

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, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, 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, 2017. 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.

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

Evaluation of Impairment Loss of Goodwill in Investments in Subsidiaries

Carrying amounts of investments in subsidiaries of Company include the goodwill acquired through indirect investment of Pacific Liu Tong Investment Co. Ltd. towards operating segments in mainland China. Under IAS 36, the management of the Company must test for impairment annually. When testing goodwill for impairment, the management should evaluate whether the recoverable amount is higher than the carrying amount. In determining 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, please refer to Notes 4(6) and 5(1) of the accompanying financial statements, in which the goodwill impairment of investments in subsidiaries is included.

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\$9,120,816 thousand, accounting for 15% of the total assets, which 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 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. Please refer to Notes 4(9), 5(2) and 13 to the accompanying 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 the 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 cash flows forecasts, capitalization rates and discount rates used.

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

ASSETS	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 6)	\$ 731,111	1	\$ 517,321	1
Available-for-sale financial assets - current (Notes 7, 29 and 30)	-	-	234,515	-
Notes receivable (Note 9)	-	-	14,890	-
Trade receivables (Note 9)	445,110	1	361,519	1
Trade receivables from related parties (Notes 9 and 29)	58,247	-	40,196	-
Other receivables (Notes 9 and 29)	86,428	-	70,854	-
Current tax assets (Note 24)	-	-	4,270	-
Inventories (Note 10)	331,080	1	383,267	1
Prepayments (Note 29)	222,711	-	255,681	-
Other current assets (Note 16)	11,408	-	10,000	-
Total current assets	<u>1,886,095</u>	<u>3</u>	<u>1,892,513</u>	<u>3</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 7, 29 and 30)	1,945,059	3	2,090,501	4
Financial assets measured at cost - non-current (Note 8)	103,894	-	105,378	-
Investments accounted for using the equity method (Notes 11, 19 and 30)	20,151,049	33	16,760,797	29
Property, plant and equipment (Notes 12, 13, 30 and 31)	25,020,048	41	25,385,789	44
Investment properties (Notes 13 and 30)	9,120,816	15	9,318,997	16
Intangible assets (Note 14)	50,001	-	24,189	-
Deferred tax assets (Note 24)	111,621	-	282,237	-
Long-term prepayments for lease (Note 15)	2,236,168	4	2,298,572	4
Other non-current assets (Notes 16 and 29)	266,326	1	202,612	-
Total non-current assets	<u>59,004,982</u>	<u>97</u>	<u>56,469,072</u>	<u>97</u>
TOTAL	<u>\$ 60,891,077</u>	<u>100</u>	<u>\$ 58,361,585</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 17 and 30)	\$ 6,300,000	10	\$ 3,900,000	7
Short-term bills payable (Note 17)	1,699,188	3	1,149,478	2
Notes payable and trade payables (Note 18)	5,026,846	8	3,223,709	6
