



2020

**HANDBOOK FOR THE
2020 ANNUAL MEETING
OF SHAREHOLDERS**

JUNE 24, 2020 STOCK CODE: 2903

**PLACE:
AUDITORIUM IN THE TAIPEI
HERO HOUSE NO. 20,
CHANGSHA STREET,
SECTION 1, TAIPEI, TAIWAN**



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Far Eastern Department Stores LTD.

I. Procedure for the 2020 Annual Meeting of Shareholder

Call the Meeting to Order

Chairman Takes Chair

Chairman Remarks

Matters to be Reported

Matters to be Approved

Discussion and Election

Extemporany Motion

Adjournment

II. Matters to be Reported

1. 2019 Business Report

Preface

According to statistics of International Monetary Fund (IMF), world economic growth for 2019 was 2.9%, dropped from 3.7% of the previous year, mostly attributed by: U.S.-China trade conflict, turmoil of Brexit, Japan-Korea trade disputes, and other geopolitical tensions and uncertainties. In 2020, major economic indexes still seem stagnant across major economies, coupled with anti-government demonstrations in the emerging nations causing social turbulence, and the global spread of COVID-19 pandemic, world economy growth shall face with various challenges.

Fueled by transfer order brought by U.S.-China trade war and expediting return of Taiwanese investors, Taiwan's domestic demand in 2019 performed remarkably and reported annual substantial investment growth of 7.58%, the highest growth in recent eight years. In the upcoming year, thanks to continuous developments of new technologies including 5G telecom and artificial intelligence, active foreign investments in Taiwan, and the government's optimization of local investment environment, domestic investments are expected to increase steadily to extend moderate economic growth in Taiwan; however, the development of COVID-19 still elevates uncertainty in terms of economic growth.

With the opening of new large-scale outlets, Taiwan department stores' total sales reached NT\$355.2 billion in 2019, up 4.4% year-over-year with consecutive growth for ten years, demonstrating growth momentum of the overall retail consumption. Facing with retail development trends such as new emerging competitions, changes of shopping habits, the increasing importance of shopping experience, Far Eastern Department Stores (FEDS) has been keen to expedite its digital transformation and technology enhancement, focus on customer value and experience. By adopting to digital technology to re-examine the process design of operations, management, and services moving toward a business model more catering to customer needs and expectations. Thanks to the joint efforts by the management team and all of the workforce, in 2019 FEDS continued to outperform peers and delivered an outstanding performance of registering record high sales and operating profit exceeding NT\$2.1 billion, and continues to create maximum value and reward for its shareholders.

Technology innovation has initiated the arrival of new consumption era, FEDS with forward vision and insightful observation of environmental change

early on, makes quick responsive decisions to set the new benchmark of smart retailing. During the past year, our comprehensive outstanding performances were often accredited by domestic and international awards. We were bestowed with nearly 30 honors, including winning among 19 nations the 2019 “Best Effort in Social Responsibility” by Federation of Asia-Pacific Retailers Association; “Corporate Social Responsibility Awards” by Retailers Association of Chinese Taipei for two consecutive years; “Growth through Innovation Award” by Taiwan Corporate Sustainability Award four years in a row; “Top 50 Excellence in Corporate Social Responsibility” by Commonwealth Magazine for five consecutive years; selected in the “Top 100 Brand Asia List” for four consecutive years, and etc. Facing with new retailing era, FEDS is committed to cultivating innovative “New Mindset”, planning “New Strategy” for smart retailing, and fostering the “New Capability” in digital management to continuously sharpen competitive edge, seek ongoing growth under challenging environment, and create new growth opportunities.

Operating Report of 2019

In 2019, FEDS recorded consolidated sales of NT\$114.6 billion (according to IFRS, consolidated revenues were NT\$37.9 billion). Consolidated net profit was NT\$2.15 billion, company alone net profit was NT\$1.78 billion, and earnings per share were NT\$1.26. According to the 18th Board Meeting of FEDS, total cash dividend payout for 2019 was NT\$0.8. Operating result of the Far Eastern Retail Group in 2019 is summarized as follows:

(1) Far Eastern Department Stores

1. Maintaining growth momentum and continuously rising profit, FEDS registered record high profit within five years.
2. Grand opening of FEDS Hsinyi A13 Store, recording outstanding revenues since soft opening, achieving the first 3-million records in the industry, including: million guest visits, million network volume, and million check-in hotspot at 4F Old Street.
3. To embrace the trend of digitization, FEDS has upgraded its new APP, added four major functions including personalized information push, parking service, smart customer service, and in-store smart pick to provide consumers more convenient digitized services and shopping experience.
4. Continue to lead market trend and introduce innovative brands, FEDS Hsinyi A13 Store has launched Taiwan’s first independent Apple Flagship Store, the high-end ViSHOW MUVIE Cinemas, LEGO

Exclusive Store, SONY's largest direct store, etc., all Taiwan's first and unique exclusive brand name stores.

5. Sponsoring totally 47 international theme and local produce exhibitions to attract huge foot traffic for visiting, shopping, and experiencing the exotic merchandise and culture in close encounters as to its origins.
6. To expedite digitized management, the Company launched Enterprise Information Portal, EIP online in October 2019 to facilitate the process of store operation, management, and services, enhancing operating efficiency. Currently already completed 65 digital systems allowing staff to elevate productivity in a mobilized digital environment.
7. To fulfill corporate social responsibilities, FEDS has set up its CSR standards and received nearly 30 domestic and international major awards in 2019 as well as Taiwan's first winner within 40 years of Best Efforts in Social Responsibility by Federation of Asia-Pacific Retailers Association. Commemorating the Far Eastern Group's 70th founding anniversary, the Group dedicated to sponsoring 348 non-profit events throughout the year to join hands with the public and make a promising future.

(2)Far Eastern SOGO Department Stores

1. With steady revenues and retrenching expenses, operating profit is maintained to report over 10% growth in pre-tax profit.
2. 2. To improve customer services and meet their demands, Far Eastern SOGO adjusted each store's environment, merchandise, and brands; altogether 624 counters were modified, accounting for 25% of total brands, in combination with holistic promotional campaigns to stabilize revenues, and improve competitiveness.
3. 3. Develop high-end merchandise in recent years, continue to boost revenue growth, apparel under the impact of e-commerce and fast fashion is expected to face low or decreasing growth, food and beverage remain popular by consumers, however brand replacement will be faster, and would need to introduce more viral brands to increase revenues.
4. 4. In mainland China, FEDS Luomashi Store in Chengdu was closed down in March 2019, also expedite the improvements of the three major Shanghai Hsu Huei Store, Chongqing FEDS Metropolitan Plaza Store, and Jiangbei Store to boost profit.
5. 5. Committed to sustainable corporate social responsibility, Far Eastern SOGO received 16 CSR awards. Furthermore, the Company commits to establishing green retailing, and leads Taiwan's department stores to receive twice "Enterprise Environmental Protection Award" by the

Executive Yuan, and “Energy Conservation Award” by the Economic Ministry, aiming to push the industry toward sustainable environment.

(3) Far Eastern Ai-Mai

1. Revenues dropped slightly because of store closures at Yungfu and Chungkang branches in March 2019 upon lease expiration. However, operating profit grew significantly due to cost control.
2. Promoting 3E Strategy:
 - (1) Edited Sustainable Merchandise:
 - a. Direct delivery of fresh food (fresh/daily distribution)
 - b. Strict quality control of fresh food items
 - c. Traceable/Organic/Friendly Environment
 - (2) Exclusive Value and Feature:
 - a. Convenient onsite cooking for instant use
 - b. Refined quality ingredients
 - c. Low fat, low sugar, low calorie
 - (3) Elevated Product Quality
 - a. Cold chain storage logistics protection
 - b. Strict quality control on site
 - c. Random SGS checking
3. Delivery logistics: main customer segment of Ai-Mai physical store ranges from 40-60 years old. In order to attract younger customers between 20-35 years of age, Far Eastern Ai-Mai selected foodpanda which has the highest market share among 20-30 years of age to execute delivery services and expand service scope to 5 kilometers, so as to lower impact from supermarket to hypermarket. Quantity change leads into quality change, will also change consumers’ shopping habits. Ai Mai Nanya Store and Chingmei Store were launched on December 17 and December 31, 2019, respectively.

Business Plan

Facing with industrial restructuring and dynamic retailing environment, we continue to inject growth momentum in terms of merchandise, management, and services. By adopting new technology, we have been strengthening the interactions with consumers, introducing merchandise and services catering to their needs and preferences, bringing closer ties with the consumers, and continue to deliver outstanding performance and efficiency.

(1) Far Eastern Department Stores

1. With dynamic development of the retailing landscape, new

- competitions have been emerging, in 2020 apart from strengthening steady revenue growth of existing stores, FEDS will continue to open new stores and expand retailing scope. Chubei New Century Shopping Mall has begun leasing its commercial space.
2. Baoqing Store is undergoing its largest renovation phase in a decade. In future, merchandise will be more youth-oriented, more focusing on sports and leisure, and adding more food and beverage brands. Other stores will go through smaller renovation ranging between 10-20%.
 3. To maintain customer relationship and enhance customer loyalty, the Company will continue to plan more flexible and diverse promotion programs via big data analytics and resource application, and also with the help of digital technologies to stay on the latest consumer trend and movement.
 4. Responding to changes in media landscape and technological innovation, the Company will strengthen the application of digital media and social platforms, and attract consumers in a lively and interesting engagement, and will also continue to enhance the interactions of FEDS APP and official website, integrate virtual and physical channels, and allow customers to enjoy speedy and personalized services.
 5. To increase interactions with the sales space, also create the store image of local CSR platform, each branch store continues to organize festive atmosphere and cooperate actively with government or private sectors to promote various CSR events, hopefully to improve more engagement by providing interactive and enhanced experience coupled with promotion of more special local products, thus building each store as the daily hub for local commercial center.
 6. Taiwan's consumers are highly interested in foreign products. In 2020, FEDS continues to sponsor various international exhibitions so that customers can feel the full replication of foreign ambience without traveling abroad.
 7. Promote Taiwan's local delicacies, support locally grown produce, plan to sponsor Taiwan featured cultural product exhibitions including a Hakka culture and food exhibition, a Taiwan specialties market, offshore island produce exhibition, a springtime cultural and creativity fair, an independent farmer's market, etc.
 8. Focus on management: Continue to promote digitized management, establish digitized data system, expedite talent cultivation and English language capability, implement KPI to reasonably control operating cost, cultivate talent and resource allotment, and elevate staff productivity.

(2)Far Eastern SOGO Department Stores

1. Revenues of four major annual campaigns (Chinese New Year, Mother's Day, Mid-year Sales, and Anniversary Sales) account for 38-40% of total annual revenues. In addition to traditional marketing, we will invest more in digital marketing to comply with the new retailing era.
2. The quantity and quality of customers are the basic foundation for business operation. Subsequent to cultivating Happy Go cardholders and the bank's high-end spending groups in 2019, we will further enhance VIP services, and focus on market demassification to establish Beauty Club, Kids Club, etc. to manage members and elevate loyalty.
3. Following top store performance strategy, the Fuxing Store will become more exquisitely high-end as the single store with highest revenues in the northern Taiwan, while Zhongxiao Store will increase its customer flow focusing on the family customer base to create a unique and friendly mega store, and will go through adjustments of food court, boutique shoes, children's and women's wear.
4. Expedite digital developments to embrace new economy, upgrade and revise SOGO APP to enhance mobile payment, digital marketing, and social media e-commerce.
5. With dynamic digital advancements in China, each store is also integrating online and offline operations, fully utilizing digital communication, marketing, and campaigns to increase revenues. Shanghai Hsu Huei Store, Chongqing FEDS Metropolitan Plaza Store, and Jiangbei Store are on the priority list to boost profit.
6. There is still growth opportunity in Chengdu and Shanghai market. Now we are developing new locations, and will submit appropriate new development projects for the Company's consideration.
7. Operating Division has set up "Flow Fortune" strategy, with the methodologies of major initiative, main theme, main field, main focus, more digitization, more creativeness, and more customer flow to create high margin as well as high profit.

