

## **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 (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our 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, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

### **Evaluation of Impairment Loss of Goodwill**

As of December 31, 2017, the goodwill of the Group was NT\$4,932,782 thousand, accounted for 5% of total consolidated assets, which is material to the consolidated financial statements. Under IAS 36, management must test impairment annually.

The goodwill of the Group mainly derived 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, 5 and 18 of the accompanying consolidated financial statements.

Our key audit procedures for the aforementioned key audit matter are as follows:

1. Evaluating the expertise, competency and independence of external valuation specialists mandated by management. Verifying the qualification of valuation specialists to ensure their objectivity and assignment are not influenced or restricted, and the methodology conducted is under regulation.
2. With support from our internal financial consultancy specialists, evaluating the appropriateness of significant assumptions applied by management, including cash flows forecasts, revenue growth rates and discount rates used.

#### **Fair Value Evaluation of Investment Properties**

As of December 31, 2017, the carrying amount of investment properties was NT\$8,738,216 thousand, accounting for 8% of total consolidated assets, which is material to the consolidated financial statements. The Group'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 Group and market rentals.

Since the 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. Refer to Notes 4, 5 and 17 to the accompanying consolidated financial statements for the relevant detailed information.

Our key audit procedures for the aforementioned key audit matter are as follows:

1. Evaluating the expertise, competency and independence of external valuation specialists mandated by management. Verifying the qualification of valuation specialists to ensure their objectivity and assignment are not influenced or restricted, and the methodology conducted is under regulation.
2. Reviewing significant lease contracts to ensure the accuracy of fundamental information for cash flow forecasts.
3. With support from our internal financial consultancy specialists, evaluating the appropriateness of significant assumptions applied, including capitalization rates and discount rates used.

#### **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, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance, including 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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shu-Chuan Yeh and Kuo-Tyan Hung.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 21, 2018

