

**Far Eastern Department Stores, Ltd.**

**Financial Statements for the  
Years Ended December 31, 2006 and 2005 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Far Eastern Department Stores, Ltd. as of December 31, 2006 and 2005 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far Eastern Department Stores, Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, on January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the related revisions of previously released Statements as well as the newly revised SFAS No. 5 - "Long-term Investments in Equity Securities" and No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method."

We have also audited the consolidated financial statements of Far Eastern Department Stores, Ltd. and subsidiaries as of and for the years ended December 31, 2006 and have expressed an unqualified opinion thereon in our report dated February 26, 2007.

February 26, 2007

Notice to Readers

*The accompanying financial statements are intended only to present the financial position, results of operations 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 accepted and applied in the Republic of China.*

*For the convenience of readers, the 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 auditors' report and financial statements shall prevail.*

**FAR EASTERN DEPARTMENT STORES, LTD.**

**BALANCE SHEETS**

**DECEMBER 31, 2006 AND 2005**

(In Thousands of New Taiwan Dollars, Except Par Value)

| ASSETS  | 2006                |            | 2005                |            | LIABILITIES AND STOCKHOLDERS' EQUITY   | 2006                |            | 2005                |            |
|---|---------------------|------------|---------------------|------------|--|---------------------|------------|---------------------|------------|
|   | Amount              | %          | Amount              | %          |  | Amount              | %          | Amount              | %          |
| <b>CURRENT ASSETS</b>   |                     |            |                     |            | <b>CURRENT LIABILITIES</b>   |                     |            |                     |            |
| Cash and cash equivalents (Notes 2 and 4)   | \$ 1,563,317        | 4          | \$ 587,227          | 2          | Short-term debts (Notes 15, 18 and 28)   | \$ 2,220,000        | 5          | \$ 1,350,000        | 4          |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 5)              | -                   | -          | 830,000             | 2          | Short-term notes and bills payable (Notes 16 and 18)   | 948,787             | 2          | 399,540             | 1          |
| Available-for-sale financial assets - current (Notes 2, 3 and 6)                      | 360,339             | 1          | 179,771             | 1          | Accounts payable (Note 27)   | 2,335,014           | 6          | 1,764,407           | 5          |
| Receivables:  |                     |            |                     |            | Accrued expenses (Notes 27 and 29)   | 515,862             | 1          | 501,126             | 1          |
| Notes   | 194,293             | -          | 27,436              | -          | Income tax payable (Notes 2 and 22)  | 42,630              | -          | -                   | -          |
| Accounts, net of allowance for doubtful accounts of \$3,550 thousand (Notes 2 and 27) | 233,314             | 1          | 187,269             | -          | Balance payable - property (Note 29)   | 784,936             | 2          | 520,323             | 1          |
| Others (Notes 10 and 27)  | 201,651             | -          | 677,933             | 2          | Advance receipts   | 1,064,993           | 3          | 1,050,364           | 3          |
| Inventories, net (Notes 2 and 7)  | 213,291             | 1          | 236,643             | 1          | Current portion of bonds issued (Notes 17 and 28)  | 2,000,000           | 5          | 2,300,000           | 6          |
| Prepayments   | 22,424              | -          | 32,339              | -          | Current portion of long-term borrowings (Notes 18 and 28)  | 584,917             | 1          | 535,700             | 2          |
| Deferred tax assets (Notes 2 and 22)  | 16,485              | -          | 36,250              | -          | Current portion of franchise liability (Notes 2 and 11)  | 302,694             | 1          | 460,284             | 1          |
| Pledged time deposits (Note 28)   | 1,000               | -          | 2,000               | -          | Other current liabilities  | 521,302             | 1          | 536,083             | 2          |
| Other current assets  | 68,934              | -          | 61,762              | -          |  |                     |            |                     |            |
| Total current assets  | 2,875,048           | 7          | 2,858,630           | 8          | Total current liabilities  | 11,321,135          | 27         | 9,417,827           | 26         |
| <b>LONG-TERM INVESTMENTS</b>  |                     |            |                     |            | <b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>   |                     |            |                     |            |
| Investments accounted for by the equity method (Notes 2, 9, 28 and 29)                | 14,320,253          | 34         | 10,515,031          | 29         | Bonds issued (Notes 17 and 28)   | 1,700,000           | 4          | 3,700,000           | 10         |
| Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 28)               | 2,045,479           | 5          | 1,191,940           | 3          | Long-term borrowings (Notes 18, 27 and 28)   | 6,299,809           | 15         | 3,582,067           | 10         |
| Financial assets carried at cost (Notes 2, 3, and 8)                                  | 162,570             | 1          | 107,370             | -          | Franchise liability (Notes 2 and 11)   | 298,588             | 1          | 601,283             | 1          |
| Total long-term investments   | 16,528,302          | 40         | 11,814,341          | 32         | Total long-term liabilities  | 8,298,397           | 20         | 7,883,350           | 21         |
| <b>PROPERTY (Notes 2, 10, 11, 12, 27, 28 and 29)</b>                                  |                     |            |                     |            | <b>RESERVES</b>  |                     |            |                     |            |
| Cost  |                     |            |                     |            | Reserve for land revaluation increment tax (Note 10)   | 575,490             | 1          | 575,490             | 1          |
| Land  | 4,073,120           | 10         | 4,106,379           | 11         | <b>OTHER LIABILITIES</b>   |                     |            |                     |            |
| Buildings and equipment   | 6,135,063           | 15         | 5,850,997           | 16         | Deposits received (Notes 12 and 27)  | 56,559              | -          | 56,447              | -          |
| Furniture and equipment   | 3,111,902           | 7          | 3,078,922           | 9          | Deferred tax liabilities (Notes 2 and 22)  | 190,372             | 1          | 228,491             | 1          |
| Total cost  | 13,320,085          | 32         | 13,036,298          | 36         | Deferred credits - gains on related-party transactions (Notes 2 and 27)                          | 369,086             | 1          | 369,086             | 1          |
| Revaluation increment   | 1,194,771           | 3          | 1,194,771           | 3          | Miscellaneous (Note 9)   | 598                 | -          | 13,532              | -          |
| Cost and appreciation   | 14,514,856          | 35         | 14,231,069          | 39         | Total other liabilities  | 616,615             | 2          | 667,556             | 2          |
| Less: Accumulated depreciation  | 3,624,635           | 9          | 3,194,636           | 9          | Total liabilities  | 20,811,637          | 50         | 18,544,223          | 50         |
| Construction in progress  | 10,890,221          | 26         | 11,036,433          | 30         | <b>STOCKHOLDERS' EQUITY</b>  |                     |            |                     |            |
| Leasehold rights, net   | 5,024,327           | 12         | 4,698,008           | 13         | Capital stock NT\$10.00 par value  |                     |            |                     |            |
| Properties leased to others, net  | 4,018,785           | 9          | 4,069,133           | 11         | Authorized - 1,350,000 thousand shares   |                     |            |                     |            |
| Net property  | 1,588,945           | 4          | 1,604,237           | 4          | Issued and outstanding - 1,077,853 thousand shares in 2006 and 1,036,397 thousand shares in 2005 | 10,778,529          | 26         | 10,363,970          | 28         |
| <b>OTHER ASSETS</b>   |                     |            |                     |            | Capital surplus:   |                     |            |                     |            |
| Idle assets, net (Notes 2, 13 and 28)   | 458,910             | 1          | 462,522             | 1          | Additional paid-in capital - common  | 2,606,859           | 6          | 2,606,859           | 7          |
| Refundable deposits (Notes 11 and 14)   | 161,047             | 1          | 166,537             | 1          | Treasury stock transactions  | 267,469             | 1          | 204,272             | 1          |
| Prepaid pension costs (Notes 2 and 26)  | 111,098             | -          | 87,597              | -          | Long-term investments  | 345,117             | 1          | 324,135             | 1          |
| Miscellaneous   | 17,224              | -          | 30,118              | -          | Total capital surplus  | 3,219,445           | 8          | 3,135,266           | 9          |
| Total other assets  | 748,279             | 2          | 746,774             | 2          | Retained earnings:   |                     |            |                     |            |
| <b>TOTAL</b>  | <b>\$41,673,907</b> | <b>100</b> | <b>\$36,827,556</b> | <b>100</b> | Legal reserve  | 1,277,311           | 3          | 1,179,369           | 3          |
|   |                     |            |                     |            | Special reserve  | 2,159,977           | 5          | 2,159,977           | 6          |
|   |                     |            |                     |            | Unappropriated earnings  | 634,461             | 2          | 1,149,216           | 3          |
|   |                     |            |                     |            | Total retained earnings  | 4,071,749           | 10         | 4,488,562           | 12         |
|   |                     |            |                     |            | Other equity adjustments   |                     |            |                     |            |
|   |                     |            |                     |            | Cumulative translation adjustments   | (19,354)            | -          | (18,875)            | -          |
|   |                     |            |                     |            | Net loss not recognized as pension costs   | (11,660)            | -          | (9,669)             | -          |
|   |                     |            |                     |            | Unrealized valuation gains (losses) on financial instruments                                     | 2,121,567           | 5          | (349,486)           | (1)        |
|   |                     |            |                     |            | Unrealized asset revaluation increment   | 883,944             | 2          | 883,944             | 2          |
|   |                     |            |                     |            | Total other equity adjustments   | 2,974,497           | 7          | 505,914             | 1          |
|   |                     |            |                     |            | Treasury stock - 30,414 thousand shares in 2006 and 33,830 thousand shares in 2005               | (181,950)           | (1)        | (210,379)           | -          |
|   |                     |            |                     |            | Total stockholders' equity   | 20,862,270          | 50         | 18,283,333          | 50         |
|   |                     |            |                     |            | <b>TOTAL</b>   | <b>\$41,673,907</b> | <b>100</b> | <b>\$36,827,556</b> | <b>100</b> |