(3)Far Eastern Ai-Mai

1. Taichung Shuinan Store is scheduled to open in second quarter of 2020.
2. Continue to promote delivery services, Yungho Store, Chunghsiao Store, and Tainan Store were launched in February 2020.
3. Combine floor space of office clerks and sales space, care for both

- services and job duties, enhance working efficiency and service quality, extra office space can be planned to increase profit or lower expense.
4. Continue 3E strategy, promote following optimizing sales space action, satisfying customers every day when shopping at Ai-Mai.
 - (1) Freshness, Safety, Value:
 - a. Strict selection of fresh produce
 - b. Single economy
 - c. Cold chain storage technology for fresh produce
 - d. Regular SGS examination of merchandise
 - e. Pesticide examination room for vegetables and fruits
 - (2) Fully utilize store space to create maximum value and service:
 - a. Improve display and resting/dining area
 - b. Improve entrance and parking lot
 - c. Health and service
 - d. Senior friendly sales space, Happy Go and Happy Cash senior citizen cardholders may enjoy free haircut and free home delivery services.
 - (3) Member management:
 - a. Discover existing customers via big data of Happy Go, increase repurchase rate (analyze shopping preference), and discover potential new customers, introduce Happy Go new customers of fortress commercial circle
 - b. Create digital APP

Future Prospective

Technological innovation has been expediting changes in new retailing, totally reshaping development of the retail landscape. Retailing in the new era must be consumer-oriented, focus on personalized marketing, customer experience, and personalized services, also leverage technology to connect product, service and customers, establish new shopping journey for consumers to meet with their needs and expectations, and maintain closer customer relations. Facing with the tide of new retailing, FEDS maintains its leading operations and polishes its new brand value with digitization, focusing on developing “digitized operation, digitized experience, digitized management”, with leaping mindset to transform traditional retail model, successfully create a brand new 5th Generation store – FEDS Hsinyi A13, transform into high-tech department store, and lead consumers to enjoy beautiful lifestyle of smart retailing.

As Taiwan’s leading listed department store, FEDS will also continue to strengthen corporate governance, strive to construct new direction for the Company’s outstanding and sustainable operations. We have stipulated good

corporate governance structure, implemented specification and accountability of job assignment, strengthened proficiency of Board of Directors and information transparency, and established various functional committees to help elevate efficiency and improve policy making, also actively engaged in domestic and international retail associations to expand vision and influence, to drive for sustainable operation and fulfill the sustainability performance in terms of economy, environment, and society. We also aim to establish benchmarks for the innovative development of Taiwan's department stores, and protect stockholders' benefits as well as other stakeholders' interest.

With the development of artificial intelligence and advancement of internet communication, various resources including manpower, information, technology, and funds can flow at unprecedented speed. Advantages possessed by the enterprise may be quickly replicated by competitors, and innovative applications be replaced. To always maintain its leadership, business leaders and management need to exhibit higher level of creativity and strategy. Far Eastern Department Stores will continue to innovate and remain its market leader position, seek merger target and investment opportunity to explore new markets, strengthen digital experience to increase interactions with customers, and elevate operating efficiency through innovative management, embrace digital technology, maintain competitive edge, and become leading brand of smart retailing. Through active creation of new growth, FEDS will restructure its growth curve, and make sure of its sustainable model and lasting excellence, and continue to create maximum value and interest for its stockholders.

Chairman Douglas Tong Hsu

2. Financial report of 2019.

Explanation:

The 2019 Financial Statements are attached as page 10-32.

- a · Consolidated balance sheets (December 31, 2019)
- b · Consolidated statement of comprehensive income (January 1, 2019~ December 31, 2019)
- c · Consolidated statements of changes in stockholders' equity (January 1, 2019 ~ December 31, 2019)
- d · Consolidated statements of cash flow (January 1, 2019~ December 31, 2019)
- e · Balance sheets (December 31, 2019)
- f · Statement of comprehensive income (January 1, 2019~ December 31, 2019)
- g · Statements of changes in stockholders' equity (January 1, 2019~ December 31, 2019)
- h · Statements of cash flow (January 1, 2019~ December 31, 2019)

Independent auditor's report by Deloitte & Touche is attached as page 11~15 and page 23-26.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Far Eastern Department Stores, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Far Eastern Department Stores, Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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 (collectively referred to as the "consolidated financial statements").

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, 2019 and 2018, 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 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 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, 2019. 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 key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

Evaluation of Impairment Loss of Goodwill

As of December 31, 2019, the goodwill of the Group was NT\$2,206,898 thousand, accounting for 2% of total consolidated assets. Under IAS 36, management must test impairment annually.

The goodwill of the Group mainly derives from the merger and acquisition of operating segments in mainland China. When testing goodwill for impairment, management should

evaluate whether the recoverable amount is higher than the carrying amount. In determining the recoverable amount, management should estimate the future cash flows from operating segments in mainland China and determine the optimal discount rate. Significant assumptions involve both judgments made by management and material estimation uncertainty. Thus, the evaluation of impairment loss of goodwill is considered a key audit matter. For the accounting policy related to impairment loss of the goodwill, refer to Notes 4(j), 5(a) and 17 to the accompanying consolidated financial statements.

The key audit procedures that we performed in respect of the impairment loss of goodwill are as follows:

1. We evaluated the expertise, competency and independence of external valuation specialists mandated by management. We verified the qualification of valuation specialists to ensure their objectivity and assignment were not influenced or restricted and we verified the methodology conducted conform to regulations.
2. We understood the process of management's estimation of the future sales growth rate and profit margin predicted by the operating segments in mainland China.
3. As a consideration for the assessment reliability for year 2020 and succeeding years, we compared the 2019 budget and the actual operating results of the operating segments in mainland China and evaluated the accuracy of management's historical forecast.
4. We confirmed the appropriateness of the discount rate used by management to assess goodwill impairment by using the same evaluation model to calculate the weighted average cost of capital ratio and whether the weighted average cost of capital used by management was significantly different.

Fair Value Evaluation of Investment Properties

As of December 31, 2019, the carrying amount of investment properties of NT\$9,086,641 thousand, accounting for 7% of total consolidated assets, is material to the consolidated financial statements. The Group's investment properties are subsequently measured using the fair value model. The fair value evaluation involved management's significant accounting estimation and judgment. Therefore, the fair value evaluation of investment property is considered to be a key audit matter. Refer to Notes 4(i), 5(c) and 16 to the accompanying consolidated financial statements for the relevant detailed information.

The key audit procedures that we performed in respect of the fair value of investment properties are as follows:

1. We evaluated the expertise, competency and independence of external valuation specialists mandated by management. We verified the qualification of valuation specialists to ensure that their objectivity and assignment were not influenced or restricted and we verified the methodology conducted conform to regulations.
2. We reviewed significant lease contracts and compared relevant market rental prices to assess the reasonableness of future cash flow forecasts.
3. We assessed the reasonableness of the valuer's assumptions and methods used in the valuation.

Others Matter

We have also audited the parent company only financial statements of Far Eastern

Department Stores, Ltd. as of and for the years ended December 31, 2019 and 2018 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 IFRS, IAS, IFRIC, and 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 members of 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 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 a statement 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, 2019 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 Shu-Chuan Yeh and Ming-Hsing Cho.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with

accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally 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 EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 13,424,223	10	\$ 14,594,847	14
Financial assets at fair value through profit or loss - current	457,256	1	437,747	-
Financial assets at fair value through other comprehensive income - current	297,456	-	244,785	-
Financial assets at amortized cost - current	1,443,974	1	2,077,919	2
Notes receivable	1,132	-	2,287	-
Trade receivables	744,436	1	1,582,273	2
Trade receivables from related parties	161,935	-	155,942	-
Other receivables	915,309	1	2,159,355	2
Current tax assets	10,812	-	5,655	-
Inventories	2,780,889	2	2,729,234	3
Prepayments	398,558	-	977,014	1
Other current assets	110,095	-	85,798	-
Total current assets	<u>20,746,075</u>	<u>16</u>	<u>25,052,856</u>	<u>24</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current	5,030,564	4	3,960,014	4
Financial assets at amortized cost- non-current	146,000	-	227,400	-
Investments accounted for using the equity method	10,107,165	8	8,678,647	8
Property, plant and equipment	34,323,257	26	43,532,941	42
Right-of-use assets	44,764,810	34	-	-
Investment properties	9,086,641	7	8,690,640	8
Intangible assets	2,477,815	2	3,449,258	3
Deferred tax assets	589,225	-	772,100	1
Net defined benefit assets	234,035	-	-	-
Long-term prepayments for lease	1,060,658	1	7,704,464	8
Other non-current assets	1,944,860	2	1,678,021	2
Total non-current assets	<u>109,765,030</u>	<u>84</u>	<u>78,693,485</u>	<u>76</u>
TOTAL	<u>\$130,511,105</u>	<u>100</u>	<u>\$103,746,341</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	\$ 9,630,896	7	\$ 12,957,612	13
Short-term bills payable	3,622,993	3	3,480,365	3
Contract liabilities - current	7,770,828	6	7,525,468	7
Notes payable	3,184	-	3,683	-
Trade payables	15,120,910	11	17,579,453	17
Trade payables to related parties	93,455	-	104,999	-
Other payables	3,971,660	3	3,687,578	4
Current tax liabilities	772,780	1	609,796	1
Provisions - current	3,000	-	6,592	-
Lease liabilities - current	3,381,049	3	-	-
Advance receipts	440,970	-	354,277	-
Current portion of long-term borrowings	2,540,000	2	-	-
Other current liabilities	315,976	-	320,947	-
Total current liabilities	<u>47,667,701</u>	<u>36</u>	<u>46,630,770</u>	<u>45</u>
NON-CURRENT LIABILITIES				
Long-term borrowings	14,999,757	12	15,090,000	15
Provisions - non-current	24,823	-	24,909	-
Deferred tax liabilities	2,312,954	2	2,114,362	2
Lease liabilities - non-current	25,406,473	19	-	-
Net defined benefit liabilities	738,431	1	808,480	1
Other non-current liabilities	457,159	-	1,387,430	1
Total non-current liabilities	<u>43,939,597</u>	<u>34</u>	<u>19,425,181</u>	<u>19</u>
Total liabilities	<u>91,607,298</u>	<u>70</u>	<u>66,055,951</u>	<u>64</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	14,169,406	11	14,169,406	14
Capital surplus	3,327,466	3	3,315,420	3
Retained earnings				
Legal reserve	3,298,695	3	3,166,880	3
Special reserve	2,865,351	2	2,656,286	2
Unappropriated earnings	1,931,429	1	2,081,772	2
Total retained earnings	8,095,475	6	7,904,938	7
Other equity	5,295,169	4	4,231,252	4
Treasury shares	(97,110)	-	(97,110)	-
Total equity attributable to owners of the Company	30,790,406	24	29,523,906	28
NON-CONTROLLING INTERESTS	<u>8,113,401</u>	<u>6</u>	<u>8,166,484</u>	<u>8</u>
Total equity	<u>38,903,807</u>	<u>30</u>	<u>37,690,390</u>	<u>36</u>
TOTAL	<u>\$130,511,105</u>	<u>100</u>	<u>\$103,746,341</u>	<u>100</u>

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

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE	\$37,896,062	100	\$39,242,551	100
OPERATING COSTS	<u>18,253,449</u>	<u>48</u>	<u>19,091,584</u>	<u>49</u>
GROSS PROFIT	<u>19,642,613</u>	<u>52</u>	<u>20,150,967</u>	<u>51</u>
OPERATING EXPENSES				
Selling and marketing expenses	891,625	2	923,663	2
General and administrative expenses	14,211,781	38	15,056,030	39
Expected credit loss (gain)	<u>556</u>	<u>-</u>	<u>(16,055)</u>	<u>-</u>
Total operating expenses	<u>15,103,962</u>	<u>40</u>	<u>15,963,638</u>	<u>41</u>
OPERATING PROFIT	<u>4,538,651</u>	<u>12</u>	<u>4,187,329</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	376,748	1	530,849	1
Other losses	(1,035,197)	(3)	(1,743,179)	(4)
Finance costs	(835,329)	(2)	(437,280)	(1)
Share of profit of associates accounted for using the equity method	<u>58,065</u>	<u>-</u>	<u>11,396</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,435,713)</u>	<u>(4)</u>	<u>(1,638,214)</u>	<u>(4)</u>
PROFIT BEFORE INCOME TAX	3,102,938	8	2,549,115	6
INCOME TAX EXPENSE	<u>950,669</u>	<u>2</u>	<u>898,620</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>2,152,269</u>	<u>6</u>	<u>1,650,495</u>	<u>4</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	1,118,564	3	534,199	2
Remeasurement of defined benefit plans	230,902	-	(50,328)	-
Share of other comprehensive (loss) income of associates accounted for using the equity method	(61,630)	-	409,335	1