Trade payables to related parties (Notes 18 and 29)	85,055	-	59,434	-
Other payables (Notes 19 and 29)	1,226,591	2	1,471,416	3
Current tax liabilities (Note 24)	124,398	-	232,251	-
Deferred revenue - current (Note 19)	37,604	-	37,161	-
Advance receipts (Note 29)	2,885,830	5	2,905,473	5
Current portion of long-term borrowings (Notes 17 and 30)	3,500,000	6	4,696,916	8
Other current liabilities (Notes 19 and 29)	113,556	-	130,490	-
Total current liabilities	<u>20,999,068</u>	<u>34</u>	<u>17,806,328</u>	<u>31</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 17 and 30)	8,600,000	14	9,500,000	16
Deferred tax liabilities (Note 24)	1,884,830	3	1,937,255	3
Net defined benefit liabilities (Note 20)	237,508	1	314,561	1
Other non-current liabilities (Notes 11, 19, 26 and 29)	170,953	-	172,870	-
Total non-current liabilities	<u>10,893,291</u>	<u>18</u>	<u>11,924,686</u>	<u>20</u>
Total liabilities	<u>31,892,359</u>	<u>52</u>	<u>29,731,014</u>	<u>51</u>
EQUITY				
Share capital				
Common shares	14,169,406	23	14,169,406	24
Capital surplus	3,315,931	6	3,319,868	6
Retained earnings				
Legal reserve	3,013,281	5	2,899,856	5
Special reserve	2,643,743	4	2,529,594	4
Unappropriated earnings	2,274,946	4	2,013,557	4
Total retained earnings	7,931,970	13	7,443,007	13
Other equity	3,678,521	6	3,795,400	6
Treasury shares	(97,110)	-	(97,110)	-
Total equity	<u>28,998,718</u>	<u>48</u>	<u>28,630,571</u>	<u>49</u>
TOTAL	<u>\$ 60,891,077</u>	<u>100</u>	<u>\$ 58,361,585</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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 22 and 29)	\$ 10,581,149	100	\$ 10,524,713	100
OPERATING COSTS (Notes 10, 23 and 29)	<u>4,097,426</u>	<u>39</u>	<u>3,843,738</u>	<u>37</u>
GROSS PROFIT	<u>6,483,723</u>	<u>61</u>	<u>6,680,975</u>	<u>63</u>
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	402,891	4	474,425	5
General and administrative expenses	<u>4,198,675</u>	<u>39</u>	<u>4,362,248</u>	<u>41</u>
Total operating expenses	<u>4,601,566</u>	<u>43</u>	<u>4,836,673</u>	<u>46</u>
OPERATING PROFIT	<u>1,882,157</u>	<u>18</u>	<u>1,844,302</u>	<u>17</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 23)	72,518	1	104,593	1
Other gains and losses (Notes 23 and 29)	170,706	1	521,069	5
Finance costs (Notes 23 and 29)	(199,285)	(2)	(202,433)	(2)
Share of loss of subsidiaries and associates accounted for using the equity method	<u>(144,445)</u>	<u>(1)</u>	<u>(880,568)</u>	<u>(8)</u>
Total non-operating income and expenses	<u>(100,506)</u>	<u>(1)</u>	<u>(457,339)</u>	<u>(4)</u>
PROFIT BEFORE INCOME TAX	1,781,651	17	1,386,963	13
INCOME TAX EXPENSE (Note 24)	<u>245,665</u>	<u>2</u>	<u>252,711</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,535,986</u>	<u>15</u>	<u>1,134,252</u>	<u>11</u>
OTHER COMPREHENSIVE (LOSS) INCOME (Notes 20, 21 and 24)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(22,745)	-	(124,462)	(1)
Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method	(36,272)	(1)	(33,366)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>3,867</u>	<u>-</u>	<u>21,158</u>	<u>-</u>
	<u>(55,150)</u>	<u>(1)</u>	<u>(136,670)</u>	<u>(1)</u>