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

(With Deloitte & Touche audit report dated February 26, 2007)

# FAR EASTERN DEPARTMENT STORES, LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

|   | 2006              |            | 2005              |            |
|---|-------------------|------------|-------------------|------------|
|   | Amount            | %          | Amount            | %          |
| <b>REVENUES</b>   |                   |            |                   |            |
| Sales (Notes 2 and 27)  | \$ 18,203,427     | 98         | \$ 17,872,659     | 98         |
| Other operating revenues (Notes 2, 21 and 27)                 | <u>345,932</u>    | <u>2</u>   | <u>340,145</u>    | <u>2</u>   |
| Total revenues  | <u>18,549,359</u> | <u>100</u> | <u>18,212,804</u> | <u>100</u> |
| <b>COSTS</b>  |                   |            |                   |            |
| Cost of goods sold (Note 27)                                  | 14,617,200        | 79         | 14,333,323        | 79         |
| Other operating costs (Notes 21 and 23)                       | <u>45,016</u>     | <u>-</u>   | <u>42,278</u>     | <u>-</u>   |
| Total costs   | <u>14,662,216</u> | <u>79</u>  | <u>14,375,601</u> | <u>79</u>  |
| <b>GROSS PROFIT</b>   | <u>3,887,143</u>  | <u>21</u>  | <u>3,837,203</u>  | <u>21</u>  |
| <b>OPERATING EXPENSES (Notes 10, 11, 23 and 27)</b>           |                   |            |                   |            |
| Selling   | 692,677           | 4          | 602,347           | 3          |
| General and administrative                                    | <u>2,543,919</u>  | <u>14</u>  | <u>2,553,464</u>  | <u>14</u>  |
| Total operating expenses                                      | <u>3,236,596</u>  | <u>18</u>  | <u>3,155,811</u>  | <u>17</u>  |
| <b>OPERATING INCOME</b>                                       | <u>650,547</u>    | <u>3</u>   | <u>681,392</u>    | <u>4</u>   |
| <b>NONOPERATING INCOME AND GAINS</b>                          |                   |            |                   |            |
| Equity in earning of equity-method investees, net<br>(Note 9) | 159,032           | 1          | -                 | -          |
| Dividend income   | 75,436            | 1          | 86,688            | -          |
| Interest income   | 8,112             | -          | 5,087             | -          |
| Gains on disposal of investments, net                         | 383               | -          | 88,203            | 1          |
| Gain on disposal of property (Note 24)                        | -                 | -          | 463,358           | 3          |
| Other income (Note 27)  | <u>70,870</u>     | <u>-</u>   | <u>59,805</u>     | <u>-</u>   |
| Total nonoperating income and gains                           | <u>313,833</u>    | <u>2</u>   | <u>703,141</u>    | <u>4</u>   |
| <b>NONOPERATING EXPENSES AND LOSSES</b>                       |                   |            |                   |            |
| Interest expense (Notes 10, 27 and 29)                        | 194,340           | 1          | 107,719           | 1          |
| Loss on disposal of property and idle assets<br>(Note 10)     | 66,766            | -          | 38,362            | -          |
| Equity in losses of equity-method investees, net<br>(Note 9)  | -                 | -          | 132,048           | 1          |
| Other expenses (Notes 9, 13, 23, 27 and 29)                   | <u>91,609</u>     | <u>1</u>   | <u>65,973</u>     | <u>-</u>   |
| Total nonoperating expenses and losses                        | <u>352,715</u>    | <u>2</u>   | <u>344,102</u>    | <u>2</u>   |