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>(46,260)</u>	<u>-</u>	<u>23,366</u>	<u>-</u>
	<u>1,241,576</u>	<u>3</u>	<u>916,572</u>	<u>3</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	53,578	-	(14,562)	-
Share of other comprehensive (loss) income of associates accounted for using the equity method	<u>(57,504)</u>	<u>-</u>	<u>5,267</u>	<u>-</u>
	<u>(3,926)</u>	<u>-</u>	<u>(9,295)</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>1,237,650</u>	<u>3</u>	<u>907,277</u>	<u>3</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,389,919</u>	<u>9</u>	<u>\$ 2,557,772</u>	<u>7</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,781,843	5	\$ 1,318,150	3
Non-controlling interests	<u>370,426</u>	<u>1</u>	<u>332,345</u>	<u>1</u>
	<u>\$ 2,152,269</u>	<u>6</u>	<u>\$ 1,650,495</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 3,044,048	8	\$ 2,029,426	5
Non-controlling interests	<u>345,871</u>	<u>1</u>	<u>528,346</u>	<u>2</u>
	<u>\$ 3,389,919</u>	<u>9</u>	<u>\$ 2,557,772</u>	<u>7</u>
EARNINGS PER SHARE				
Basic	<u>\$ 1.26</u>		<u>\$ 0.94</u>	
Diluted	<u>\$ 1.26</u>		<u>\$ 0.93</u>	

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

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										Total	Total Equity					
	Retained Earnings				Unappropriated		Exchange Differences on Translating the Financial Statements of Foreign Operations		Unrealized Gain (Loss) on Financial Assets Available-for-sale				Unrealized Gain (Loss) on Financial Assets Through Other Comprehensive Income		Gain on Property Revaluation	Treasury Shares	Interests
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Earnings	Reserve	Operations	Financial Assets	Income	Revaluation			Non-controlling				
BALANCE AT JANUARY 1, 2018	\$14,169,406	\$ 3,315,931	\$ 3,013,281	\$ 2,643,743	\$ 2,274,946	\$ 86,048	\$ 1,421,503	\$ -	\$ 2,170,970	\$ (86,759)	\$ 7,859,460	\$36,858,178					
Effect of retrospective application and retrospective restatement	-	-	-	-	92,444	-	(1,421,503)	-	2,170,970	(86,759)	7,859,460	(86,759)					
BALANCE AT JANUARY 1, 2018 AS RESTATEMENT	14,169,406	3,315,931	3,013,281	2,643,743	2,367,390	86,048	-	1,242,300	2,170,970	28,911,959	7,859,460	36,771,419					
Appropriation of 2017 earnings	-	-	153,599	-	(153,599)	-	-	-	-	-	-	-					
Legal reserve	-	-	153,599	-	(153,599)	-	-	-	-	-	-	-					
Special reserve	-	-	-	12,543	(12,543)	-	-	-	-	-	-	(1,416,940)					
Cash dividends distributed by the Company	-	-	-	-	(1,416,940)	-	-	-	-	-	(220,697)	(1,416,940)					
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(220,697)	(220,697)					
Net profit for the year ended December 31, 2018	-	-	-	-	1,583,082	-	-	-	-	(1,416,940)	332,345	1,650,495					
Other comprehensive (loss) income for the year ended December 31, 2018, net of income tax	-	-	-	-	(24,850)	4,608	-	731,520	-	711,276	196,001	907,277					
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	1,293,300	4,608	-	731,520	-	2,029,426	528,346	2,557,772					
Adjustments resulting from investments in associates accounted for using the equity method	-	(511)	-	-	(28)	-	-	-	-	(539)	(625)	(1,164)					
Disposal of investments in equity instruments designated as at fair value through other comprehensive income by associates	-	-	-	-	4,192	-	-	(4,192)	-	-	-	-					
BALANCE AT DECEMBER 31, 2018	14,169,406	3,315,420	3,166,880	2,656,286	2,081,772	90,654	-	1,969,628	2,170,970	29,523,906	8,166,484	37,690,390					
Effect of retrospective application and retrospective restatement	-	-	-	-	(685,446)	-	-	-	-	(685,446)	(159,751)	(745,197)					
BALANCE AT JANUARY 1, 2019 AS RESTATEMENT	14,169,406	3,315,420	3,166,880	2,656,286	1,496,326	90,654	-	1,969,628	2,170,970	28,838,460	8,006,733	36,945,193					
Special reserve under Rule No. 1030006415 issued by the FSC	-	-	-	135,735	(135,735)	-	-	-	-	-	-	-					
Appropriation of 2018 earnings	-	-	131,815	-	(131,815)	-	-	-	-	-	-	-					
Legal reserve	-	-	131,815	-	(131,815)	-	-	-	-	-	-	-					
Special reserve	-	-	-	73,330	(73,330)	-	-	-	-	(1,204,400)	(239,203)	(1,204,400)					
Cash dividends distributed by the Company	-	-	-	-	(1,204,400)	-	-	-	-	-	(239,203)	(1,204,400)					
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(239,203)	(1,443,603)					
Net profit for the year ended December 31, 2019	-	-	-	-	1,781,843	-	-	-	-	1,781,843	370,426	2,152,269					
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	198,288	(25,329)	-	1,089,246	-	1,262,205	(24,555)	1,237,650					
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	1,980,131	(25,329)	-	1,089,246	-	3,044,048	345,871	3,389,919					
Adjustments resulting from investments in associates accounted for using the equity method	-	12,046	-	-	252	-	-	-	-	12,298	-	12,298					
BALANCE AT DECEMBER 31, 2019	14,169,406	3,327,466	3,298,695	2,865,351	1,931,429	65,325	-	3,058,874	2,170,970	30,790,406	8,113,401	38,903,807					

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

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,102,938	\$ 2,549,115
Adjustments for:		
Depreciation expenses	5,555,195	2,355,319
Amortization expenses	60,149	51,903
Expected credit loss recognized (reversed) on receivables	556	(16,055)
Net gain on financial assets or liabilities at fair value through profit or loss	(691)	(10,443)
Finance costs	835,329	437,280
Interest income	(90,449)	(128,124)
Dividend income	(286,299)	(152,720)
Share of profit of associates accounted for using the equity method	(58,065)	(11,396)
Loss on disposal of property, plant and equipment	84,473	26,487
Loss on disposal of investment properties	-	90,621
Loss on disposal of intangible assets	1,435	-
Gain on disposal of right-of-use assets	(678)	-
Gain on disposal of investments	(291)	-
Impairment loss recognized on intangible assets	1,095,884	1,630,000
Impairment loss recognized on property, plant and equipment	-	38,047
Unrealized gain on physical and slow-moving inventories	(9,418)	(18,415)
Loss (gain) on changes in fair value of investment properties	151,597	(43,045)
Amortization of prepayments	12,544	5,582
Amortization of prepayments for leases	-	337,503
Reversal of unrealized purchase discounts	(400)	433
Net changes in operating assets and liabilities		
(Increase) decrease in financial assets mandatorily classified as at fair value through profit or loss	(18,527)	69,151
Notes receivable	1,155	(1,156)
Trade receivables	836,753	(465,119)
Trade receivables from related parties	(3,995)	(26,163)
Other receivables	8,008	(319,715)
Inventories	(41,837)	(127,977)
Prepayments	90,044	36,461
Other current assets	(24,297)	(16,730)
Contract liabilities - current	245,360	361,734
Notes payable	(499)	612
Trade payables	(2,458,543)	(705,652)
Trade payables to related parties	(11,544)	(22,881)
Other payables	(519,160)	(718,428)
Provisions	(4,050)	(2,045)
Advance receipts	226,939	120,205
Other current liabilities	(4,971)	56,402
Net defined benefit liabilities	(125,339)	(191,239)
Cash generated from operations	<u>8,649,306</u>	<u>5,189,552</u>

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Dividends received	\$ 317,922	\$ 290,342
Interest paid	(854,447)	(436,417)
Interest received	109,832	115,480
Income tax returned	2,191	194
Income tax paid	<u>(337,318)</u>	<u>(672,202)</u>
Net cash generated from operating activities	<u>7,887,486</u>	<u>4,486,949</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(4,744)	-
Purchase of financial assets amortized at cost	-	(163,931)
Proceeds from sale of financial assets at amortized cost	715,345	-
Acquisition of investments accounted for using the equity method	(1,605,034)	-
Decrease in prepaid long-term investments	25,383	49,288
Payments for property, plant and equipment	(1,801,799)	(2,257,557)
Proceeds from disposal of property, plant and equipment	39,189	606
Decrease in other receivables	1,225,948	-
Payments for intangible assets	(173,406)	(63,726)
Proceeds from disposal of intangible assets	139	-
Payments for investment properties	(8,015)	-
Increase in other non-current assets	<u>(1,924,566)</u>	<u>(82,785)</u>
Net cash used in investing activities	<u>(3,511,560)</u>	<u>(2,518,105)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	139,427,113	174,720,516
Repayments of short-term borrowings	(142,602,371)	(174,820,679)
Proceeds from short-term bills payable	36,935,184	26,313,358
Repayments of short-term bills payable	(36,792,556)	(25,347,693)
Repayments of bond payables	-	(1,000,000)
Proceeds from long-term borrowings	79,279,757	75,821,898
Repayments of long-term borrowings	(76,830,000)	(77,490,000)
Repayment of the principal portion of lease liabilities	(3,386,357)	-
Decrease in other non-current liabilities	(36,410)	(26,346)
Dividends paid to owners of the Company	(1,202,733)	(1,414,847)
Dividends paid to non-controlling interests	<u>(198,624)</u>	<u>(256,698)</u>
Net cash used in financing activities	<u>(5,406,997)</u>	<u>(3,500,491)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(139,553)</u>	<u>10,010</u>

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	<u>2019</u>	<u>2018</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (1,170,624)	\$ (1,521,637)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>14,594,847</u>	<u>16,116,484</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 13,424,223</u>	<u>\$ 14,594,847</u>

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Far Eastern Department Stores, Ltd.

Opinion

We have audited the accompanying financial statements of Far Eastern Department Stores, Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, 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, 2019. 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 key audit matters identified in the Company's financial statements for the year ended December 31, 2019 are stated as follows:

Evaluation of Impairment Loss of Goodwill on Investments in Subsidiaries

The carrying amounts of investments in the Company's subsidiaries include goodwill, which was acquired through indirect investment on Pacific Liu Tong Investment Co. Ltd. for its operating segments in mainland China. Under IAS 36, the management of the Company performs impairment annually. When testing goodwill for impairment, the management should evaluate whether the recoverable amount is higher than the carrying amount. In determining the recoverable amount, management should estimate the future cash flows from operating segments in mainland China and determine the optimal discount rate. Significant assumptions involve both judgments made by management and material estimation uncertainty. Thus, the evaluation of impairment loss of goodwill in subsidiaries is considered a key audit matter. For the accounting policy related to investments in subsidiaries, refer to Notes 4(f) and 5(a) to the accompanying financial statements in which goodwill impairment of investments in subsidiaries is included.

The key audit procedures that we performed in respect of the impairment loss of goodwill are as follows:

1. We evaluated the expertise, competency and independence of external valuation specialists mandated by management. We verified the qualification of valuation specialists to ensure their objectivity and assignment were not influenced or restricted and we verified the methodology conducted conform to regulations.
2. We understood the process of management's estimation of the future sales growth rate and profit margin predicted by the operating segments in mainland China.

3. As a consideration for the assessment reliability for year 2020 and succeeding years, we compared the 2019 budget and the actual operating results of the operating segments in mainland China and evaluated the accuracy of management's historical forecast.
4. We confirmed the appropriateness of the discount rate used by management to assess goodwill impairment by using the same evaluation model to calculate the weighted average cost of capital ratio and whether the weighted average cost of capital used by management was significantly different.