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally 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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 16,116,484	15	\$ 13,509,941	13
Financial assets at fair value through profit or loss - current	496,455	1	504,315	-
Available-for-sale financial assets - current	233,523	-	446,079	-
Debt investments with no active market - current	1,914,388	2	587,511	-
Notes receivable	1,131	-	15,894	-
Trade receivables	1,113,758	1	767,248	1
Trade receivables from related parties	126,364	-	163,085	-
Other receivables	1,784,033	2	1,829,561	2
Current tax assets	3,079	-	88,192	-
Inventories	2,583,275	2	2,761,106	3
Prepayments	870,134	1	978,303	1
Non-current assets held for sale	-	-	10,515	-
Other current assets	69,068	-	79,317	-
Total current assets	<u>25,311,692</u>	<u>24</u>	<u>21,741,067</u>	<u>20</u>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current	2,944,887	3	3,522,515	3
Financial assets measured at cost - non-current	608,037	-	609,521	1
Debt investments with no active market - non-current	227,000	-	229,000	-
Investments accounted for using the equity method	8,444,059	8	8,438,059	8
Property, plant and equipment	43,699,225	41	43,626,582	41
Investment properties	8,738,216	8	10,166,796	10
Intangible assets	5,059,516	5	6,244,854	6
Deferred tax assets	719,578	1	1,023,507	1
Long-term prepayments for lease	8,176,674	8	8,615,400	8
Other non-current assets	1,779,567	2	1,978,309	2
Total non-current assets	<u>80,396,759</u>	<u>76</u>	<u>84,454,543</u>	<u>80</u>
<b>TOTAL</b>	<u>\$ 105,708,451</u>	<u>100</u>	<u>\$ 106,195,610</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings	\$ 13,084,956	12	\$ 9,886,363	10
Short-term bills payable	2,514,700	3	2,690,946	3
Notes payable	3,071	-	37,892	-
Trade payables	18,285,105	17	16,250,674	15
Trade payables to related parties	127,880	-	113,817	-
Other payables	4,250,840	4	4,518,254	4
Current tax liabilities	539,394	1	740,459	1
Provisions - current	6,828	-	18,596	-
Advance receipts	7,456,419	7	7,594,619	7
Deferred revenue - current	83,761	-	92,267	-
Current portion of bonds payable	998,149	1	-	-
Current portion of long-term borrowings	3,500,000	3	5,965,315	6
Other current liabilities	264,545	-	278,656	-
Total current liabilities	<u>51,115,648</u>	<u>48</u>	<u>48,187,858</u>	<u>46</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable	-	-	996,282	1
Long-term borrowings	13,258,102	13	14,959,267	14
Provisions - non-current	26,465	-	27,995	-
Deferred tax liabilities	1,915,480	2	2,053,903	2
Net defined benefit liabilities	945,908	1	982,919	1
Other non-current liabilities	1,588,670	1	2,544,584	2
Total non-current liabilities	<u>17,734,625</u>	<u>17</u>	<u>21,564,950</u>	<u>20</u>
Total liabilities	<u>68,850,273</u>	<u>65</u>	<u>69,752,808</u>	<u>66</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital				
Common shares	14,169,406	13	14,169,406	13
Capital surplus	3,315,931	3	3,319,868	3
Retained earnings				
Legal reserve	3,013,281	3	2,899,856	3
Special reserve	2,643,743	3	2,529,594	2
Unappropriated earnings	2,274,946	2	2,013,557	2
Total retained earnings	<u>7,931,970</u>	<u>8</u>	<u>7,443,007</u>	<u>7</u>
Other equity	3,678,521	3	3,795,400	4
Treasury shares	(97,110)	-	(97,110)	-
Total equity attributable to owners of the Company	<u>28,998,718</u>	<u>27</u>	<u>28,630,571</u>	<u>27</u>
<b>NON-CONTROLLING INTERESTS</b>				
Total equity	<u>7,859,460</u>	<u>8</u>	<u>7,812,231</u>	<u>7</u>
Total equity	<u>36,858,178</u>	<u>35</u>	<u>36,442,802</u>	<u>34</u>
<b>TOTAL</b>	<u>\$ 105,708,451</u>	<u>100</u>	<u>\$ 106,195,610</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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 41,166,982	100	\$ 43,496,489	100
OPERATING COSTS	<u>20,673,607</u>	<u>50</u>	<u>21,595,367</u>	<u>50</u>
GROSS PROFIT	<u>20,493,375</u>	<u>50</u>	<u>21,901,122</u>	<u>50</u>
OPERATING EXPENSES=				
Selling and marketing expenses	1,036,753	3	1,176,453	3
General and administrative expenses	<u>16,369,898</u>	<u>40</u>	<u>17,563,553</u>	<u>40</u>
Total operating expenses	<u>17,406,651</u>	<u>43</u>	<u>18,740,006</u>	<u>43</u>
OPERATING PROFIT	<u>3,086,724</u>	<u>7</u>	<u>3,161,116</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	213,248	-	240,977	1
Other gains and losses	(116,574)	-	(843,912)	(2)
Finance costs	(445,376)	(1)	(428,315)	(1)
Share of loss of associates accounted for using the equity method	<u>(39,180)</u>	<u>-</u>	<u>(8,585)</u>	<u>-</u>
Total non-operating income and expenses	<u>(387,882)</u>	<u>(1)</u>	<u>(1,039,835)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	2,698,842	6	2,121,281	5
INCOME TAX EXPENSE	<u>853,820</u>	<u>2</u>	<u>625,723</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>1,845,022</u>	<u>4</u>	<u>1,495,558</u>	<u>4</u>
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(78,408)	-	(174,835)	(1)
Share of other comprehensive loss of associates accounted for using the equity method	(3,666)	-	(3,538)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>13,325</u>	<u>-</u>	<u>30,137</u>	<u>-</u>
	<u>(68,749)</u>	<u>-</u>	<u>(148,236)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				

(Continued)

# FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

	2017		2016	
	Amount	%	Amount	%
Exchange differences on translating foreign operations	\$ 53,290	-	\$ 80,511	-
Unrealized loss on available-for-sale financial assets	(140,221)	-	(189,429)	-
Share of other comprehensive loss of associates accounted for using the equity method	<u>(3,528)</u>	<u>-</u>	<u>(31,856)</u>	<u>-</u>
	<u>(90,459)</u>	<u>-</u>	<u>(140,774)</u>	<u>-</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(159,208)</u>	<u>-</u>	<u>(289,010)</u>	<u>(1)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>\$ 1,685,814</u></u>	<u><u>4</u></u>	<u><u>\$ 1,206,548</u></u>	<u><u>3</u></u>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ 1,535,986	3	\$ 1,134,252	3
Non-controlling interests	<u>309,036</u>	<u>1</u>	<u>361,306</u>	<u>1</u>
	<u><u>\$ 1,845,022</u></u>	<u><u>4</u></u>	<u><u>\$ 1,495,558</u></u>	<u><u>4</u></u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Company	\$ 1,363,957	3	\$ 797,192	2
Non-controlling interests	<u>321,857</u>	<u>1</u>	<u>409,356</u>	<u>1</u>
	<u><u>\$ 1,685,814</u></u>	<u><u>4</u></u>	<u><u>\$ 1,206,548</u></u>	<u><u>3</u></u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$ 1.09</u>		<u>\$ 0.81</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 0.80</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, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company											
	Share Capital	Capital Surplus	Retained Earnings			Other Equity			Treasury Shares	Total	Non-controlling Interests	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Gain on Property Revaluation				
BALANCE AT JANUARY 1, 2016	\$ 14,169,406	\$ 3,315,420	\$ 2,728,379	\$ 2,461,168	\$ 2,673,946	\$ 57,483	\$ 1,767,337	\$ 2,170,970	\$ (97,110)	\$ 29,246,999	\$ 7,604,872	\$ 36,851,871
Appropriation of 2015 earnings												
Legal reserve	-	-	171,477	-	(171,477)	-	-	-	-	-	-	-
Special reserve	-	-	-	68,426	(68,426)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(1,416,940)	-	-	-	-	(1,416,940)	-	(1,416,940)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(158,320)	(158,320)
	-	-	171,477	68,426	(1,656,843)	-	-	-	-	(1,416,940)	(158,320)	(1,575,260)
Net profit for the year ended December 31, 2016	-	-	-	-	1,134,252	-	-	-	-	1,134,252	361,306	1,495,558
Other comprehensive (loss) income for the year ended December 31, 2016, net of income tax	-	-	-	-	(136,670)	790	(201,180)	-	-	(337,060)	48,050	(289,010)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	997,582	790	(201,180)	-	-	797,192	409,356	1,206,548
Difference between equity purchase price and carrying amount arising from actual acquisition of subsidiary	-	-	-	-	(1,128)	-	-	-	-	(1,128)	1,128	-
Adjustments resulting from investments in associates accounted for using the equity method	-	4,448	-	-	-	-	-	-	-	4,448	5,381	9,829
Decreases in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(50,186)	(50,186)
BALANCE AT DECEMBER 31, 2016	\$ 14,169,406	\$ 3,319,868	\$ 2,899,856	\$ 2,529,594	\$ 2,013,557	\$ 58,273	\$ 1,566,157	\$ 2,170,970	\$ (97,110)	\$ 28,630,571	\$ 7,812,231	\$ 36,442,802
Appropriation of 2016 earnings												
Legal reserve	-	-	113,425	-	(113,425)	-	-	-	-	-	-	-
Special reserve	-	-	-	114,149	(114,149)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(991,858)	-	-	-	-	(991,858)	-	(991,858)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(273,138)	(273,138)
	-	-	113,425	114,149	(1,219,432)	-	-	-	-	(991,858)	(273,138)	(1,264,996)
Net profit for the year ended December 31, 2017	-	-	-	-	1,535,986	-	-	-	-	1,535,986	309,036	1,845,022
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	(55,150)	27,775	(144,654)	-	-	(172,029)	12,821	(159,208)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,480,836	27,775	(144,654)	-	-	1,363,957	321,857	1,685,814
Adjustments resulting from investments in associates accounted for using the equity method	-	(3,937)	-	-	(15)	-	-	-	-	(3,952)	(1,490)	(5,442)
BALANCE AT DECEMBER 31, 2017	\$ 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	\$ 7,859,460	\$ 36,858,178