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# FAR EASTERN DEPARTMENT STORES, LTD.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

|   | 2006              |          | 2005              |          |
|---|-------------------|----------|-------------------|----------|
|   | Amount            | %        | Amount            | %        |
| INCOME BEFORE INCOME TAX  | \$ 611,665        | 3        | \$ 1,040,431      | 6        |
| INCOME TAX (Notes 2 and 22)   | <u>25,541</u>     | <u>-</u> | <u>61,005</u>     | <u>1</u> |
| INCOME BEFORE CUMULATIVE EFFECT OF<br>CHANGES IN ACCOUNTING PRINCIPLES  | 586,124           | 3        | 979,426           | 5        |
| CUMULATIVE EFFECT OF CHANGES IN<br>ACCOUNTING PRINCIPLES, NET OF INCOME<br>TAX EXPENSE OF \$0 THOUSAND (Note 3) | <u>28</u>         | <u>-</u> | <u>-</u>          | <u>-</u> |
| NET INCOME  | <u>\$ 586,152</u> | <u>3</u> | <u>\$ 979,426</u> | <u>5</u> |

|                              | 2006           |                | 2005           |                |
|------------------------------|----------------|----------------|----------------|----------------|
|                              | Before Tax     | After Tax      | Before Tax     | After Tax      |
| EARNINGS PER SHARE (Note 25) |                |                |                |                |
| Basic                        | <u>\$ 0.59</u> | <u>\$ 0.56</u> | <u>\$ 1.01</u> | <u>\$ 0.95</u> |

Pro forma information on the assumption that the Company's shares traded or held by subsidiaries are treated as investments instead of treasury stocks (Note 25):

|                    | 2006           |                | 2005           |                |
|--------------------|----------------|----------------|----------------|----------------|
|                    | Before Tax     | After Tax      | Before Tax     | After Tax      |
| EARNINGS PER SHARE |                |                |                |                |
| Basic              | <u>\$ 0.63</u> | <u>\$ 0.60</u> | <u>\$ 1.14</u> | <u>\$ 1.08</u> |

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

(With Deloitte & Touche audit report dated February 26, 2007)

(Concluded)

**FAR EASTERN DEPARTMENT STORES, LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2006 AND 2005  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

|  | Other Equity Adjustments                   |   |                                |                          |  |                     |                            |  |   |   |   |                                    |                                  |
|--|--|---|--------------------------------|--------------------------|--|---------------------|----------------------------|--|---|---|---|------------------------------------|----------------------------------|
|  | Capital Stock<br>Issued and<br>Outstanding | Capital Surplus (Notes 2, 9, 19 and 20)   |                                |                          | Retained Earnings (Notes 2, 19 and 22) |                     |                            | Cumulative<br>Translation<br>Adjustments<br>(Note 2) | Net Loss not<br>Recognized as<br>Pension Cost | Unrealized<br>Valuation Gain<br>or Loss on<br>Financial<br>Instrument<br>(Notes 2, 3 and 6) | Reserve for Asset<br>Revaluation<br>Increment<br>(Notes 2 and 10) | Treasury Stock<br>(Notes 2 and 20) | Total<br>Stockholders'<br>Equity |
|  |  | Additional<br>Paid-in Capital -<br>Common | Treasury Stock<br>Transactions | Long-term<br>Investments | Legal Reserve                          | Special Reserve     | Unappropriated<br>Earnings |  |   |   |   |                                    |                                  |
| BALANCE, JANUARY 1, 2005   | \$ 9,870,448                               | \$ 2,606,859                              | \$ 19,894                      | \$ 313,621               | \$ 1,031,416                           | \$ 2,159,977        | \$ 1,485,215               | \$ (96,459)  | \$ (14,067)                                   | \$ (474,272)  | \$ 614,880  | \$ (293,659)                       | \$ 17,223,853                    |
| Appropriation of prior year's earnings:  |  |   |                                |                          |  |                     |                            |  |   |   |   |                                    |                                  |
| Legal reserve  | -  | -   | -                              | -                        | 147,953                                | -                   | (147,953)                  | -  | -   | -   | -   | -                                  | -                                |
| Stock dividends - 5%   | 493,522                                    | -   | -                              | -                        | -                                      | -                   | (493,522)                  | -  | -   | -   | -   | -                                  | -                                |
| Cash dividends - NT\$0.6 per share   | -  | -   | -                              | -                        | -                                      | -                   | (592,227)                  | -  | -   | -   | -   | -                                  | (592,227)                        |
| Employee bonuses   | -  | -   | -                              | -                        | -                                      | -                   | (46,699)                   | -  | -   | -   | -   | -                                  | (46,699)                         |
| Remuneration to directors and supervisors  | -  | -   | -                              | -                        | -                                      | -                   | (35,024)                   | -  | -   | -   | -   | -                                  | (35,024)                         |
| Adjustment on gain from disposal of property   | -  | -   | -                              | -                        | -                                      | -                   | -                          | -  | -   | -   | (49,756)  | -                                  | (49,756)                         |
| Adjustment due to a decrease in land revaluation increment tax rate                      | -  | -   | -                              | -                        | -                                      | -                   | -                          | -  | -   | -   | 318,820   | -                                  | 318,820                          |
| Adjustment due to subsidiaries' disposal of parent's stocks                              | -  | -   | 184,378                        | -                        | -                                      | -                   | -                          | -  | -   | -   | -   | 83,280                             | 267,658                          |
| Valuation gain on available-for-sale financial assets                                    | -  | -   | -                              | -                        | -                                      | -                   | -                          | -  | -   | 124,786   | -   | -                                  | 124,786                          |
| Translation adjustments on long-term equity investments                                  | -  | -   | -                              | -                        | -                                      | -                   | -                          | 10,979   | -   | -   | -   | -                                  | 10,979                           |
| Adjustment reported by equity-method investees   | -  | -   | -                              | 10,514                   | -                                      | -                   | -                          | 66,605   | 4,398   | -   | -   | -                                  | 81,517                           |
| Net income in 2005   | -  | -   | -                              | -                        | -                                      | -                   | 979,426                    | -  | -   | -   | -   | -                                  | 979,426                          |
| BALANCE, DECEMBER 31, 2005   | 10,363,970                                 | 2,606,859                                 | 204,272                        | 324,135                  | 1,179,369                              | 2,159,977           | 1,149,216                  | (18,875)   | (9,669)                                       | (349,486)   | 883,944   | (210,379)                          | 18,283,333                       |
| Effect of accounting adjustments (Note 3)  | -  | -   | -                              | -                        | -                                      | -                   | -                          | -  | -   | 235,479   | -   | -                                  | 235,479                          |
| Appropriation of prior year's earnings:  |  |   |                                |                          |  |                     |                            |  |   |   |   |                                    |                                  |
| Legal reserve  | -  | -   | -                              | -                        | 97,942                                 | -                   | (97,942)                   | -  | -   | -   | -   | -                                  | -                                |
| Stock dividends - 4%   | 414,559                                    | -   | -                              | -                        | -                                      | -                   | (414,559)                  | -  | -   | -   | -   | -                                  | -                                |
| Cash dividends - NT\$0.5 per share   | -  | -   | -                              | -                        | -                                      | -                   | (518,198)                  | -  | -   | -   | -   | -                                  | (518,198)                        |
| Employee bonuses   | -  | -   | -                              | -                        | -                                      | -                   | (40,119)                   | -  | -   | -   | -   | -                                  | (40,119)                         |
| Remuneration to directors and supervisors  | -  | -   | -                              | -                        | -                                      | -                   | (30,089)                   | -  | -   | -   | -   | -                                  | (30,089)                         |
| Adjustment due to subsidiaries' disposal of parent's stocks                              | -  | -   | 63,197                         | -                        | -                                      | -                   | -                          | -  | -   | -   | -   | 28,429                             | 91,626                           |
| Translation adjustments on long-term equity investments                                  | -  | -   | -                              | -                        | -                                      | -                   | -                          | (1,780)  | -   | -   | -   | -                                  | (1,780)                          |
| Adjustment due to nonproportional subscription for additional shares issued by investees | -  | -   | -                              | 22,579                   | -                                      | -                   | -                          | -  | -   | -   | -   | -                                  | 22,579                           |
| Adjustment reported by equity-method investees   | -  | -   | -                              | (1,597)                  | -                                      | -                   | -                          | 1,301  | (1,991)                                       | 1,436,946   | -   | -                                  | 1,434,659                        |
| Valuation gain on available-for-sale financial assets                                    | -  | -   | -                              | -                        | -                                      | -                   | -                          | -  | -   | 798,628   | -   | -                                  | 798,628                          |
| Net income in 2006   | -  | -   | -                              | -                        | -                                      | -                   | 586,152                    | -  | -   | -   | -   | -                                  | 586,152                          |
| BALANCE, DECEMBER 31, 2006   | <u>\$ 10,778,529</u>                       | <u>\$ 2,606,859</u>                       | <u>\$ 267,469</u>              | <u>\$ 345,117</u>        | <u>\$ 1,277,311</u>                    | <u>\$ 2,159,977</u> | <u>\$ 634,461</u>          | <u>\$ (19,354)</u>                                   | <u>\$ (11,660)</u>                            | <u>\$ 2,121,567</u>   | <u>\$ 883,944</u>   | <u>\$ (181,950)</u>                | <u>\$ 20,862,270</u>             |