Fair Value Evaluation of Investment Properties

As of December 31, 2019, the carrying amount of investment properties of NT\$8,997,056 thousand, accounting for 11% of the total assets, is material to the financial statements. The Company's investment properties are subsequently measured using the fair value model. In the process of fair value assessment, valuation technique and inputs require consideration of the future scheme of investment properties to estimate the discounted fair value of future cash flows. Future cash flows are extrapolated using the existing lease contracts of the Company and market rentals.

Since cash flow forecasts are subject to economic conditions, which have a high level of measurement uncertainty, we have resultantly identified the fair value evaluation of investment properties as a key audit matter. Please refer to Notes 4(i), 5(b) and 14 to the accompanying financial statements for the relevant detailed information.

The key audit procedures that we performed in respect of the fair value of investment properties are as follows:

1. We evaluated the expertise, competency and independence of external valuation specialists mandated by management. We verified the qualification of valuation specialists to ensure that their objectivity and assignment were not influenced or restricted and we verified the methodology conducted conform to regulations
2. We reviewed significant lease contracts to ensure the accuracy of fundamental information for cash flow forecasts.
3. We assessed the reasonableness of the valuer's assumptions and methods used in the valuation.

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 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 a statement 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, 2019 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 Shu-Chuan Yeh and Ming-Hsing Cho.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

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 EASTERN DEPARTMENT STORES, LTD.

BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ 538,361	1	\$ 746,181	1
Financial assets at amortized cost - current	25,271	-	25,095	-
Notes receivable	3	-	140	-
Trade receivables	345,747	1	710,140	1
Trade receivables from related parties	79,534	-	70,052	-
Other receivables	279,279	-	337,628	1
Inventories	512,976	1	378,188	1
Prepayments	215,686	-	237,820	-
Other current assets	<u>64,807</u>	-	<u>13,780</u>	-
Total current assets	<u>2,061,664</u>	<u>3</u>	<u>2,519,024</u>	<u>4</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current	3,101,049	4	2,354,351	4
Investments accounted for using the equity method	19,821,401	25	19,570,715	32
Property, plant and equipment	18,724,837	24	25,314,067	41
Right-of-use assets	25,836,205	32	-	-
Investment properties	8,997,056	11	9,062,640	15
Intangible assets	55,892	-	50,207	-
Deferred tax assets	70,344	-	192,145	-
Net defined benefit assets	234,035	-	-	-
Long-term prepayments for lease	-	-	2,173,763	4
Other non-current assets	<u>536,733</u>	<u>1</u>	<u>321,053</u>	-
Total non-current assets	<u>77,377,552</u>	<u>97</u>	<u>59,038,941</u>	<u>96</u>
TOTAL	<u>\$79,439,216</u>	<u>100</u>	<u>\$61,557,965</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	\$ 5,000,000	6	\$ 6,710,000	11
Short-term bills payable	2,499,312	3	2,299,032	4
Contract liabilities - current	3,024,526	4	2,847,832	5
Trade payables	3,612,036	5	4,878,840	8
Trade payables to related parties	56,943	-	76,148	-
Other payables	2,075,491	3	1,284,856	2
Current tax liabilities	161,580	-	148,613	-
Lease liabilities - current	929,821	1	-	-
Advance receipts	193,734	-	188,206	-
Current portion of long-term borrowings	2,500,000	3	-	-
Other current liabilities	<u>154,488</u>	-	<u>154,900</u>	-
Total current liabilities	<u>20,207,931</u>	<u>25</u>	<u>18,588,427</u>	<u>30</u>
NON-CURRENT LIABILITIES				
Long-term borrowings	11,799,757	15	11,100,000	18
Deferred tax liabilities	2,142,641	3	2,064,540	4
Lease liabilities - non-current	14,397,967	18	-	-
Net defined benefit liabilities	-	-	89,001	-
Other non-current liabilities	<u>100,514</u>	-	<u>192,091</u>	-
Total non-current liabilities	<u>28,440,879</u>	<u>36</u>	<u>13,445,632</u>	<u>22</u>
Total liabilities	<u>48,648,810</u>	<u>61</u>	<u>32,034,059</u>	<u>52</u>
EQUITY				
Share capital				
Ordinary shares	<u>14,169,406</u>	<u>18</u>	<u>14,169,406</u>	<u>23</u>
Capital surplus	<u>3,327,466</u>	<u>4</u>	<u>3,315,420</u>	<u>5</u>
Retained earnings				
Legal reserve	3,298,695	4	3,166,880	5
Special reserve	2,865,351	4	2,656,286	4
Unappropriated earnings	<u>1,931,429</u>	<u>2</u>	<u>2,081,772</u>	<u>4</u>
Total retained earnings	<u>8,095,475</u>	<u>10</u>	<u>7,904,938</u>	<u>13</u>
Other equity	<u>5,295,169</u>	<u>7</u>	<u>4,231,252</u>	<u>7</u>
Treasury shares	<u>(97,110)</u>	-	<u>(97,110)</u>	-
Total equity	<u>30,790,406</u>	<u>39</u>	<u>29,523,906</u>	<u>48</u>
TOTAL	<u>\$79,439,216</u>	<u>100</u>	<u>\$61,557,965</u>	<u>100</u>

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

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE	\$10,614,744	100	\$10,781,588	100
OPERATING COSTS	<u>4,168,762</u>	<u>39</u>	<u>4,285,132</u>	<u>40</u>
GROSS PROFIT	<u>6,445,982</u>	<u>61</u>	<u>6,496,456</u>	<u>60</u>
OPERATING EXPENSES				
Selling and marketing expenses	378,762	4	375,165	4
General and administrative expenses	3,941,540	37	4,031,963	37
Expected credit loss (gain)	<u>513</u>	<u>-</u>	<u>(11)</u>	<u>-</u>
Total operating expenses	<u>4,320,815</u>	<u>41</u>	<u>4,407,117</u>	<u>41</u>
OPERATING PROFIT	<u>2,125,167</u>	<u>20</u>	<u>2,089,339</u>	<u>19</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	177,484	2	335,487	3
Other losses	(28,844)	-	(14,332)	-
Finance costs	(377,869)	(4)	(169,089)	(1)
Share of profit or loss of subsidiaries and associates accounted for using the equity method	<u>298,615</u>	<u>3</u>	<u>(607,556)</u>	<u>(6)</u>
Total non-operating income and expenses	<u>69,386</u>	<u>1</u>	<u>(455,490)</u>	<u>(4)</u>
PROFIT BEFORE INCOME TAX	2,194,553	21	1,633,849	15
INCOME TAX EXPENSE	<u>412,710</u>	<u>4</u>	<u>315,699</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>1,781,843</u>	<u>17</u>	<u>1,318,150</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	288,102	3	(5,559)	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	746,698	7	311,658	3
Share of other comprehensive income of subsidiaries and associates accounted for using the equity method	307,216	3	390,615	4

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>(57,620)</u>	<u>(1)</u>	<u>5,528</u>	<u>-</u>
	<u>1,284,396</u>	<u>12</u>	<u>702,242</u>	<u>7</u>
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive (loss) income of subsidiaries and associates accounted for using the equity method	<u>(22,191)</u>	<u>-</u>	<u>9,034</u>	<u>-</u>
	<u>(22,191)</u>	<u>-</u>	<u>9,034</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>1,262,205</u>	<u>12</u>	<u>711,276</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,044,048</u>	<u>29</u>	<u>\$ 2,029,426</u>	<u>19</u>
EARNINGS PER SHARE, NT\$				
Basic	<u>\$ 1.26</u>		<u>\$ 0.94</u>	
Diluted	<u>\$ 1.26</u>		<u>\$ 0.93</u>	

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

(Concluded)

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Other Equity										Total Equity		
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		Gain on Property Revaluation	Treasury Shares
					Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income							
BALANCE AT JANUARY 1, 2018	\$14,169,406	\$ 3,315,931	\$ 3,013,281	\$ 2,643,743	\$ 2,274,946	\$ 86,048	\$ 1,421,503	\$ -	\$ 2,170,970	\$ (97,110)	\$ 28,998,718		
Effect of retrospective application and retrospective restatement	-	-	-	-	92,444	-	(1,421,503)	1,242,300	-	-	(86,759)		
BALANCE AT JANUARY 1, 2018 AS RESTATED	14,169,406	3,315,931	3,013,281	2,643,743	2,367,390	86,048	-	1,242,300	2,170,970	(97,110)	28,911,959		
Appropriation of 2017 earnings	-	-	153,599	-	(153,599)	-	-	-	-	-	-		
Legal reserve	-	-	-	12,543	(12,543)	-	-	-	-	-	-		
Special reserve	-	-	-	-	(1,416,940)	-	-	-	-	-	(1,416,940)		
Cash dividends	-	-	-	12,543	(1,583,082)	-	-	-	-	-	(1,416,940)		
Net profit for the year ended December 31, 2018	-	-	-	-	1,318,150	-	-	-	-	-	1,318,150		
Other comprehensive (loss) income for the year ended December 31, 2018, net of income tax	-	-	-	-	(24,850)	4,606	-	731,520	-	-	711,276		
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	1,293,300	4,606	-	731,520	-	-	2,029,426		
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	(511)	-	-	(28)	-	-	-	-	-	(539)		
Disposal of investments in equity instruments designated as at fair value through other comprehensive income by subsidiaries	-	-	-	-	4,192	-	-	(4,192)	-	-	-		
BALANCE AT DECEMBER 31, 2018	14,169,406	3,315,420	3,166,880	2,656,286	2,081,772	90,654	-	1,969,628	2,170,970	(97,110)	29,523,906		
Effect of retrospective application and retrospective restatement	-	-	-	-	(585,446)	-	-	-	-	-	(585,446)		
BALANCE AT JANUARY 1, 2019 AS RESTATED	14,169,406	3,315,420	3,166,880	2,656,286	1,496,326	90,654	-	1,969,628	2,170,970	(97,110)	28,938,460		
Special reserve under Rule No. 1030006415 issued by the FSC	-	-	-	135,735	(135,735)	-	-	-	-	-	-		
Appropriation of 2018 earnings	-	-	131,815	-	(131,815)	-	-	-	-	-	-		
Legal reserve	-	-	-	73,330	(73,330)	-	-	-	-	-	-		
Special reserve	-	-	-	-	(1,204,400)	-	-	-	-	-	(1,204,400)		
Cash dividends	-	-	-	73,330	(1,409,545)	-	-	-	-	-	(1,204,400)		
Net profit for the year ended December 31, 2019	-	-	-	-	1,781,843	-	-	-	-	-	1,781,843		
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	198,288	(25,329)	-	1,089,246	-	-	1,262,205		
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	1,980,131	(25,329)	-	1,089,246	-	-	3,044,048		
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	12,046	-	-	252	-	-	-	-	-	12,298		
BALANCE AT DECEMBER 31, 2019	14,169,406	3,327,466	3,298,695	2,865,351	1,931,429	65,325	\$ -	\$ 3,058,874	\$ 2,170,970	\$ (97,110)	\$ 30,790,406		

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

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 2,194,553	\$ 1,633,849
Adjustments for:		
Depreciation expenses	1,654,458	1,016,063
Amortization expenses	26,757	18,678
Expected credit loss recognized (reversed) on receivables	513	(11)
Amortization of prepayments	-	476
Finance costs	377,869	169,089
Share of (profit) loss of subsidiaries and associates accounted for using the equity method	(298,615)	607,556
Interest income	(242)	(160)
Dividend income	(177,242)	(85,322)
Loss on disposal of property, plant and equipment	6,229	6,439
Loss on disposal of investment properties	247	90,700
Loss (gain) on changes in fair value of investment properties	75,802	(32,218)
Net changes in operating assets and liabilities		
Notes receivable	137	(140)
Trade receivables	363,880	(261,485)
Trade receivables from related parties	(9,482)	(11,805)
Other receivables	58,349	(251,557)
Inventories	(134,788)	(47,108)
Prepayments	22,134	(15,109)
Other current assets	(51,027)	(2,372)
Contract liabilities	176,694	166,895
Notes payable and trade payables	(1,266,804)	(148,006)
Trade payables to related parties	(19,205)	(8,907)
Other payables	51,696	26,491
Advance receipts	89,656	36,068
Other current liabilities	(412)	41,344
Net defined benefit liabilities	(34,934)	(154,066)
Cash generated from operations	<u>3,106,223</u>	<u>2,795,382</u>
Interest paid	(427,523)	(210,771)
Interest received	242	160
Dividends received	332,030	378,552
Income tax returned	-	170
Income tax paid	<u>(257,461)</u>	<u>(186,940)</u>
Net cash generated from operating activities	<u>2,753,511</u>	<u>2,776,553</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	-	(25,095)
Proceeds from sale of financial assets at amortized cost	224	-
Acquisition of investments accounted for using the equity method	(400,000)	-
Payments for property, plant and equipment	(986,290)	(1,272,504)

