 | 3.18 | - | B |
| | Bank Pro E-service Technology Co., Ltd. | - | Financial assets carried at cost - noncurrent | 450,000 | 4,500 | 3.33 | - | B |
| | Overseas funds | | | | | | | |
| | Opas Fund Segregated Portfolio Tranche A | Other related party | Available-for-sale financial assets - current | 14,561.612 | 447,991 | - | 447,991 | A |
| | Opas Fund Segregated Portfolio Tranche C | Other related party | Available-for-sale financial assets - current | 4,133.591 | 150,141 | - | 150,141 | A |

Note A: The market values of open-end mutual funds were calculated at their net asset values as of December 31, 2016.

Note B: The fair values of financial assets carried at cost are not disclosed because they cannot be reliably measured.

SCHEDULE D

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Purchaser (Seller) of Goods | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | | % to Total |
| Far EasTone Telecommunications Co., Ltd. | ARCOA Communication Co., Ltd. | Subsidiary | Operating revenue | $ (196,692) | - | Based on agreement | $ - | - | Accounts receivable | $ 146,184 | 2 |
| | | | Cost of telecommunications services, marketing expenses and cost of sales | 14,185,110 | 23 | Based on agreement | - | - | Accounts payable and other payables | (1,061,313) | (10) |
| | New Century InfoComm Tech Co., Ltd. | Subsidiary | Operating revenue | (586,034) | (1) | Based on agreement | - | - | Accounts receivable | 770 | - |
| | | | Cost of telecommunications services | 3,701,368 | 8 | Based on agreement | - | - | Accounts payable and other payables (Note A) | (834,092) | (8) |
| | KGEx. com. Co., Ltd. | Subsidiary | Operating revenue | (131,035) | - | Based on agreement | - | - | Accounts receivable | 19,137 | - |
| | DataExpress Infotech Co., Ltd. | Subsidiary of ARCOA Communication Co., Ltd. | Operating revenue | (219,776) | - | Based on agreement | - | - | Accounts receivable | 41,714 | - |
| | Omusic Co., Ltd. | Subsidiary | Cost of telecommunications services | 224,634 | - | Based on agreement | - | - | Accounts payable | (37,431) | - |
| | Far Eastern Electronic Commerce Co., Ltd. | Same ultimate parent company | Operating revenue | (120,149) | - | Based on agreement | - | - | Accounts receivable | 19,515 | - |
| | Far Cheng Human Resource Consultant Corp. | Same ultimate parent company | Service fee | 106,585 | 1 | Based on agreement | - | - | Other payables | (9,492) | - |
| New Century InfoComm Tech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (3,701,368) | (29) | Based on agreement | - | - | Accounts receivable (Note B) | 834,092 | 49 |
| | | | Cost of telecommunications services | 586,034 | 7 | Based on agreement | - | - | Accounts payable | (770) | - |
| | KGEx. com. Co., Ltd. | Same parent company | Cost of telecommunications services | 149,976 | 2 | Based on agreement | - | - | Accounts payable and other payables | (25,425) | (2) |
| | Sino Lead Enterprise Limited | Subsidiary | Cost of telecommunications services | 110,692 | 1 | Based on agreement | - | - | Accounts payable | (21,709) | (3) |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (14,185,110) | (78) | Based on agreement | - | - | Accounts receivable | 1,061,313 | 75 |
| | | | Cost of telecommunications services and cost of sales | 196,692 | 1 | Based on agreement | - | - | Accounts payable | (146,184) | (12) |
| | Home Master Technology Ltd. | Subsidiary of DataExpress Infotech Co., Ltd. | Operating revenue | (107,529) | (1) | Based on agreement | - | - | Accounts receivable | 54 | - |
| KGEx. com. Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating cost | 131,035 | 27 | Based on agreement | - | - | Accounts payable | (19,137) | (36) |
| | New Century InfoComm Tech Co., Ltd. | Same parent company | Operating revenue | (149,976) | (26) | Based on agreement | - | - | Accounts receivable | 25,425 | 30 |
| Omusic Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Operating revenue | (224,634) | (98) | Based on agreement | - | - | Accounts receivable | 37,431 | 97 |
| Sino Lead Enterprise Limited | New Century InfoComm Tech Co., Ltd. | Parent company | Operating revenue | (110,692) | (100) | Based on agreement | - | - | Accounts receivable | 21,709 | 72 |
| DataExpress Infotech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | Cost of sales | 219,776 | 7 | Based on agreement | - | - | Accounts payable | (41,714) | (11) |
| | Linkwell Tech. Ltd. | Subsidiary | Cost of sales | 127,063 | 4 | Based on agreement | - | - | Accounts payable | (5,733) | (1) |
| | Home Master Technology Ltd. | Subsidiary | Operating revenue | (137,417) | (4) | Based on agreement | - | - | Accounts receivable | 98,056 | 27 |
| Linkwell Tech. Ltd. | DataExpress Infotech Co., Ltd. | Parent company | Operating revenue | (127,063) | (13) | Based on agreement | - | - | Accounts receivable | 5,733 | 21 |
| Home Master Technology Ltd. | ARCOA Communication Co., Ltd. | Parent company | Cost of sales | 107,529 | 23 | Based on agreement | - | - | Accounts payable | (54) | - |
| | DataExpress Infotech Co., Ltd. | Parent company | Operating cost | 137,417 | 30 | Based on agreement | - | - | Accounts payable | (98,056) | (87) |