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

(With Deloitte & Touche audit report dated February 26, 2007)

# FAR EASTERN DEPARTMENT STORES, LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

|   | 2006               | 2005               |
|---|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                    |                    |
| Net income  | \$ 586,152         | \$ 979,426         |
| Depreciation  | 456,175            | 429,111            |
| Amortization of deferred charges                                    | 12,894             | 16,658             |
| Amortization of leasehold rights included as part of rental expense | 74,667             | 74,667             |
| Gain on disposal of property (Note 24)                              | -                  | (463,358)          |
| Cash dividends from equity-method investees                         | 437,063            | 161,598            |
| Equity in losses (earnings) of equity-method investees, net         | (159,032)          | 132,048            |
| Capital return on liquidation of investee                           | 161                | -                  |
| Loss on liquidation of investments                                  | 205                | -                  |
| Loss on disposal of property and idle assets, net                   | 66,785             | 36,794             |
| Deferred income taxes   | (18,354)           | 60,553             |
| (Increase) decrease in prepaid pension cost                         | (23,501)           | 21,639             |
| Net changes in operating assets and liabilities                     |                    |                    |
| Financial assets at fair value through profit or loss               | 830,000            | (780,000)          |
| Notes receivable  | (166,857)          | (18,165)           |
| Accounts receivable   | (46,045)           | (26,242)           |
| Other receivables   | 476,282            | 135,828            |
| Inventories   | 23,352             | (47,657)           |
| Prepayments   | 9,915              | 949                |
| Other current assets  | (7,172)            | 3,664              |
| Accounts payable  | 570,607            | 160,973            |
| Accrued expenses  | 14,736             | 30,081             |
| Income tax payable  | 42,630             | -                  |
| Advanced receipts   | 171,163            | 173,862            |
| Other current liabilities   | (14,781)           | 23,901             |
| Net cash provided by operating activities                           | <u>3,337,045</u>   | <u>1,106,330</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                    |                    |
| Decrease in available-for-sale financial assets                     | -                  | 175,046            |
| Decrease in pledged time deposits                                   | 1,000              | 2,000              |
| Acquisition of investments accounted for by the using equity method | (2,549,508)        | (1,809,678)        |
| Acquisition of financial assets carried at cost                     | (55,200)           | -                  |
| Proceeds of the disposal of property and idle assets                | 11,657             | 165,790            |
| Acquisition of property   | (1,072,345)        | (1,039,277)        |
| Proceeds of the disposal of property (Note 24)                      | -                  | 480,806            |
| Decrease (increase) in refundable deposits                          | 5,490              | (4,835)            |
| Increase in other assets  | -                  | (5,539)            |
| Net cash used in investing activities                               | <u>(3,658,906)</u> | <u>(2,035,687)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |                    |                    |
| Increase in short-term debts  | 870,000            | 345,000            |
| Increase (decrease) in short-term notes and bills payable           | 549,247            | (598,565)          |

(Continued)



# FAR EASTERN DEPARTMENT STORES, LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

|  | 2006                | 2005                |
|--|---------------------|---------------------|
| Proceeds of the issuance of bonds  | \$ -                | \$ 500,000          |
| Repayments of bonds issued   | (2,300,000)         | (600,000)           |
| Increase in long-term borrowings   | 2,766,959           | 2,110,667           |
| Increase (decrease) in deposits received   | 112                 | (785)               |
| Increase in other liabilities  | 39                  | 10                  |
| Cash dividends, bonuses paid to employees and remuneration paid to supervisors and directors   | <u>(588,406)</u>    | <u>(673,950)</u>    |
| Net cash provided by financing activities  | <u>1,297,951</u>    | <u>1,082,377</u>    |
| NET INCREASE IN CASH AND CASH EQUIVALENTS  | 976,090             | 153,020             |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | <u>587,227</u>      | <u>434,207</u>      |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 1,563,317</u> | <u>\$ 587,227</u>   |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION   |                     |                     |
| Interest paid  | \$ 305,300          | \$ 253,292          |
| Less: Capitalized interest   | <u>131,352</u>      | <u>128,771</u>      |
| Interest paid, excluding capitalized interest  | <u>\$ 173,948</u>   | <u>\$ 124,521</u>   |
| Income tax paid  | <u>\$ 1,264</u>     | <u>\$ 1,060</u>     |
| NONCASH INVESTING AND FINANCING ACTIVITIES   |                     |                     |
| Proceeds of the disposal of properties classified as other receivables                         | <u>\$ -</u>         | <u>\$ 115,564</u>   |
| Compensation receivable from reduced payment for land purchased                                | <u>\$ -</u>         | <u>\$ 386,280</u>   |
| Adjustment to advance receipts and depreciation  | <u>\$ 132,079</u>   | <u>\$ 143,371</u>   |
| Adjustment to advance receipts and loss on disposal of property                                | <u>\$ 24,455</u>    | <u>\$ -</u>         |
| Adjustment to the cost of property for disposal and reserve for land revaluation increment tax | <u>\$ -</u>         | <u>\$ 93,428</u>    |
| Adjustment to the cost of property for disposal and capital surplus                            | <u>\$ -</u>         | <u>\$ 49,756</u>    |
| Adjustment to the cost of buildings and payable on properties                                  | <u>\$ -</u>         | <u>\$ 51,198</u>    |
| Current portion of bonds issued  | <u>\$ 2,000,000</u> | <u>\$ 2,300,000</u> |
| Current portion of long-term borrowings  | <u>\$ 584,917</u>   | <u>\$ 535,700</u>   |
| Current portion of franchise liabilities   | <u>\$ 302,694</u>   | <u>\$ 460,284</u>   |
| Credit balance of long-term investments reclassified into other liabilities                    | <u>\$ -</u>         | <u>\$ 12,973</u>    |
| CASH PAID FOR ACQUISITION OF PROPERTY  |                     |                     |
| Acquisition of property  | \$ 881,068          | \$ 671,973          |
| Decrease in construction in progress   | (4,395)             | (111,979)           |
| (Increase) decrease in balance payable - property  | (264,613)           | 12,670              |
| Decrease in franchise liabilities  | <u>460,285</u>      | <u>466,613</u>      |
|  | <u>\$ 1,072,345</u> | <u>\$ 1,039,277</u> |