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>2019</u>	<u>2018</u>
Proceeds from disposal of property, plant and equipment	39	26
Payments for investment properties	(8,369)	(306)
Increase in other non-current assets	(1,421,459)	(54,007)
Payments for intangible assets	<u>(26,080)</u>	<u>(13,155)</u>
Net cash used in investing activities	<u>(2,841,935)</u>	<u>(1,365,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	77,850,000	93,400,000
Repayments of short-term borrowings	(79,560,000)	(92,990,000)
Proceeds from short-term bills payable	22,093,578	16,610,243
Repayments of short-term bills payable	(21,893,298)	(16,010,399)
Proceeds from long-term borrowings	65,199,757	61,000,000
Repayments of long-term borrowings	(62,000,000)	(62,000,000)
Repayment of the principal portion of lease liabilities	(620,491)	-
Increase in other non-current liabilities	13,791	8,561
Dividends paid	<u>(1,202,733)</u>	<u>(1,414,847)</u>
Net cash used in financing activities	<u>(119,396)</u>	<u>(1,396,442)</u>
NET (DECREASE) INCREASE IN CASH	(207,820)	15,070
CASH AT THE BEGINNING OF THE YEAR	<u>746,181</u>	<u>731,111</u>
CASH AT THE END OF THE YEAR	<u>\$ 538,361</u>	<u>\$ 746,181</u>

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

(Concluded)

3. Audit Committee's review report on 2019 business report and financial statements.

SUPERVISORS' REPORT

To the 2020 General Shareholders' Meeting of Far Eastern Department Stores, Ltd, In accordance with Article 14-4 of Securities and Exchange Act and Article 219 of the Company Law, we have examined the Business Report, the Resolution for Distribution of Surplus Earning, and Financial Statements which had been certified by Deloitte & Touche, submitted by the Board of Directors for the year ending 2019 and found them in order.

The Convener of the Audit Committee: Yung Do Way

May 5, 2020

4. Report of 2019 employees' compensation and Directors' remuneration

- 1.** Pursuant to the proposal of the amendments of Article 27 of the Company's "Articles of Incorporation",

If the Company profits for the year, the Company shall allocate from 2% to 3.5% of it for the employees' compensation, and the maximum of 2.5% of it for Directors' compensation. However, the company's accumulated losses shall reserve the amount of covering in advance. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash, and the ratio, amount method and shares of actual distribution; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

- 2.** The net income before distributing the compensation of directors and employees is NT\$ 2,324,738,610. The Company proposes that the ratio and amount of distribution for the compensation of employees are 3.2% and NT\$ 74,391,636, and the ratio and amount of distribution for the compensation of directors are 2.4% and NT\$ 55,793,727. The proposal of compensation of directors and employees may be paid in cash.
- 3.** The proposal of compensation had been approved by the 8th meeting of the 18th term Board of Directors.
- 4.** Please approve the proposed resolutions.

Resolution:

5. Report of the amendment of certain provisions of “Best Practice Principles of Ethical Corporate Management”

1. It is proposed to amend certain provisions of “Best Practice Principles of Ethical Corporate Management” pursuant to the official letter TSEC-Jhih-Li--No. 1080008378 dated on 23, May, 2019 announced by Taiwan Stock Exchange Corporation.
2. This proposal had been approved by the 8th meeting of the 18th term Board of Directors.
3. Please approve the proposed resolutions.

Resolution

Section	Proposed Changes	Current Articles
Article 6	<p>Article 6 (Prevention procedures and rules)</p> <p>In accordance with the Principles <u>and in refer to prevailing domestic and foreign standards or guidelines</u>, the Company shall establish <u>the programs to forestall unethical conduct, including operational procedures, guidelines, and training</u>; meanwhile, specifically identify what Company Professionals must pay attention to while conducting business.</p>	<p>Article 6 (Prevention procedures and rules)</p> <p>In accordance with the Principles, the Company shall establish <u>procedures and rules to prevent Company Professionals from conducting business without prudence and integrity</u>; meanwhile, specifically identify what Company Professionals must pay attention to while conducting business.</p>
Article 7	<p>Article 7 (Commitment and execution)</p> <p><u>The Company shall request their directors and senior management to issue a statement in compliance with the ethical management policy and require in the terms of employment that employees comply with such policy.</u></p> <p>The policy of ethical corporate management with sincerity and integrity shall be disclosed explicitly in the website and annual reports of the Company. Board of Directors and the management shall have strong and rigorous commitment to the execution of such policy, and enforce the policy to the internal management and external commercial activities.</p> <p><u>The Company shall compile documented information on the ethical management policy, statement, commitment and implementation mentioned in the first and second paragraphs and retain said information properly.</u></p>	<p>Article 7 (Commitment and execution)</p> <p>The policy of ethical corporate management with sincerity and integrity shall be disclosed explicitly in the website and annual reports of the Company. Board of Directors and the management shall have strong and rigorous commitment to the execution of such policy, and enforce the policy to the internal management and external commercial activities.</p>
Article 9	<p>Article 9 (Ethical commercial activities and <u>prohibitions of Engaging in unfair competitive practices</u>)</p> <p>The Company shall act with integrity and fairness when engaging in a commercial activity with counterparty in accordance with applicable competition laws and regulations, and may not fix prices, make rigged bids, establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.</p>	<p>Article 9 (Ethical commercial activities)</p> <p>The Company shall act with integrity and fairness when engaging in a commercial activity with counterparty in accordance with applicable competition laws and regulations, and may not fix prices, make rigged bids, establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.</p>

Section	Proposed Changes	Current Articles
Article 9	<p>Prior to engaging in a commercial transaction, the Company shall take into consideration the legitimacy and legality of the counterparty such as agents, vendors, customers, and other entities, and their Misconduct record, if any. The Company shall avoid engaging in business with counterparty with any record of Misconducts.</p> <p>When entering into material contracts with counterparties, the Company shall include provisions in such contracts demanding the compliance of ethical corporate management policy. And such contracts shall also include clauses to terminate or cancel the contracts at any time by the Company, if Misconducts are performed, or suspected of being performed, by the counterparties.</p>	<p>Prior to engaging in a commercial transaction, the Company shall take into consideration the legitimacy and legality of the counterparty such as agents, vendors, customers, and other entities, and their Misconduct record, if any. The Company shall avoid engaging in business with counterparty with any record of Misconducts.</p> <p>When entering into material contracts with counterparties, the Company shall include provisions in such contracts demanding the compliance of ethical corporate management policy. And such contracts shall also include clauses to terminate or cancel the contracts at any time by the Company, if Misconducts are performed, or suspected of being performed, by the counterparties.</p>
Article 15	<p>Article 15 (Organization and responsibility)</p> <p>Company Professionals shall exercise the due care of good administrators to urge the Company to prevent Misconducts, review the results of the preventive procedures at any time, and continually make adjustments so as to ensure thorough implementation of the ethical corporate management policies.</p> <p>To fulfill the best practices of the ethical corporate management, <u>a chief corporate governance officer under the board of directors and</u> Human Resources Department of the Company <u>are</u> dedicated to be in charge of establishing and enforcing the ethical corporate management policies and prevention procedures, and shall report to the Board of Directors <u>on a regular basis (at least once a year)</u>.</p>	<p>Article 15 (Organization and responsibility)</p> <p>Company Professionals shall exercise the due care of good administrators to urge the Company to prevent Misconducts, review the results of the preventive procedures at any time, and continually make adjustments so as to ensure thorough implementation of the ethical corporate management policies.</p> <p>To fulfill the best practices of the ethical corporate management, Human Resources Department of the Company is dedicated to be in charge of establishing and enforcing the ethical corporate management policies and prevention procedures, and shall report to the Board of Directors <u>if there is any material misconduct</u>.</p>

Section	Proposed Changes	Current Articles
Article 20	<p>Article 20 (Blow-the-whistle and discipline <u>and appeal system</u>) For any violation of the Principles being found, Company Professionals shall proactively report to the Audit Committee, the Management, Head of Internal Audit, <u>a chief corporate governance officer</u>, Human Resources Department, and other appropriate authorized managers. The Company shall strictly preserve the identity of the whistle-blower and the content of the report.</p> <p>The Company tolerates no violation. Any of the Company Professionals obtains, or intends to obtain, improper Benefits for oneself or others at the cost of the Company by using one’s position and authority shall be dismissed, and unconditionally indemnify the Company for all losses, if occurred.</p> <p>Any of the Company Professionals found to be in violation of the Principles shall be disciplined in accordance with the reward and disciplinary rules of the Company. Those who as a result of violation are dismissed by the Company will no longer be employed again by the Company or its affiliates. <u>Where necessary, a case shall be reported to the competent authority or referred to the judicial authority.</u></p> <p><u>The Company shall establish “The Operational Procedures And Guidelines Of Ethical Management” hereof to guide any of Company Professionals on how to conduct business.</u></p>	<p>Article 20 (Blow-the-whistle and discipline) For any violation of the Principles being found, Company Professionals shall proactively report to the Audit Committee, the Management, Head of Internal Audit, Human Resources Department, and other appropriate authorized managers. The Company shall strictly preserve the identity of the whistle-blower and the content of the report.</p> <p>The Company tolerates no violation. Any of the Company Professionals obtains, or intends to obtain, improper Benefits for oneself or others at the cost of the Company by using one’s position and authority shall be dismissed, and unconditionally indemnify the Company for all losses, if occurred.</p> <p>Any of the Company Professionals found to be in violation of the Principles shall be disciplined in accordance with the reward and disciplinary rules of the Company. Those who as a result of violation are dismissed by the Company will no longer be employed again by the Company or its affiliates.</p> <p><u>An appeal system is established in the Company. Any of Company Professionals being accused to violate the Principles may appeal for remedy via the system.</u></p>

III. Matters to be Approved

1. To accept 2019 business report and financial statements.

The Board of Directors proposes and recommends that each shareholder votes for the acceptance of 2019 business report and financial statements.

Explanatory Notes:

1. FEDS's 2019 business report and financial statements (including consolidated balance sheets, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows, and balance sheets, statements of comprehensive income, statements of changes in equity, statements of cash flows) have been audited by independent auditors, Shu-Chuan Yeh and Ming-Xin Zhuo of Deloitte & Touche (**please refer to P.2-P.32**), and have been examined by and determined to be correct and accurate by the Audit Committee of FEDS. We thereby submit this report.
- 2 Please approve the above-mentioned business report and financial statements.

Resolution:

2. To approve the proposal for the distribution of 2019 surplus earning.

The Board of Directors proposes and recommends that each shareholder votes for the distribution of 2019 surplus earning.

Explanatory Notes:

1. All the closing transactions as of December 31, 2019 have been completely closed, and have been audited by the accounting firm, Deloitte and Touche. We thereby submit the proposal for distribution of 2019 profits:

1.	Unappropriated earnings of January 1, 2019	NT\$ 672,226,593
2.	Net Income for the year ended December 31, 2019	1,781,843,070
3.	Effect of retrospective application	(585,446,153)
4.	The adjustments of retained earnings for by using equity method	252 711
5.	The special reserve set aside by the right-of-use assets meet definition of the investment property measured using the fair value and applied to IFRS16 first time	(135,734,873)
6.	Recognizing the re-measurements of defined benefit plans in retained earnings	198,287,459
7.	The amount of the sum of the current after-tax net income and other item accounted to undistributed earnings (=2-3+4-5+6)	1,259,202,214
8.	10% legal reserve (=7*10%)	(125 920,221)
9.	Reversing special reserve	156,087,818
10.	Distributable net profit(=1+7-8+9)	1,961,596,404
11.	Earnings distribution (NT\$0.8 per share)	(1,133,552,471)
12.	Un-appropriated earnings after distribution(=10-11)	828,043,933

- 2 The distribution of 2019 dividends composes of 2019 surplus earning in priority, and the undistributed profit from 1998 to 2018 in case 2019 surplus earning are insufficient to cover 2019 dividends, and then the undistributed profit before 1997 in case the surplus earning from 1997 to 2017 are insufficient to cover 2018 dividends.
- 3 After being approved at the annual General Shareholders' meeting (2020), the cash dividends to holders of common share will be distributed on the record date to be determined by Chairman authorized by the Board of Directors. Cash dividends allocated to each shareholder should be calculated to round down to full NT dollar (decimal places should be ignored). The sum of the amount lower than NT\$1 paid to each shareholder should be reclassified to other income. According to Article 28-2 of the ROC Securities and Exchange Law and other relevant regulations, the total numbers of common shares outstanding may change, and the ultimate cash to be distributed to each common share may need to be adjusted accordingly. It is proposed that the Board of Directors of FEDS be authorized to adjust the cash to be distributed to each common share based on the total amount of profits resolved to be distributed, the amount of earnings resolved to be capitalized, and the number of actual common shares outstanding on the record date for distribution.
- 4 Please approve the above-mentioned proposal for the distribution of 2019 profits.