Note A: All interconnect revenue, costs and collection of international direct dial revenue between the Company and NCIC were settled at net amounts and were included in accounts payable - related parties.

Note B: Including the receivables collected by the Company for NCIC.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Company Name | Related Party | Relationship | Ending Balance | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action Taken | | |
| Far EasTone Telecommunications Co., Ltd. | ARCOA Communication Co., Ltd. | Subsidiary | $ 150,827 | 12.10 | $ - | - | $ 105,670 | $ - |
| New Century InfoComm Tech Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | 918,936 | (Note A) | - | - | 707,189 | - |
| | Q-ware Communications Co., Ltd. | Same parent company | 191,871 | (Note B) | - | - | 638 | - |
| ARCOA Communication Co., Ltd. | Far EasTone Telecommunications Co., Ltd. | Parent company | 1,061,313 | 12.65 | - | - | 1,061,313 | - |

Note A: The turnover rate was unavailable as the receivables from related parties were due to the collection of telecommunications bills by the Company for NCIC.

Note B: The turnover rate was unavailable as the receivables from related parties were mainly due to financing provided for Q-ware by NCIC.

SCHEDULE F

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**INFORMATION ON INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Investment Amount | | As of December 31, 2016 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Shares | Percentage of Ownership (%) | Carrying Amount | | | |
| Far EasTone Telecommunication Co., Ltd. | New Century InfoComm Tech Co., Ltd. | Taiwan | Type I, II telecommunications services | $ 22,249,283 | $ 22,249,283 | 2,100,000,000 | 100.00 | $ 26,829,827 | $ 2,201,146 | $ 2,370,521 | A and B |
| | ARCOA Communication Co., Ltd. | Taiwan | Sales of communications products and office equipment | 1,305,802 | 1,305,802 | 82,762,221 | 61.63 | 1,299,781 | 163,563 | 100,339 | A and B |
| | KGEx. com. Co., Ltd. | Taiwan | Type II telecommunications services | 2,440,457 | 2,540,442 | 78,895,760 | 99.99 | 870,542 | 73,240 | 73,229 | A and B |
| | Hiiir Inc. | Taiwan | Electronic information providing services | 537,260 | 537,260 | 53,726,000 | 89.54 | (109,380) | (258,936) | (233,211) | A and B |
| | Yuan Cing Co., Ltd. | Taiwan | Call center services | - | 101,371 | 2,000,000 | 100.00 | 30,846 | 10,846 | 10,846 | A, B and H |
| | Far Eastern Info Service (Holding) Ltd. | Bermuda | Investment | 92,616 | 92,616 | 1,200 | 100.00 | (49,568) | (1,236) | (1,236) | A and B |
| | Omusic Co., Ltd. | Taiwan | Electronic information providing services | 25,000 | 25,000 | 2,500,000 | 50.00 | 8,146 | 8,442 | 4,221 | A and B |