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

(With Deloitte & Touche audit report dated February 26, 2007)

(Concluded)

# **FAR EASTERN DEPARTMENT STORES, LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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

Far Eastern Department Stores, Ltd. (the “Company”) manages and operates a nationwide chain of department stores, which numbered 9 as of December 31, 2006. Its shares are listed on the Taiwan Stock Exchange.

The Company had 1,408 and 1,483 employees as of December 31, 2006 and 2005, respectively.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the R.O.C. In preparing financial statements in conformity with the law and these guidelines and principles, the Company is required to make reasonable assumptions and estimates of matters that affect the amounts of allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation, pension and contingent losses on lawsuits. Actual results may differ from these estimates.

For the convenience of readers, 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 financial statements shall prevail.

The Company’s significant accounting policies are summarized as follows:

#### **Current and Noncurrent Assets and Liabilities**

Current assets are cash and cash equivalents or assets held for trading-purpose as well as assets expected to be converted into cash or consumed within one year from the balance sheet date. All other assets, including property and equipment, are not classified as current are noncurrent assets. Current liabilities are obligations to be settled within one year from the balance sheet date. All other liabilities are not classified as current are noncurrent liabilities.

#### **Cash Equivalents**

Cash equivalents are commercial paper with maturities of three months or less from the purchase date. The carrying amount approximates fair value.

#### **Financial Instruments at Fair Value through Profit or Loss**

These instruments include trading-purpose financial assets or liabilities. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value, with fair value changes recognized as profit or loss. Cash dividends received are recognized as current income. The purchase or sale of the financial instruments is accounted for using trade date accounting.

The basis of fair values of publicly traded stock is the closing prices on the balance sheet date and, for open-end mutual funds, their net asset value on the balance sheet date.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When the assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized under earnings when the financial assets are de-recognized from the balance sheet. A regular purchase or sale of financial assets is accounted for using trade date accounting.

The basis of fair values of publicly traded stocks is their closing price on the balance sheet date and, for open-end mutual funds, their net asset value on the balance sheet date

Cash dividends are recognized as investment income upon the grant day but are accounted for as reductions of the original cost of investment if these dividends are declared on the earnings of the investees attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares held.

If there is objective evidence that a financial asset is impaired, a loss is recognized. For equity securities, if the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

### **Allowances for Doubtful Accounts**

The Company has an account receivable management policy. Allowances for doubtful accounts are provided on the basis of a review of the aging and collectibility of individual receivables, which come in the form of gift vouchers, coupons and credit cards.

### **Inventories**

Merchandise is stated at the lower of the aggregate of the weighted-average cost or market value, using the retail method. Other inventories are stated using the lower of the aggregate of weighted-average cost or market value (replacement cost). In addition to periodic physical counts, an allowance for inventory devaluation is provided on the basis of reviewing attributes as well as turnover of merchandise.

### **Investments Accounted for by the Equity Method**

Investments in companies in which ownership interest with voting rights is 20% or more or in which the Company has significant influence over the investee are valued under the equity method. The Company's share of the net income or net loss of an investee is recognized in the "equity in earnings/losses of equity method investees, net" account. Any cash dividends received are recognized as a reduction in the carrying value of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. When the stock is selling or transferring, the cost is counted by weight-averaged method.

On the date of equity investment acquisition or on initial adoption of the equity method, the difference between the cost of the acquisition and the equity in the invitee's net assets is amortized over 5 or 10 years by using the straight-line method. However, based on the newly amended Statement of Financial Standards No. 5 - "Long-term Investments in Equity Securities," from January 1, 2006, the costs of investments are required to be analyzed, and any acquisition cost in excess of the fair value of the identifiable assets and liabilities of the investee on the date of investment is recorded as goodwill and should not be amortized. Goodwill is subject to an impairment test annually or when changes in the environment

reveal that goodwill might have been impaired. The accounting treatment for the investment premiums acquired before January 1, 2006 is the same as that for goodwill, which is no longer being amortized.

When the Company subscribes for additional investee shares at a percentage different from its existing ownership percentage of equity interest, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings.

On the balance sheet date, investments are subjected to an impairment test. If there is objective evidence indicating that an impairment is occurred, the impairment loss shall be charged to current income. If the Company has significant influence but control ability over an investee, the impairment test shall be measured on the basis of the carrying value of individual investment.

Starting in 2005, if the Company's cumulative share in an investee's net loss exceeds the original investment acquisition cost, the entire amount of the loss will be recognized by the Company unless other stockholders of the investee commit to provide financial support to the investee. If the investee returns to profitable operations, the Company will have precedence over other stockholders in sharing in the investee's profits until the Company fully recovers from its investment loss.

#### **Financial Assets Carried at Cost**

Investments with no quoted market prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are carried at original cost. The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets. If there is objective evidence of financial asset impairment, a loss is recognized. Reversal of impairment losses is not allowed.

#### **Property and Property Leased to Others**

Property and property leased to others are stated at cost or cost plus appreciation. Major renewals and betterments are capitalized. Maintenance and repairs are expensed currently and are presented as a separate expense line item or as part of rental cost. Interest expenses incurred during construction are capitalized as cost of the building during the construction period.

Effective January 1, 2005, the Company adopted the newly released Statement of Financial Accounting Standards No. 35 - "Accounting for Assets Impairment." This accounting change had no material effect on the Company's financial statements as of and for the year ended December 31, 2005.