Resolution

IV. Discussion and Election

1. Proposal To Amend The Certain Provisions Of The Company' s "Articles of Incorporation"

The Board of Directors proposes and recommends that each shareholder votes for the amendments of certain provisions of the Company's "Articles of Incorporation".

Please vote.

Board of Directors proposes:

Explanatory Notes:

1. For the need of Company's operation and in accordance with the Letter No. Economics-Commerce-10802432410 of the Ministry of Economic Affairs dated on 9 January 2020 stipulating expressly the basis to set aside as legal reserve, it is proposed to amend the certain provisions of "Articles of Incorporation".
2. The amended provisions are shown in the attached comparison table.
3. Please approve the proposed resolutions.

Resolution:

Section	Proposed Changes	Current Articles
Article 17	<p>There shall be <u>5</u> to 9 Directors of the Company, who are elected and appointed from the persons with legal capacity at the shareholders' meeting. The total shares number of the registered shares of the Company held by all of the Directors shall be determined according to the provisions of "Rules and Review Procedures for Director and Supervisor Ownership Ratios at Public Companies".</p> <p>Among the directors in the preceding paragraph have three independent directors.</p> <p>In accordance with Article 192-1 of the Company Act, the Company shall adopt a candidate nomination system for election of the directors, and the shareholders shall elect the directors from among the nominees listed in the roster of candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots.</p>	<p>There shall be <u>7</u> to 9 Directors of the Company, who are elected and appointed from the persons with legal capacity at the shareholders' meeting. The total shares number of the registered shares of the Company held by all of the Directors shall be determined according to the provisions of "Rules and Review Procedures for Director and Supervisor Ownership Ratios at Public Companies".</p> <p>Among the directors in the preceding paragraph have three independent directors.</p> <p>In accordance with Article 192-1 of the Company Act, the Company shall adopt a candidate nomination system for election of the directors, and the shareholders shall elect the directors from among the nominees listed in the roster of candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots.</p>
Article 28	<p>Apart from paying all its income taxes in the case where there are profits at the end of the year, the Company shall make up for accumulated losses in past years. Where there is still balance, 10% of <u>the amount of the sum of the current after-tax net income and other item accounted to undistributed earnings</u> shall be set aside by the Company as legal reserve. Subject to certain business conditions under which the Company may retain a portion, the Company may distribute to the shareholders the bonus which is the remainder based on shareholdings after deducting special reserve as required by law together with undistributed profits from previous years.</p>	<p>Apart from paying all its income taxes in the case where there are profits at the end of the year, the Company shall make up for accumulated losses in past years. Where there is still balance, 10% of which shall be set aside by the Company as legal reserve. Subject to certain business conditions under which the Company may retain a portion, the Company may distribute to the shareholders the bonus which is the remainder based on shareholdings after deducting special reserve as required by law together with undistributed profits from previous years.</p>

Section	Proposed Changes	Current Articles
Article 28	<p>The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be paid aimed at maintaining the stability of dividend distributions. Save for the purposes of improving the financial structure, reinvestments, production expansion or other capital expenditures in which capital is required, when distributing shareholders' dividend, the dividend payout ratio each fiscal year shall be no less than fifty percent (50%) of the final surplus which is the sum of after-tax profit of the fiscal year to withhold previous loss, if any, legal reserve and special reserve as required by law; the cash dividends shall not be less than 10% of bonus to the shareholders distributed in the same year.</p>	<p>The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be paid aimed at maintaining the stability of dividend distributions. Save for the purposes of improving the financial structure, reinvestments, production expansion or other capital expenditures in which capital is required, when distributing shareholders' dividend, the dividend payout ratio each fiscal year shall be no less than fifty percent (50%) of the final surplus which is the sum of after-tax profit of the fiscal year to withhold previous loss, if any, legal reserve and special reserve as required by law; the cash dividends shall not be less than 10% of bonus to the shareholders distributed in the same year.</p>
Article 30	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p><u>Forty-eighth amendment of June 24, 2020</u></p>	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p><u>Forty-seventh amendment of June 21, 2018</u></p>

2. Proposal to amend the certain provisions of the Company's "Rules of Procedure of Stockholders Meeting".

The Board of Directors proposes and recommends that each shareholder votes FOR the amendments of certain provisions of the Company's " Rules of Procedure of Stockholders Meeting".

Please vote.

Board of Directors proposes:

Explanatory Notes:

1. In order to comply with the operation and refer to "Sample Template for XXX Co., Ltd. Rules of Procedure for Shareholders Meetings" by Taiwan Stock Exchange Corporation, it is proposed to amend the certain provisions of "Rules of Procedure of Stockholders Meeting".
2. The amended provisions are shown in the attached comparison table.
3. Please approve the proposed resolutions.

Resolution:

Section	Proposed Changes	Current Articles
Article 10	<p>For proposal in which discussion has been concluded or closed, the chairperson shall submit it for voting.</p> <p>No discussion or voting shall proceed for matters unrelated to the proposals.</p> <p>The personnel responsible for overseeing and counting of the votes for resolutions shall be appointed by the chairperson. The person responsible for vote overseeing shall be of the stockholder status.</p>	<p>For proposal in which discussion has been concluded or closed, the chairperson shall submit it for voting.</p> <p>No discussion or voting shall proceed for matters unrelated to the proposals.</p> <p>The personnel responsible for overseeing and counting of the votes for resolutions shall be appointed by the chairperson <u>with the consent of the stockholders (or proxies)</u>. The person responsible for vote overseeing shall be of the stockholder status.</p>
Article 11	<p>In regards to the resolution of proposals, unless otherwise provided for in the relevant law and regulation or Company's articles of incorporation, resolution shall be passed by a majority of the voting rights represented by the stockholders (or proxies) attending the meeting.</p> <p><u>The proposal(s) should been put to vote. The Chairman can decide that the resolution of proposal(s) should been put to vote one by one, or the resolution of proposals including the proposal to re-elect the directors and supervisors should been put to vote several times or one time with counting of votes by each proposal.</u></p> <p>If there are amendments or substitute proposals for the same proposal, the sequence of which to be put to vote shall be decided by the chairperson. If one of the two proposals has been approved, the other proposal shall be deemed rejected without requirement to put it to vote.</p> <p>The results of voting and election shall be announced on the spot after the vote counting and be kept for records.</p>	<p>In regards to the resolution of proposals, unless otherwise provided for in the relevant law and regulation or Company's articles of incorporation, resolution shall be passed by a majority of the voting rights represented by the stockholders (or proxies) attending the meeting.</p> <p><u>The proposal for a resolution shall be deemed approved if the shareholder(s) present(s) no objection by exercising voting in electronic form and the chairperson inquires and received no objection at a shareholders meeting, the validity of such approval has the same effect as if the resolution has been put to vote.</u></p> <p><u>If the shareholder object the proposal(s), the resolution of proposal(s) should been put to vote. The Chairman can decide that the resolution of proposal(s) should been put to vote one by one, or the resolution of proposals including the proposal to re-elect the directors and supervisors should been put to vote several times or one time with counting of votes by each proposal.</u></p> <p>If there are amendments or substitute proposals for the same proposal, the sequence of which to be put to vote shall be decided by the chairperson. If one of the two proposals has been approved, the other proposal shall be deemed rejected without requirement to put it to vote.</p> <p>The results of voting and election shall be announced on the spot after the vote counting and be kept for records.</p>

Section	Proposed Changes	Current Articles
Article 13	<u>During the Meeting, in case of incident of force majeure, the chairman may decide to temporarily suspend the meeting and announce, depending on the situation, when the meeting will resume.</u>	<u>The meeting shall be adjourned if encountering an air-raid alarm during the meeting. The meeting shall resume one hour after the alarm is lifted.</u>

3. Proposal to hold a by-election to fill the vacancy of one independent director.

The Board of Directors proposes and recommends that each shareholder votes FOR by-election to fill the vacancy of one independent director.

Please vote.

Board of Directors proposes:

Explanatory Notes:

1. The number of vacancies in the board of independent directors is one. The Company hold a by-election to fill the vacancy at the shareholders meeting in 2020 in accordance with “Securities and Exchange Act”.
2. In accordance with the Article 17 of Articles of Incorporation of the Company, the Company hold a by-election to fill the vacancies. His/her term of office as a director is valid from the date of his/her election as an independent director to Jun. 20 2021.
3. The candidate nomination system is adopted by the Company for election of independent director. The candidate shall been nominated by the Board of Directors or by the stockholders holding over 1% of the shares of the Company. The period for receiving nominations of independent director candidates is from April 15, 2020 to April 24, 2020. During the period, the Company receives a nomination of independent director candidate from Far Eastern New Century Corporation. It’s been proposed to and approved by the 9th Board of Directors Meeting of the 18th Term on 5 May 2020.

The list of candidate of independent director is as follow.

Title	Independent director
Nominee	Dong, Ding Yu
Education	Ph.D. in Engineering Stanford University, USA
Experience	Assistant Professor, San Jose State University, USA Chairman and President of Elite Material Co., Ltd.
Present position	Chairman and President of Elite Material Co., Ltd.
On the behalf of the name of the governmental organization or juristic-person	None
Served as an independent director of the Company for three consecutive terms or more	No

4. Please vote.

Resolution:

V. Extemporany Motion

VI. Rules and Regulations

1. Articles of Incorporation of Far Eastern Department Stores Ltd.(the “Company”)

Chapter 1 General Provisions

- Article 1 The Company is duly incorporated under the provisions of the Company Law of the Republic of China, and shall be called: Far Eastern Department Stores Ltd.
- Article 2 The Company's businesses are as follows :
1. General merchandise 、 silk nylon 、 cotton cloth 、 candies cookies 、 cans 、 entertainment appliances 、 hardware 、 furniture 、 decorations 、 hand-made local products 、 stationery 、 library appliances 、 CD/DVD 、 camera appliances 、 children toys (excluding gambling 、 porn game and air-soft gun) 、 shoe/ hat/ raining garment 、 medicine/medical equipment 、 cigarette /wine 、 rice/corn 、 salt 、 the import and export of beverage 、 clocks/watches/glasses/camera's business & maintenances 、 electronic business & maintenances 、 Children's entertainment playground/facility business (excluding gambling 、 porn game and play gun) 、 restaurants 、 food courts 、 beverage stores 、 film developer shop 、 and advertisement business(permitted business);
 2. To operate gourmet grocery market, fresh food business, frozen vegetable, frozen meat/fish, dry food, and all kinds of flavoring sources;
 3. To operate all kinds of product distribution, product classification and storage business;
 4. The import and sales of vendor machines and measurement devices;
 5. Authorizing a construction companies to build , commercial buildings and residential buildings for leasing and selling;
 6. The business of gold and jewelry;
 7. The business of tape recorder, radar CD player, and lets and sales of film tape, and CD/DVD;
 8. The sales, import and export business, and dealer business of vehicles and vehicles parts (for example, seats, vehicles refresher, wax, car accessories and etc.);
 9. Vehicles repair and the operation and management of parking lot;
 10. To operate gas station to supply gasoline, diesel fuel, the food and beverages in automatic vendor machine;
 11. The business of art gallery and the deal of its works and antiques;
 12. The business 、 repair 、 bidding and import and export business of all kind of wire and wireless telecom appliances;
 13. The business of hair salon and various kinds of beauty services;
 14. The entrusted management business of department stores and the stores in international and general tourist hotels;
 15. The business of computer & telecom instrument/services;
 16. JZ99030 photo shooting industry;
 17. JZ99090 various kind services of festivities;
 18. J701040 Leisure and entertaining activities;

19. F401161 the import of tobacco;
20. F401171 the import of liquor;
21. Except where permits are required, to run operations not forbidden or limited by laws and regulations.