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

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 2,698,842	\$ 2,121,281
Adjustments for:		
Depreciation expenses	2,650,811	2,929,003
Amortization expenses	44,687	40,377
Impairment loss (reversal of impairment loss) recognized on receivables	(7,062)	20,682
Net loss on financial assets or liabilities at fair value through profit or loss	2,851	36,290
Finance costs	445,376	428,315
Interest income	(74,855)	(57,458)
Dividend income	(138,393)	(183,519)
Share of loss of associates accounted for using the equity method	39,180	8,585
Loss on disposal of property, plant and equipment	223,336	40,617
Gain on disposal of investments	(428,971)	-
Loss on disposal of intangible assets	3,261	306
Gain on disposal of non-current assets held for sale	(6,628)	-
Impairment loss recognized on financial assets	2,055	2,055
Impairment loss recognized on intangible assets	1,205,840	998,411
Impairment loss recognized on property, plant and equipment	2,040	177,228
Unrealized gain on physical inventory and slow-moving inventories	(1,734)	(159,305)
Loss (gain) on changes in fair value of investment properties	9,061	(127,937)
Amortization of prepayments	25,903	28,301
Amortization of prepayments for lease	325,824	327,040
(Reversal) recognition of provisions	(13,548)	11,898
Reversal of deferred revenue	(92,267)	(98,552)
Reversal of unrealized purchase discounts	(1,506)	(106,012)
Net changes in operating assets and liabilities		
Financial assets held for trading	5,009	(189,494)
Notes receivable	14,763	(12,501)
Trade receivables	(355,141)	(251,606)
Trade receivables from related parties	36,721	95,407
Other receivables	52,691	(229,922)
Inventories	181,071	501,451
Prepayments	148,600	(2,821)
Other current assets	10,249	10,785
Notes payable	(34,821)	(14,332)
Trade payables	2,034,431	(355,292)
Trade payables to related parties	14,063	(5,937)
Other payables	(979,615)	(297,819)
Deferred revenue	83,761	92,267
Advance receipts	71,379	(231,858)
Other current liabilities	(14,111)	(31,108)
Net defined benefit liabilities	(92,161)	16,041
Cash generated from operations	8,090,992	5,530,867

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# FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

	2017	2016
Dividends received	\$ 238,940	\$ 673,437
Interest paid	(431,023)	(411,026)
Interest received	67,559	49,417
Income tax returned	3,125	500
Income tax paid	<u>(799,617)</u>	<u>(341,734)</u>
Net cash generated from operating activities	<u>7,169,976</u>	<u>5,501,461</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of debt investments with no active market	(1,324,877)	187,336
Acquisition of investments accounted for using the equity method	(286,655)	(74,000)
Acquisition of available-for-sale assets	(92,331)	-
Proceeds from sale of available-for-sale financial assets	1,171,836	-
Decrease in prepaid long-term investments	84,174	96,164
Proceeds from disposal of non-current assets held for sale	13,500	-
Payments for property, plant and equipment	(1,825,793)	(1,685,232)
Proceeds from disposal of property, plant and equipment	1,940	8,097
Payments for intangible assets	(53,748)	(42,348)
Payments for investment properties	(1,481)	(2,593)
Decrease in other non-current assets	<u>77,909</u>	<u>28,871</u>
Net cash used in investing activities	<u>(2,235,526)</u>	<u>(1,483,705)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	137,230,416	107,709,464
Repayments of short-term borrowings	(133,883,006)	(107,049,812)
Proceeds from short-term bills payable	29,826,307	30,934,339
Repayments of short-term bills payable	(30,002,553)	(30,594,413)
Proceeds from long-term borrowings	67,111,036	45,644,837
Repayments of long-term borrowings	(71,280,600)	(45,509,200)
Decrease in other non-current liabilities	(35,184)	(45,513)
Dividends paid to owners of the Company	(992,035)	(1,417,029)
Dividends paid to non-controlling interests	(267,424)	(197,397)
Decrease in non-controlling interests	<u>-</u>	<u>(50,186)</u>
Net cash used in financing activities	<u>(2,293,043)</u>	<u>(574,910)</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>(34,864)</u>	<u>40,465</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,606,543	3,483,311
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>13,509,941</u>	<u>10,026,630</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 16,116,484</u>	<u>\$ 13,509,941</u>

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

(Concluded)