An impairment loss should be recognized on the balance sheet date if the carrying amount of property leased to others exceeds their recoverable amount, and this impairment loss should be charged to current income. An impairment loss recognized in prior years could be reversed if there is a recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not exceed the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized in prior years. A reversal of an impairment loss should be recognized in the income statement for assets carried at cost and treated as a revaluation increase for assets carried at the revalued amount.

Depreciation on costs and revaluation increment on properties acquired as of December 31, 1998 was computed using the fixed-percentage-of-declining-balance method. However, depreciation on properties acquired starting January 1, 1999 is computed using the straight-line method over useful lives initially estimated as follows: buildings and equipment, 8 to 55 years; and furniture and equipment, 4 to 8 years. Revaluation increment is depreciated on the basis of the remaining service lives when assets are revalued. Property that have reached their residual value but are still being used by the Company are depreciated over their newly estimated service lives.

Upon sale or other disposal of property, the related cost, appreciation and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to current income.

### **Leasehold Rights**

Leasehold rights pertain to the cost of acquiring the land use right and the construction cost of a commercial building that the Company will exchange for the use of a parcel of land.

The costs of the land use rights and the interest imputed thereon are accounted for as liabilities. The cost of the land use rights is amortized during the contract term. The imputed interest is treated as unrealized expense and periodically recognized as interest expense as it realized. The construction cost, which includes the interests and amortized expenses which were capitalized as the cost of the building during the construction period, is amortized by using the straight-line method over the remaining service life of the building.

If asset impairment is identified on the balance sheet date and the carrying amount of an asset exceeds its recoverable amount, the excess is recognized as a loss. If the recoverable amount increases, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized.

### **Idle Assets**

Idle assets are reclassified at the lower of carrying value or net realizable value to other assets. The differential between the cost reclassified to other asset and the carrying value after accumulated depreciation is recognized as a loss, depreciating by straight-line method from January 1, 2006.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

### **Pension Costs**

The Company has two types of pension plans: Defined contribution and defined benefit.

Under the defined contribution plan, pension costs are recorded on the basis of the Company's monthly contributions to employees' individual pension accounts. Under the defined benefit plan, pension costs are recorded on the basis of actuarial calculations.

### **Deferred Income**

Gains or losses on sales to subsidiaries are deferred until related products are sold to third parties.

### **Revenue Recognition**

Sales are recognized when titles to products and risks of ownership are transferred to customers or when the earnings process has been completed or substantially completed and revenue is realized or realizable.

Sales are determined at fair value, taking into account business and quantity discounts agreed on by the Company and its customers. Since sales transactions are frequent and the sales receivables are collectible within one year, the fair value of receivables is equivalent to the nominal amount of cash received.

## **Concessionaires' Sales**

Sales made at special counters operated by concessionaires in the Company's stores are recorded as revenue at an agreed ratio based on contracts with the Company. Concessionaires are responsible for the nature, pattern, features and prices of the merchandise or service sold at the special counters. The titles to and risk of loss on unsold merchandise at these counters remain with the concessionaires and are thus excluded from the Company's inventories.

## **Treasury Stock**

If the Company buys back the Company's issued shares, the cost of the payment is debited as treasury stock, which is treated a deduction to arrive at stockholders' equity.

When treasury stock is retired, the treasury stock account is credited, and the capital surplus - issue of stock in excess of par value and the capital stock account should be debited according to the share ratio. If the carrying value of treasury stock exceeds the sum of its par value and stock premium, the excess should first be offset against capital surplus - treasury stock transaction, and any remainder should be debited to retained earnings. If the carrying value of treasury stock is lower than the sum of the par value and the stock premium equals, the difference is credited capital surplus from treasury stock transactions.

The losses on disposal of treasury stocks are recognized as capital surplus - treasury stock transaction to the extent that its carrying value is reduced to zero. The disposal loss in excess of carrying value of capital surplus - treasury stock transaction is charged to retained earnings.

The Company should reclassify its common stock held by subsidiaries from short/long-term investments to treasury stock. The reclassification is based on the carrying value recorded by the Company's subsidiaries as of January 1, 2002.

## **Income Tax**

Deferred tax assets are recognized for the tax effects of deductible temporary differences, unused operating loss carryforwards and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets or liabilities are classified as current or noncurrent on the basis of the classification of the related assets or liabilities for financial reporting. A deferred tax liability or asset that cannot be related to an asset or liability for financial reporting, including deferred tax assets related to net loss carryforwards, is classified according to the expected realization date of the temporary difference.

Income tax credits for certain purchases of equipment, research and development expenditures, personnel training expenses and stock investment are accounted for as a reduction of the current year's income tax expense.

Adjustments to prior years' tax liabilities are added to or deducted from the current year's tax expense.

Income tax of 10% on undistributed earnings generated since January 1, 1998 is recorded as expense in the year when the stockholders resolve to retain the earnings.

## **Foreign-currency Transactions**

Assets, liabilities, revenues or expenses denominated in foreign currencies as a result of foreign-currency transactions of non-derivative financial instruments are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of transactions.

At year-end, the balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and resulting differences are recorded as follows:

- a. Equity-method investments - as cumulative translation adjustments under stockholders' equity;
- b. Other assets and liabilities - as credits or charges to current income.

The exchange rate stated above is based on average price of Taiwan Bank.

### 3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

The effects of the accounting changes are summarized as follows:

- a. Reclassification of financial assets and liabilities

The Company had recategorized its financial assets and liabilities upon making the accounting changes. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The adjustments based on the accounting changes are summarized as follows:

|  | <b>Recognized as<br/>Cumulative<br/>Effect of<br/>Changes in<br/>Accounting<br/>Principles<br/>(Net of Tax)</b> | <b>Recognized as<br/>a Separate<br/>Component of<br/>Stockholders'<br/>Equity</b> |
|--|---|---|
| Financial assets or liabilities at fair value through profit or loss | \$ 28   | \$ -  |
| Available-for-sale financial assets                                  | -   | 235,479   |
| Financial assets carried at cost                                     | -   | -   |
|  | <u>\$ 28</u>  | <u>\$ 235,479</u>   |

The accounting changes also resulted in an increase of \$28 thousand in net income in 2006. But these changes had no effect in basic earnings per share (after income tax).

- b. Reclassification of financial statement accounts

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to conform with the financial statements as of and for the year ended December 31, 2006. The 2005 financial statements need not be restated.

Certain accounting policies applied by the Company before the accounting changes are summarized as follows:

1) Short-term investments

The major short-term investments are the securities traded over the counter and open-end mutual funds. These are recorded at acquisition cost and stated at the lower of aggregate cost or market value on the balance sheet date, with any temporary decline in value charged to current income. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. Cash dividends are recognized as cost recovery in the investment year, or as investments income in other year.

An allowance for losses is recognized when the aggregate carrying value of the investments exceeds the total market value and is charged to current income. Any recovery of the market value to the extent of the original carrying value is recognized as income in the recovery period. The basis of fair value of over the counter securities is the average closing price of the last month in the year; for open-end mutual funds is net asset value on balance sheet date. The cost of quoted securities sold is recognized by case; the weight-average method is used to determine the cost of investments sold.