| | Q-ware Communication Co., Ltd. | Taiwan | Type II telecommunications services | 832,038 | 832,038 | 33,982,812 | 81.46 | (76,817) | (17,064) | (13,902) | A and B |
| | Far Eastern Electronic Toll Collection Co., Ltd. | Taiwan | Electronic information providing services and electronic toll collection service | 2,542,396 | 2,542,396 | 118,250,967 | 39.42 | 685,125 | (30,408) | (12,412) | B and C |
| | Ding Ding Integrated Marketing Service Co., Ltd. | Taiwan | Marketing | 139,500 | 139,500 | 10,408,200 | 15.00 | 51,542 | (38,172) | (5,815) | B and C |
| | Alliance Digital Technology Co., Ltd. | Taiwan | Electronic information providing services | 60,000 | 30,000 | 6,000,000 | 14.40 | 33,869 | (75,570) | (10,248) | C and D |
| | Yuan Hsin Digital Payment Co., Ltd. | Taiwan | Other financing and supporting services | 450,000 | 450,000 | 32,658,426 | 30.00 | 237,364 | (297,401) | (89,094) | C and D |
| | Far Eastern Electronic Commerce Co., Ltd. | Taiwan | Electronic information providing services | 80,893 | 80,893 | 6,691,000 | 14.85 | (66,483) | (221,248) | (33,451) | B and C |
| ARCOA Communication Co., Ltd. | DataExpress Infotech Co., Ltd. | Taiwan | Sale of communications products | 141,750 | 141,750 | 12,866,353 | 70.00 | 180,328 | 24,929 | - | B and E |
| New Century InfoComm Tech Co., Ltd. | New Diligent Co., Ltd. | Taiwan | Investments | 1,060,000 | 800,000 | 106,000,000 | 100.00 | 632,467 | (169,673) | - | B and E |
| | Information Security Service Digital United Inc. | Taiwan | Security and monitoring service via internet | 148,777 | 148,777 | 10,249,047 | 100.00 | 108,990 | 6,829 | - | B and E |
| | Digital United (Cayman) Ltd. | Cayman Islands | Investments | 132,406 | 132,406 | 4,320,000 | 100.00 | 32,131 | 1,554 | - | B and E |
| | Far Eastern Electronic Commerce Co., Ltd. | Taiwan | Electronic information providing services | 28,922 | 28,922 | 2,392,000 | 5.31 | (23,767) | (221,248) | - | B and C |
| | Ding Ding Integrated Marketing Service Co., Ltd. | Taiwan | Marketing | 46,500 | 46,500 | 3,469,400 | 5.00 | 17,181 | (38,172) | - | B and C |
| New Diligent Co., Ltd. | Sino Lead Enterprise Limited | Hong Kong | Telecommunication services | 125 | 125 | - | 100.00 | 148 | 49 | - | B and E |
| | Far Eastern New Diligent Company Ltd. | British Virgin Islands | Investments | 330,598 | 133,048 | - | 100.00 | 52,008 | (174,364) | - | B and E |
| | New Diligent Hong Kong Co., Ltd. | Hong Kong | Investments | - | - | - | - | - | - | - | E and G |
| DataExpress Infotech Co., Ltd. | Linkwell Tech. Ltd. | Taiwan | Sale of communications products | 10,000 | 10,000 | - | 100.00 | 39,601 | (3,813) | - | B and E |
| | Home Master Technology Ltd. | Taiwan | Sale of communications products | 10,000 | 10,000 | - | 100.00 | (8,416) | 761 | - | B and E |

Note A: Subsidiary.