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FAR EASTERN DEPARTMENT STORES, LTD.

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	%
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets	\$ (26,854)	-	\$ (107,830)	(1)
Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method	<u>(90,025)</u>	<u>(1)</u>	<u>(92,560)</u>	<u>(1)</u>
	<u>(116,879)</u>	<u>(1)</u>	<u>(200,390)</u>	<u>(2)</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(172,029)</u>	<u>(2)</u>	<u>(337,060)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,363,957</u>	<u>13</u>	<u>\$ 797,192</u>	<u>8</u>
EARNINGS PER SHARE, NT\$ (Note 25)				
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 financial statements.

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FAR EASTERN DEPARTMENT STORES, LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)**

	Share Capital (Note 21)	Capital Surplus (Note 21)	Retained Earnings (Notes 20, 21 and 24)			Other Equity (Note 21)				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	Treasury Shares (Note 21)	
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
Appropriation of 2015 earnings										
Legal reserve	-	-	171,477	-	(171,477)	-	-	-	-	-
Special reserve	-	-	-	68,426	(68,426)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,416,940)	-	-	-	-	(1,416,940)
	-	-	171,477	68,426	(1,656,843)	-	-	-	-	(1,416,940)
Net profit for the year ended December 31, 2016	-	-	-	-	1,134,252	-	-	-	-	1,134,252
Other comprehensive (loss) income for the year ended December 31, 2016, net of income tax	-	-	-	-	(136,670)	790	(201,180)	-	-	(337,060)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	997,582	790	(201,180)	-	-	797,192
Difference between equity purchase price and carrying amount arising from actual acquisition of subsidiary	-	-	-	-	(1,128)	-	-	-	-	(1,128)
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	4,448	-	-	-	-	-	-	-	4,448
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
Appropriation of 2016 earnings										
Legal reserve	-	-	113,425	-	(113,425)	-	-	-	-	-
Special reserve	-	-	-	114,149	(114,149)	-	-	-	-	-
Cash dividends	-	-	-	-	(991,858)	-	-	-	-	(991,858)
	-	-	113,425	114,149	(1,219,432)	-	-	-	-	(991,858)
Net profit for the year ended December 31, 2017	-	-	-	-	1,535,986	-	-	-	-	1,535,986
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	(55,150)	27,775	(144,654)	-	-	(172,029)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,480,836	27,775	(144,654)	-	-	1,363,957
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	(3,937)	-	-	(15)	-	-	-	-	(3,952)
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

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 1,781,651	\$ 1,386,963
Adjustments for:		
Depreciation expenses	1,187,359	1,284,042
Amortization expenses	12,481	9,612
Amortization of prepayments	715	8,143
Finance costs	199,285	202,433
Reversal of deferred revenue	(37,161)	(38,775)
Share of loss of subsidiaries and associates accounted for using the equity method	144,445	880,568
Interest income	(38)	(551)
Dividend income	(72,480)	(104,042)
Loss on disposal of property, plant and equipment	7,062	14,191
Loss on disposal of investment properties	166	247
Gain on disposal of investments	(194,022)	-
Impairment loss recognized on financial assets	2,055	2,055
Loss (gain) on changes in fair value of investment properties	78,539	(157,290)
Net changes in operating assets and liabilities		
Notes receivable	14,890	(13,853)
Trade receivables	(83,591)	(107,218)
Trade receivables from related parties	(18,051)	(17,339)
Other receivables	(15,574)	22,837
Inventories	52,187	6,808
Prepayments	32,970	(1,764)
Other current assets	(1,408)	7,609
Notes payable and trade payables	1,803,137	(131,881)
Trade payables to related parties	25,621	(7,564)
Other payables	(74,995)	(216,876)
Deferred revenue	37,604	37,161
Advance receipts	131,025	(96,239)
Other current liabilities	(16,934)	(6,603)
Net defined benefit liabilities	(99,798)	13,335
Cash generated from operations	4,897,140	2,976,009
Interest paid	(229,773)	(239,708)
Interest received	38	45
Dividends received	228,650	227,837
Income tax returned	3,123	-
Income tax paid	(230,313)	(142,646)
Net cash generated from operating activities	<u>4,668,865</u>	<u>2,821,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	547,125	-
Acquisition of investments accounted for using the equity method	(3,843,327)	-
Payments for property, plant and equipment	(969,786)	(805,780)

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FAR EASTERN DEPARTMENT STORES, LTD.

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

	2017	2016
Payments for investment properties	\$ (2,193)	\$ (3,792)
(Increase) decrease in other non-current assets	(34,160)	9,056
Payments for intangible assets	(25,979)	(21,248)
Proceeds from disposal of property, plant and equipment	<u>998</u>	<u>127</u>
Net cash used in investing activities	<u>(4,327,322)</u>	<u>(821,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	90,450,000	49,330,000
Repayments of short-term borrowings	(88,050,000)	(50,330,000)
Proceeds from short-term bills payable	13,340,889	13,714,162
Repayments of short-term bills payable	(12,791,179)	(13,614,370)
Proceeds from long-term borrowings	55,450,000	32,249,971
Repayments of long-term borrowings	(57,546,916)	(31,950,000)
Increase in other non-current liabilities	11,488	11,717
Dividends paid	<u>(992,035)</u>	<u>(1,417,029)</u>
Net cash used in financing activities	<u>(127,753)</u>	<u>(2,005,549)</u>
NET INCREASE (DECREASE) IN CASH	213,790	(5,649)
CASH AT THE BEGINNING OF THE YEAR	<u>517,321</u>	<u>522,970</u>
CASH AT THE END OF THE YEAR	<u>\$ 731,111</u>	<u>\$ 517,321</u>

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

(Concluded)