2) Long-term stock investments

When there is no significant influence over the investee, the investment are accounted for using the cost method. For the stocks with quoted market prices, if the costs of the investments exceed their market value, an allowance for decline in market value is recognized and debited to stockholders' equity. If the decline is not considered temporary, the carrying values of investments with no quoted market prices are reduced to recognize other than temporary decline in value, with the related provision for losses charged to current income.

Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. When the investments are sold or transferred, the cost is accounted for using weight-average method.

As already mentioned, certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised Statements. The reclassifications of all or a part of the balances of certain accounts are summarized as follows:

|  | <u>December 31, 2005</u> |                         |
|--|--------------------------|-------------------------|
|  | <b>Before</b>            | <b>After</b>            |
|  | <b>Reclassification</b>  | <b>Reclassification</b> |
| <u>Balance sheets</u>  |                          |                         |
| Short-term investments                                       | \$ 830,000               | \$ -                    |
| Long-term stock investments accounted for by the cost method | 1,479,081                | -                       |
| Financial assets at fair value through profit or loss        | -                        | 830,000                 |
| Available-for-sale financial assets - current                | -                        | 179,771                 |
| Available-for-sale financial assets - noncurrent             | -                        | 1,191,940               |
| Financial assets carried at cost                             | -                        | 107,370                 |
| <u>Stockholders' equity</u>                                  |                          |                         |
| Unrealized valuation losses on long-term equity investments  | (349,486)                | -                       |
| Unrealized valuation (losses) gains on financial instruments | -                        | (349,486)               |



The Company also adopted, effective January 1, 2006, the newly revised ROC SFAS No. 1 - "Conceptual Framework of Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that investment premiums, representing goodwill, be assessed for impairment at least annually instead of being amortized. This accounting change resulted in increases of \$238,845 thousand in net income before income tax expense without any cumulative changes in accounting principles and of NT\$0.23 in after-tax basic earnings per share in 2006.

#### 4. CASH AND CASH EQUIVALENTS

|   | <u>December 31</u>  |                   |
|---|---------------------|-------------------|
|   | <u>2006</u>         | <u>2005</u>       |
| Cash  |                     |                   |
| Cash on hand and petty cash                                   | \$ 83,918           | \$ 63,604         |
| Checking accounts   | 732,428             | 445,749           |
| Savings accounts  | 21,971              | 17,874            |
| Transferable certificate of deposit - annual interest rate 1% | 725,000             | -                 |
| Cash equivalents  |                     |                   |
| Commercial paper - annual discount rates of 1.37%             | -                   | 60,000            |
|   | <u>\$ 1,563,317</u> | <u>\$ 587,227</u> |

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

|   | <u>December 31</u> |             |
|---|--------------------|-------------|
|   | <u>2006</u>        | <u>2005</u> |
| <u>Trading-purpose financial assets</u> |                    |             |
| Mutual funds                            | \$ -               | \$ 830,000  |

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                           | <u>December 31</u> |                     |                   |                     |
|---------------------------|--------------------|---------------------|-------------------|---------------------|
|                           | <u>2006</u>        |                     | <u>2005</u>       |                     |
|                           | <u>Current</u>     | <u>Noncurrent</u>   | <u>Current</u>    | <u>Noncurrent</u>   |
| Listed and OTC stocks     | \$ 179,771         | \$ 1,191,940        | \$ 179,771        | \$ 1,191,940        |
| Add: Valuation adjustment | <u>180,568</u>     | <u>853,539</u>      | -                 | -                   |
|                           | <u>\$ 360,339</u>  | <u>\$ 2,045,479</u> | <u>\$ 179,771</u> | <u>\$ 1,191,940</u> |

#### 7. INVENTORIES, NET

|                            | <u>December 31</u> |                   |
|----------------------------|--------------------|-------------------|
|                            | <u>2006</u>        | <u>2005</u>       |
| Merchandise                | \$ 208,273         | \$ 231,474        |
| Others                     | <u>14,328</u>      | <u>14,479</u>     |
|                            | 222,601            | 245,953           |
| Less: Allowance for losses | <u>9,310</u>       | <u>9,310</u>      |
|                            | <u>\$ 213,291</u>  | <u>\$ 236,643</u> |

## 8. FINANCIAL ASSETS CARRIED AT COST

|                             | <u>December 31</u> |                   |
|-----------------------------|--------------------|-------------------|
|                             | <u>2006</u>        | <u>2005</u>       |
| Unlisted and non-OTC stocks | \$ <u>162,570</u>  | \$ <u>107,370</u> |

The above investments, which had no quoted market prices in an active market and had fair values that could not be reliably measured, were carried at original cost.

## 9. LONG-TERM INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD, NET

|   | <u>December 31</u>   |                        |                      |                        |
|---|----------------------|------------------------|----------------------|------------------------|
|   | <u>2006</u>          |                        | <u>2005</u>          |                        |
|   | Carrying<br>Value    | % of<br>Owner-<br>ship | Carrying<br>Value    | % of<br>Owner-<br>ship |
| Stocks with no quoted market prices:  |                      |                        |                      |                        |
| Bai Yang Investment (“Bai Yang”)  | \$ 7,554,095         | 100                    | \$ 1,434,560         | 100                    |
| Oriental Securities   | 2,224,536            | 20                     | 2,151,127            | 20                     |
| Pacific Liu Tong Investment   | 2,107,295            | 35                     | 1,370,023            | 36                     |
| Bai Ding Investment   | 1,902,267            | 67                     | 1,415,511            | 100                    |
| Far Eastern Geant Co., Ltd. (“FE GEANT”)  | 279,994              | 50                     | 850,709              | 50                     |
| FEDS Development  | 168,683              | 76                     | 295,071              | 76                     |
| Ya Tung Department Stores (YTDS)  | 81,026               | 94                     | 36,244               | 75                     |
| Far Eastern CitySuper Ltd.  | 73,898               | 77                     | (12,973)             | 87                     |
| Yu Ming Advertising Agency  | 58,015               | 100                    | 47,505               | 100                    |
| Far Eastern Hon Li Do Co., Ltd.   | 30,005               | 55                     | 20,260               | 55                     |
| Ding Ding Integrated Marketing Service  | 17,577               | 10                     | 18,149               | 10                     |
| Asians Merchandise Co.  | 4,812                | 100                    | 4,877                | 100                    |
| Bai Chin (Singapore) Pte. Ltd.  | -                    | 90                     | 394                  | 90                     |
| FEDS Asia Pacific Development   | -                    | -                      | 1,508,186            | 69                     |
| Far Eastern International Leasing Corp.   | -                    | -                      | 1,357,991            | 34                     |
| FEDS New Century Development  | -                    | -                      | 184,803              | 100                    |
|   | <u>14,502,203</u>    |                        | <u>10,682,437</u>    |                        |
| Add: Reclassification of credit balance in long-term investment as other liability                    | -                    |                        | 12,973               |                        |
| Less: Common stock held by subsidiaries and reclassified from long-term investments to treasury stock |                      |                        |                      |                        |
| Bai Ding Investment   | 165,492              |                        | 173,175              |                        |
| Bai Yang Investment (“Bai Yang”)  | 16,458               |                        | 37,204               |                        |
|   | <u>181,950</u>       |                        | <u>210,379</u>       |                        |
|   | 14,320,253           |                        | 10,485,031           |                        |
| Prepayment for long-term investments in stocks  |                      |                        |                      |                        |
| Far Eastern Citysuper Ltd.  | -                    |                        | 30,000               |                        |
|   | <u>\$ 14,320,253</u> |                        | <u>\$ 10,515,031</u> |                        |

The balance as of January 1, 2006 of the investment premium on Pacific Liu Tong Investment Co. was \$21,215 thousand, classified as goodwill, which ceased to be amortized when the Company adopted the newly revised ROC Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities" on January 1, 2006.