Article 3 The Corporation may provide guarantee in accordance to the regulations set out in the "Procedure for Endorsements and Guarantees"

Article 4 Where the Company invests in other companies and becomes a shareholder with limited liability, its total investment may exceed 40% of its paid-up capital as stipulated under Article 13 of the Company Law, subject to approval of the Board of Directors.

Article 5 The Company is incorporated in New Taipei City, the Republic of China; the Board of Directors may by resolution approve the establishment of domestic and international branches where it deems necessary.

Article 6 The Company's Organization Chart should be adopted separately.

Chapter 2 Share Capital

Article 7 The Company's total capital shall be Seventeen Billion and Five hundred Million New Taiwan Dollar (NT\$17,500,000,000) divided into 1,750,000,000 shares of NT\$10 each. The Board of Directors is authorized to issue the un-issued shares in separate trenches. Out of the above total capital amount, One Hundred Million New Taiwan Dollar (NT\$100,000,000) shall be divided into 10,000,000 shares of NT\$10 each, to be issued as warrants for employees to subscribe.

Article 8 Shares issued by the Company are not required to be evidenced by share certificates, provided that they shall be recorded at the Securities Central Depository Enterprises.

The Company can issue special shares.

In the event of the Company merging with another company, matters relating to the merger need not be approved by way of a resolution of the special shareholders meeting.

Article 9 Matters relating to the Company's shares shall be dealt with according to the provisions of "Regulations Governing Handling of Stock Affairs by Public Companies" and the relevant laws and regulations.

Article 10 Registration of share transfer shall be closed within 60 days prior to General Shareholders' Meeting, or with 30 days prior to Extraordinary Shareholders' Meeting or within 5 days prior to the record date on which Company distributes the dividends or bonuses.

Chapter 3 Shareholders' Meeting

Article 11 The Shareholders' Meetings shall be General or Extraordinary Shareholders' Meetings. :

1. General Shareholders' Meeting shall be held once a year within 6 months of the end of the Company's financial year.
2. A Special Shareholders' meeting shall be convened in accordance with laws and regulations.

Article 12 Notices of General Shareholders' Meeting shall be in writing and delivered to the shareholders along with a public notice 30 days before the General Shareholders' Meeting and 15 days before the Extraordinary Shareholders' Meeting. The said notices shall specify the date, place and reasons for calling the shareholders' meeting.

Article 13 Unless otherwise stipulated by the Company Law, a quorum shall be present at the shareholders' meeting if shareholders representing more than half of the shares issued by the Company are in attendance and resolutions at the said assembly shall be passed if approved by a majority of the shareholders in attendance.

Article 14 Shareholders may by way of power of attorney appoint proxies to attend the said shareholders' meeting. Except for trust enterprises or share registration agencies approved by the securities management authorities, when one shareholder is entrusted by two or more shareholders, the voting right represented by the said shareholder shall not exceed 3% of the voting rights of total shares issued. Where it has so exceeded, the voting right in excess shall not be included.
Unless otherwise stipulated by the Company Law, attendance of shareholder's proxies shall be in accordance with the provisions of "Regulation Governing the Use of Proxies For Attendance of Shareholders' Meeting of Public Companies".

Article 15 Unless otherwise stipulated by the Company Law and the Articles of Incorporation, shareholders' meeting shall be conducted in accordance with the Company's regulations for shareholders' meeting.

Article 16 Minutes and resolutions of shareholders' meeting shall be recorded and signed by or affixed with the seal of the chairman of the meeting. The said minutes and resolutions shall specify the date and place of the shareholders' meeting, number of shares represented by the shareholders (or proxies) present at the meeting; number of voting rights represented; name of the chairman of the shareholders' meeting; resolutions and the manner in which they are passed. The said minutes and resolutions shall be kept, together with the register of shareholders' attendance and the proxies' powers of attorney, in compliance with the law.

Chapter 4 Directors, Supervisors and Managers

Article 17 There shall be 7 to 9 Directors of the Company, who are elected and appointed from the persons with legal capacity at the shareholders' meeting. The total shares number of the registered shares of the Company held by all of the Directors shall be determined according to the provisions of "Rules and Review Procedures for Director and

Supervisor Ownership Ratios at Public Companies".

Among the directors in the preceding paragraph have three independent directors.

In accordance with Article 192-1 of the Company Act, the Company shall adopt a candidate nomination system for election of the directors, and the shareholders shall elect the directors from among the nominees listed in the roster of candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots.

Article 17-1 Pursuant to Article 14-4 of the Securities and Exchange Act, the Company will establish an Audit Committee. The Audit Committee shall make up of the entire number of independent directors, is responsible of executing powers relegated to supervisors by the Company Act, Securities and Exchange Act and other laws and regulations.

The organizing members, exercise of powers and other matters to be abided by the Audit Committee shall follow related laws, regulations or rules or regulation of the Company. The organization regulations of the Audit Committee shall be adopted by the Board of Director.

Article 18 The respective appointments of Directors are for a period of 3 years. They may be reappointed following their re-election.

Article 19 The Board of Directors of the Company shall comprise the directors. A Chairman shall be elected from among the Director to represent the company. Where the Chairman has taken leave or is unable to perform his duties for any reasons, the Chairman shall appoint a Director to act on his behalf, failing which the Board of Directors shall nominate from among them a person to act on behalf of the Chairman of the Company.

Article 20 Meetings of the Board of Directors, which shall be held quarterly, shall be convened by the Chairman. Unless otherwise stipulated by the Company Law, a quorum shall be present at the Board of Directors if it is attended by more than half of the Directors, and a resolution passed if approved by a majority of the Directors in attendance. The Chairman may, in case of emergency, convene meetings of the Board at any time.

When a Director is unable to personally attend the meeting of the Board of Directors, he may entrust another Director to represent him in accordance with law.

The notice of meeting of board of directors could be served by way of writing document, e-mail or fax.

Article 21 (Deleted.)

Article 22 The compensation of Directors shall be decided by the Shareholders' Meeting.

Article 23 The Company shall have a General Manager and a number of Vice Presidents, Junior Vice Presidents and Managers. The appointment and dismissal of the above staff shall be by way of a majority at the meetings of the Board of Directors, subject to more than half of the Directors are in attendance of the said meetings.

Article 24 The Chairman and the General Manager shall handle the daily affairs of the Company in compliance with the resolution of the Board of the Directors.

Chapter 5 Accounting

Article 25 The Company's fiscal year shall commence on the First of January of each year, and ends on the Thirty-first of December of the same year. The final accounts are settled at the end of the Company's fiscal year.

Article 26 The Board of Directors shall in accordance with law furnish various documents and statements and their reports shall be submitted for approval at the General Shareholders' Meeting.

The appointment, dismissal and compensation of the accountants auditing and reviewing the above documents and statements shall be resolved at the meeting of the Board of the Directors.

Article 27 The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be distributed at the ratio as set forth in these Articles of Incorporation aimed at maintaining the stability of dividend distributions. When distributing dividends, the cash dividends shall not be less than 10% of the aggregate sum of dividends and bonus distributed in the same year.

Article 28 Apart from paying all its income taxes in the case where there are profits at the end of the year, the Company shall make up for accumulated losses in past years. Where there is still balance, 10% of which shall be set aside by the Company as legal reserve. Subject to certain business conditions under which the Company may retain a portion, the Company may distribute to the shareholders the bonus which is the remainder based on shareholdings after deducting special reserve as required by law together with undistributed profits from previous years.

The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be paid aimed at maintaining the stability of dividend distributions. Save for the purposes of improving the financial structure, reinvestments, production expansion or other capital expenditures in which capital is required, when distributing shareholders' dividend, the dividend payout ratio each fiscal year shall be no less than

fifty percent (50%) of the final surplus which is the sum of after-tax profit of the fiscal year to withhold previous loss, if any, legal reserve and special reserve as required by law; the cash dividends shall not be less than 10% of bonus to the shareholders distributed in the same year.

Article 29 All matters not covered herein shall be undertaken in accordance with the Company Law of the Republic of China and the other relevant law and regulations.

Chapter 6 Supplementary Provisions

Article 30 These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.

First amendment on December 20, 1967;
Second amendment on October 2, 1968;
Third amendment on July 29, 1969;
Fourth amendment on August 26, 1969;
Fifth amendment on February 19, 1970;
Sixth amendment on June 26, 1970;
Seventh amendment on August 21, 1972;
Eighth amendment on March 30, 1973;
Ninth amendment on May 2, 1974;
Tenth amendment on May 30, 1975;
Eleventh amendment on April 19, 1976;
Twelfth amendment on March 25, 1977;
Thirteenth amendment on March 6, 1978;
Fourteenth amendment on April 6, 1979;
Fifteenth amendment on April 18, 1980;
Sixteenth amendment on April 9, 1981;
Seventeenth amendment on April 15, 1982;
Eighteenth amendment on November 29, 1982;
Nineteenth amendment on May 12, 1983;
Twentieth amendment on May 12, 1984;
Twenty-first amendment on May 6, 1985;
Twenty-second amendment on May 7, 1986;
Twenty-third amendment on April 30, 1987;
Twenty-fourth amendment on April 28, 1988;
Twenty-fifth amendment on April 29, 1989;
Twenty-sixth amendment on April 30, 1990;
Twenty-seventh amendment on May 2, 1991;
Twenty-eighth amendment on April 24, 1992;
Twenty-ninth amendment on April 30, 1993;
Thirtieth amendment on April 7, 1994;
Thirty-first amendment on April 15, 1995;
Thirty-second amendment on May 10, 1996;

Thirty-third amendment on May 9, 1997;
Thirty-fourth amendment on May 18, 1998;
Thirty-fifth amendment on May 12, 1999;
Thirty-sixth amendment on May 10, 2000;
Thirty-seventh amendment on May 9, 2001;
Thirty-eighth amendment on May 31, 2002;
Thirty-ninth amendment on June 10, 2003;
Fortieth amendment on June 2, 2006;
Forty-first amendment of June 9, 2010
Forty-Second amendment of June 23, 2011
Forty-third amendment of June 20, 2013
Forty-fourth amendment of June 20, 2014
Forty-fifth amendment of June 22, 2015
Forty-sixth amendment of June 17, 2016
Forty-seventh amendment of June 21, 2018

2. Rules of Procedure of Shareholders' Meeting for Far Eastern Department Stores Ltd (the "Company").

- 1) The stockholders' meeting of the Company shall be held according to the rules herein.
- 2) The location for stockholders' meeting shall be the Company's place of business or a place convenient for attendance by stockholders (or by proxies) that is suitable to holding of this meeting. The meeting shall be held between 9:00AM and 3:00PM.

This Corporation shall specify in its shareholders meeting notices the time during which shareholder attendance registrations will be accepted, the place to register for attendance, and other matters for attention. The time during which shareholder attendance registrations will be accepted shall be at least 30 minutes prior to the time the meeting commences. The place at which attendance registrations are accepted shall be clearly marked and a sufficient number of suitable personnel assigned to handle the registrations.

The Company at a stockholders' meeting shall adopt the electronic transmission as one of the methods for exercising the voting power. The method for exercising the voting power shall be described in the shareholders' meeting notice to be given to the shareholders. A shareholder who exercises his/her/its voting power at a shareholders meeting by way of electronic transmission shall be deemed to have attended the said shareholders' meeting in person, but shall be deemed to have waived his/her/its voting power in respect of any extemporaneous motion(s) and/or the amendment(s) and /or substitute to the contents of the original proposal(s) at the said shareholders' meeting.

Shareholders (or by proxies) shall attend shareholders meetings based on attendance cards, sign-in cards, or other certificates of attendance. Solicitors soliciting proxy forms shall also bring identification documents for verification. The stockholders (or proxies) when attending the meeting shall wear admission badge and hand in signed attendance form.