Note B: The calculation was based on audited financial statements as of December 31, 2016.

Note C: Equity-method investee of the Company.

Note D: The calculation was based on unaudited financial statements as of December 31, 2016.

Note E: Subsidiary of New Century InfoComm Tech Co., Ltd., New Diligent Co., Ltd., ARCOA Communication Co., Ltd. or DataExpress Infotech Co., Ltd.

Note F: Investments in mainland China are shown on Schedule G.

Note G: New Diligent Hong Kong Co., Ltd. was established on December 4, 2014. The investment amount had not been remitted to the investee as of December 31, 2016.

Note H: Yuan Cing Co., Ltd. reduced capital and remitted cash which exceeded the original investment amount. Thus, the investment amount as of December 31, 2016 is $0.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment (Note A) | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016 | Investment Flows | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) | Carrying Amount as of December 31, 2016 | Accumulated Repatriation of Investment Income as of December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Digital United Information Technologies (Shanghai) Ltd. | Research and design of computer system | $ 99,975 (US$ 3,100,000) | 2 | $ 99,975 (US$ 3,100,000) | $ - | $ - | $ 99,975 (US$ 3,100,000) | $ 859 | 100.00 | $ 859 | $ 11,296 (RMB 2,447,000) | $ - |
| Far Eastern New Century Information Technology (Beijing) Limited (Note G) | Electronic information providing services | 370,875 (US$ 11,500,000) | 2 | 129,000 (US$ 4,000,000) | 203,175 (US 6,300,000) | - | 332,175 (US$ 10,300,000) | (200,764) | 90.52 (Note B) | (176,364) (Note B) | 73,124 (RMB 15,838,000) (Note B) | - |
| Far Eastern Tech-info Ltd. (Shanghai) | Computer software, data processing and provision of network information | 193,500 (US$ 6,000,000) | 2 | 205,491 (Note F) | - | - | 205,491 (Note F) | (2,528) | 100.00 (Note C) | (2,528) (Note C) | 99,949 (RMB 21,648,000) (Note C) | - |
| New Diligence Corporation (Shanghai) (Note E) | Consulting services, supporting services, and wholesale of machinery and equipment | - | 1 | 36,346 (US$ 1,127,000) | - | - | 36,346 (US$ 1,127,000) | - | - | - | - | - |

| Company Name | Accumulated Investment in Mainland China | Investment Amounts Authorized by Investment Commission, MOEA | Limit on Investment (Note D) |
|---|---|---|---|
| Far EasTone Telecommunications Co., Ltd. | $ 92,616 | $ 92,616 | $ 43,033,561 |
| New Century InfoComm Tech Co., Ltd. | 99,975 (US$ 3,100,000) | 99,975 (US$ 3,100,000) | 14,427,315 |
| New Diligent Co., Ltd. | 481,396 (US$ 14,927,000) | 481,396 (US$ 14,927,000) | 379,480 |

Note A: Investment type as follows:

1. The Company made the investment directly.
2. The Company made the investment through a company registered in a third region. The companies registered in a third region are Far Eastern Info Service (Holding) Ltd., Digital United (Cayman) Ltd. and Far Eastern New Diligent Company Ltd., respectively.
3. Other.

Note B: Including Far Eastern New Diligent Company Ltd. 89.56% of ownership and Far Eastern Tech-Info Ltd. (Shanghai) 0.96% of ownership.

Note C: Including Far Eastern New Diligent Company Ltd. 58.33% of ownership and Far Eastern Info Service (Holding) Ltd. 41.67% of ownership.

Note D: Based on the limit, which is 60% of the investor company's net worth or the Group's net worth, which is higher, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA.

Note E: On June 27, 2012, New Diligence Corporation (Shanghai) had been remitted back to Taiwan US$73,000 the investment registered in the Investment Commission of the MOEA and wrote off this same amount.

Note F: Including US$3,500,000.

Note G: The calculation was based on unaudited financial statements as of December 31, 2016.


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敏捷
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創新
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