The attendance to a shareholders' meeting shall be determined subject to shares. The present shares shall be calculated based on the attendance cards as furnished, in addition to the shares exercising voting right in electronic form.

The Company may appoint lawyers, accountants or related personnel to attend the stockholders' meeting.

The personnel in charge of handling the affairs of the meeting shall wear identification badge or armband.

For a stockholders' meeting convened by the board of directors, the chairman of the board of directors shall preside at the meeting. If the chairman of the board of directors is on leave or unable to exert the rights, the vice-chairman of the board of directors shall preside instead. If the position of vice-chairman is vacant or the vice-chairman is on leave or unable to exert the rights the chairman of the board of directors shall designate a director to preside at the meeting. If no director is so designated, the chairman of the meeting shall be elected by the board of directors from among themselves. When a director serves as chair, the director shall be one

who has held that position for six months or more and who understands the financial and business conditions of the company. The same shall be true for a representative of a juristic person director that serves as chair. For a stockholders' meeting convened by any other person having the convening right, he/she shall act as the chairman of that meeting; if there are two or more persons having the convening right, the chairman of the meeting shall be elected from among themselves.

The complete processes of the meeting shall be recorded by voice and video recorders and all the records shall be kept by the Company for a minimum period of at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the recording shall be retained until the conclusion of the litigation.

- 3) The chairperson shall announce starting of the meeting when the attending stockholders (or proxies) represent more than half of the total shares issued in public. The chairperson may announce postponement of meeting if the legal quorum is not present after the designated meeting time. Such postponement is limited to two times and the aggregated postponed time shall not exceed one hour. If quorum is still not present after two postponements but the attending stockholders (or proxies) represent more than one third of the total shares issued in public, tentative resolution/s may be passed with respect to ordinary resolution/s by a majority of those present. After proceeding with the aforesaid tentative resolutions, the chairperson may put the tentative resolutions for re-voting over the meeting if and when the shares represented by the attending stockholders (or proxies) reached the legal quorum.
- 4) If the stockholders' meeting is convened by the board of directors, the agenda shall be designated by the board of directors. The meeting shall proceed in accordance with the designated agenda and shall not be amended without resolutions. If the meeting is convened by person, other than the board of directors, having the convening right, the provision set out in the preceding paragraph shall apply mutatis mutandis. Except with stockholders' resolution, the chairperson shall not declare adjournment of the meeting before the first two matters set out in the agendas (including extemporary motions) are concluded. During the meeting, if the chairperson declares adjournment of the meeting in violation of the preceding rule, a new chairperson may be elected by a resolution passed by majority of the attending stockholders to continue the meeting. When the meeting is adjourned by resolution, the stockholders shall not elect another chairperson to continue the meeting at the same location or another venue.
- 5) The stockholders (or proxies) shall complete statement slip setting out the number of his/her attendance card, name and statement brief before speaking, and the chairperson will designate the order in which each person is to speak during the session. No statement will be considered to have been made if the stockholders (or proxies) merely complete the statement slip without speaking at the meeting. If there are any discrepancies between the content of the statement slip and the speech made, the statement to be adopted shall be the statement confirmed.
- 6) Any proposal for the agendas shall be submitted in written form. Except for the proposals set out in the agenda, any proposal by the stockholders (or proxies) to amend, substitute or to initiate extemporary motions with respect to the original proposal shall be seconded by other stockholders (or proxies). The same rule shall apply to any proposal to amend the agenda and motion to adjourn the meeting. The shares represented by the proponents and the seconders shall reach 100,000.

7) The explanation of proposal shall be limited to 5 minutes. The statement of inquiry and reply shall be limited to 3 minutes per person. The time may be extended for 3 minutes with the chairperson's permission. The chairperson may restrain stockholders (or proxies) from speaking if that stockholders (or proxies) speak overtime, speak beyond the allowed frequency or content of the speech is beyond the scope of the proposal. When a stockholder (or proxy) is speaking, other stockholder (or proxy) shall not interrupt without consent of the chairperson and the speaking stockholder (or proxy). Any disobedient of the preceding rule shall be prohibited by the chairperson.

Article 15 of this meeting rule shall apply if the disobedient do not follow the chairperson's instructions.

8) For the same proposal, each person shall not speak more than 2 times. When a juristic person is a stockholder, only one representative shall be appointed to attend the meeting, if more than two representatives were appointed to attend the meeting, only one representative is allowed to speak.

9) After speaking by the attending stockholder (or proxy), the chairperson may reply in person or assign relevant officer to reply. Over the proposal discussion, the chairperson may conclude the discussion in a timely manner and where necessary announce discussion is closed.

10) For proposal in which discussion has been concluded or closed, the chairperson shall submit it for voting. No discussion or voting shall proceed for matters unrelated to the proposals. The personnel responsible for overseeing and counting of the votes for resolutions shall be appointed by the chairperson with the consent of the stockholders (or proxies). The person responsible for vote overseeing shall be of the stockholder status.

11) In regards to the resolution of proposals, unless otherwise provided for in the relevant law and regulation or Company's articles of incorporation, resolution shall be passed by a majority of the voting rights represented by the stockholders (or proxies) attending the meeting.

The proposal for a resolution shall be deemed approved if the shareholder(s) present(s) no objection by exercising voting in electronic form and the chairperson inquires and received no objection at a shareholders meeting, the validity of such approval has the same effect as if the resolution has been put to vote.

If the shareholder object the proposal(s), the resolution of proposal(s) should been put to vote. The Chairman can decide that the resolution of proposal(s) should been put to vote one by one, or the resolution of proposals including the proposal to re-elect the directors and supervisors should been put to vote several times or one time with counting of votes by each proposal.

If there are amendments or substitute proposals for the same proposal, the sequence of which to be put to vote shall be decided by the chairperson. If one of the two proposals has been approved, the other proposal shall be deemed rejected without requirement to put it to vote.

The results of voting and election shall be announced on the spot after the vote counting and be kept for records.

- 12) During the meeting, the chairperson may at his/her discretion declare time for break.
- 13) The meeting shall be adjourned if encountering an air-raid alarm during the meeting. The meeting shall resume one hour after the alarm is lifted.
- 14) The chairperson may maintain the meeting order by instructing the security guards. The security guards shall wear the armband for identification when helping maintaining the venue order.
- 15) The stockholders (or proxies) shall obey the instructions of the chairperson and security guards in terms of maintaining the order. The chairperson or security guards may exclude the persons disturbing the stockholders' meeting from the meeting.
- 16) For matters not governed by the rules specified herein, shall be governed according to Company Law, Stock Exchange Law and the other related laws and regulations.
- 17) The rules herein take effect after approval at the stockholders' meeting; the same apply for any amendments.

3. Election Procedures of Director and Supervisor for Far Eastern Department Stores Ltd. (the “Company”)

- 1) The election of directors and supervisors shall be pursued in accordance with the procedures herein.
- 2) The election of directors and supervisors adopts the method of accumulated vote-counts. The attendance card number of the voters shall be used on the ballot instead of the name of the voters. The ballots shall be prepared by the board of directors, numbered according to the attendance card numbers and noted with share number represented for voting.
- 3) The election of directors and supervisors shall be pursued according to the number of position required. The independent directors, non-independent directors and supervisors shall be elected at the same election with the number of selectees calculated separately; those candidates receiving more voting rights shall be elected as Directors. The same applies to the election of Supervisor(s). If there are more than two candidates obtaining the same number of vote but the number of position offered is limited, a draw shall be made amongst the two candidates to determine. The chairperson shall conduct the drawing for the candidate who is absent.

The Company, in accordance with Article 192-1 of the Company Act, shall adopt a candidate nomination system for election of the directors and supervisors. Besides, the qualifications of independent directors, independent condition, and other conditions should adhere to the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and other regulation.

- 4) In the beginning of the election, the chairperson shall assign two personnel for vote overseeing and vote counting respectively. The personnel for vote overseeing shall be of the stockholder status.
- 5) The responsibility of the vote-overseeing personnel’s responsibility shall be as follows:
 - Check and seal the ballot box in public before ballot casting.
 - Maintain the order and check for any negligence and illegality for voting.
 - Unseal the ballot box and check the ballot number after ballot casting.
 - Check for any invalid ballots and hand in the valid ballots to the vote-counting personnel.
 - Oversee the vote-counting personnel recording the ballot numbers received by each candidate.
- 6) If the candidate is a natural person with the stockholder status, the voters shall fill out the ballot with the name and stockholder number of the candidate. If the candidate is not of the stockholder status, the ballot shall be filled out with the name and international identification number or passport number of the candidate. If the candidate is the government or juristic stockholder, the ballot shall be filled out with the number, the name of government or juristic person and the representative name. If there are more than one representative, all the representative names shall be listed.
- 7) The ballot shall be considered invalid in any of the following situations:
 - Not the ballot provided under the rules herein
 - One ballot with more than two candidate names listed
 - Blank ballot

- Ballot not filled out according to article 6 or ballot with unrelated writing to this election
- Written characters blurred and not legible
- Incorrect candidate information on the ballot

- 8) There shall be one ballot box for director and supervisor elections respectively. The ballot counting shall be pursued separately for the two elections.
- 9) When all the ballots are cast in the box, the personnel of vote overseeing and counting shall simultaneously unseal the ballot boxes.
- 10) The vote-overseeing personnel shall be present for vote counting.
- 11) If there is any question about the ballot, the vote-overseeing personnel shall check whether it is invalid. The invalid ballots shall be collected and kept separately. The vote-overseeing personnel shall designate them as the invalid with signature and seal after ballot counting.
- 12) For the results of ballot counting, the vote-overseeing personnel shall make sure of correctness of the total ballot number after combining the numbers of the valid and invalid ballots. The numbers of the valid and invalid ballots shall be recorded separately and the chairperson shall announce the elected.
- 13) The elected directors and supervisors shall be given the election notification by the board of directors.
- 14) The rules herein take effect after approval at the stockholders' meeting. The same apply for any amendment

VII. Appendices

1. Shareholding of Directors.

Book closure date (April 26th, 2020)

Title	Name	Representative	Shareholdings	Ratio of Shareholding %
Chairman	Douglas Tong Hsu	-	1,779,835	0.13
Directors	Ding Ding Management Consultant Corp.	Nancy Hsu	73,009	0.01
	Far Eastern New Century Corporation	Nicole Hsu	241,769,702	17.06
		Chee Ching		
	Asia Cement Corporation	Jin Lin Liang	80,052,950	5.65
	U-Li Investment Company	Philby Lee	1,769,001	0.12
Independent Directors	Edward Yung Do Way		-	-
	Chien You Hsin		-	-
Total shares owned by all Directors			325,444,49	22.97
The total legal registered shares owned by all Directors			34,006,574	2.40

Note 1: The total issued and outstanding shares on the book closure date: 1,416,940,589 shares.

Note 2: The shareholding of all directors and supervisors meet the minimum required combined shareholding.

Note 3: The shares held by each individual representative appointed are not counted in the calculation of the combined shareholding of all directors and supervisors.

2. Impact of the stock dividend distribution on operating results, EPS and shareholders' return on investment.

Unit: NT \$

Item	Year	2020 (Estimate)
Paid-in Capital (beginning of the year)		14,169,405,890
Stock & Cash Dividend Distribution	Cash Dividend (NT\$/per share)	0.80
	Stock Dividend from Retained Earnings	0.00
	Stock Dividend from Capital Surplus	0.00
Variance in Business Performance	Operating Income	not applicable (note)
	% Change in Operating Income	
	Net Income	
	% Change in Net Income	
	Earnings Per Share	
	% Change in EPS	
	Average Return on Investment (%)(Reciprocal of Average P/E Ratio)	
Pro Forma EPS & P/E Ratio	If Retained Earnings Pro Forma Earnings Per Share Distributed in Cash Dividend	Pro Forma Earnings Per Share
		Pro Forma Average Yearly Return on Investment
	If Capital Surplus not Distributed in Stock Dividend	Pro Forma Earnings Per Share
		Pro Forma Average Yearly Return on Investment
	If Retained Earnings & Capital Surplus Distributed in Cash Dividend rather than Stock Dividend	Pro Forma Earnings Per Share
		Pro Forma Average Yearly Return on Investment

Note: * As we do not disclose our financial forecast information of 2019, in compliance with relevant Government regulations, there is no need to provide this information.