The carrying values of equity-method investments, except those in Bai Chin (Singapore) Pte. Ltd. in 2006 and Bai Chin (Singapore) Pte. Ltd. and Asians Merchandise Co. in 2005, were based on audited financial statements. There is no material effect expected on our financial position if all investees were audited.

In January 2005, the Company subscribed for 104,196 thousand shares (34% equity) of Far Eastern International Leasing Corp. at NT\$13.00 per share and increased its equity on YTDS by 75% by subscribing for 6,089 thousand shares of YTDS at NT\$10.00 per share. After YTDS completed the registration of its capital reduction in June 2006, the Company subscribed for 10,000 thousand additional shares of YTDS at NT\$10.00 per share, increased its equity in YTDS to 94% and made an adjustment to debit \$3,063 thousand to capital surplus.

The Company paid \$28,238 thousand to subscribe for 180 thousand shares of FEDS-USA in June 2005 and subscribed for 3,600 thousand shares of Yu Ming Advertising Agency at NT\$10.00 per share in August 2005. In December 2005, the Company subscribed for 3,000 thousand shares of Far Eastern CitySuper Ltd. at NT\$10.00 per share, classified as prepayment for long-term investments in stocks. After Far Eastern CitySuper Ltd. completed the statutory procedure of capital registration, prepayment for long-term investments in stocks was reclassified under long-term investments in 2006. The Company paid \$146,000 thousand to subscribe for 7,000 thousand shares and 7,600 thousand shares of Far Eastern City Super Ltd. in May and December 2006, respectively. The percentage of shares held by the Company was reduced to 77% and the nonproportional subscription mentioned earlier resulted in an credit of \$23,751 thousand in to capital surplus.

FEDS-USA went into liquidation and transferred its investment in Asians Merchandise Co. to the Company on September 30, 2005. The liquidation of FEDS-USA had been completed on November 1, 2005.

Bai Chin (Singapore) Pte. Ltd. was liquidated in December 2006. Thus, the Company recognized an investment loss of \$205 thousand, classified as nonoperating expenses and losses - other expenses. As of December 31, 2006, the liquidation process had not been completed.

To simplify the structure of the organization, the Company bought all the shares of Bai Yang Investment Company held by YTDS, Yu Ming Advertising Agency and Bai Ding Investment Company. The Company then subscribed for an additional 455,000 thousand shares of Bai Yang Investment Company by using the Company's underlying equity (audited by the Company's independent auditors) in all of the net assets of FEDS Asia Pacific Development and FEDS New Century Development and some of the Bai Ding Investment Company shares and by paying \$1,614,742 thousand in cash.

Bai Yang Investment Company (the Company's subsidiary) invest US\$2,900 thousand in FEDS Development to set up Tain Ching Far Eastern Department Stores, Ltd. in Mainland China and this investment had been approved by the Investment Commission and remitted to Mainland China. Thus, the Company and Bai Yang Investment Company own 76% and 24% of the FEDS Development shares, respectively.

In July 2006, the Company subscribed for 49,267 thousand additional shares of Pacific Liu Tong Investment Co. at NT\$13.90 per share, decreased its equity in Pacific Liu Tong Investment Co. to 35% and credited \$1,891 thousand to capital surplus because of this nonproportional subscription.

The Company and its indirect subsidiary (Pacific Sogo Department Stores Co., Ltd.) owned 20% of Ding Ding Integrated Marketing Service Co., Ltd.'s outstanding common stock. Thus, the Company accounted for its investment in Ding Ding Integrated Marketing Service Co., Ltd. by the equity method.

All of the accounts of the Company's subsidiaries were included in its 2006 consolidated financial statements.

## 10. PROPERTY

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <u>2006</u>          | <u>2005</u>          |
| Cost                                     | \$ 13,320,085        | \$ 13,036,298        |
| Revaluation increment                    |                      |                      |
| Land                                     | 1,183,852            | 1,183,852            |
| Buildings and equipment                  | <u>10,919</u>        | <u>10,919</u>        |
|  | <u>1,194,771</u>     | <u>1,194,771</u>     |
| Total cost and appreciation              | <u>14,514,856</u>    | <u>14,231,069</u>    |
| Less: Accumulated depreciation           |                      |                      |
| On cost                                  |                      |                      |
| Buildings and equipment                  | 1,820,035            | 1,617,565            |
| Furniture and equipment                  | <u>1,796,274</u>     | <u>1,568,876</u>     |
|  | 3,616,309            | 3,186,441            |
| On appreciation                          |                      |                      |
| Buildings and equipment                  | <u>8,326</u>         | <u>8,195</u>         |
| Total accumulated depreciation           | <u>3,624,635</u>     | <u>3,194,636</u>     |
|  | 10,890,221           | 11,036,433           |
| Unfinished construction                  | 5,024,327            | 4,698,008            |
| Leasehold right, net (Note 11)           | 4,018,785            | 4,069,133            |
| Property leased to others, net (Note 12) | <u>1,588,945</u>     | <u>1,604,237</u>     |
|  | <u>\$ 21,522,278</u> | <u>\$ 21,407,811</u> |

Under government regulations, the Company revalued its land in 1980, 1981, 1984 and 1995 and other property in 1975 and 1981. The resulting appreciation (net of reserve for land value increment tax) was credited to other equity adjustment - unrealized assets revaluation increment. The Land Tax Act was amended on January 30, 2005, resulting in the reduction of the land value increment tax effective February 2005. Therefore, the Company's reserve for land value increment tax payable would decrease by \$318,820 thousand, to be charged to other equity adjustment - unrealized assets revaluation increment.

Depreciation expenses were \$437,652 thousand in 2006 and \$429,111 thousand in 2005. Capitalized interest expenses were \$131,352 thousand in 2006 and \$128,771 thousand in 2005. The interest rate used in computing the amounts capitalized ranged 2.21% to 2.52% in 2006 and from 2.31% to 2.58% in 2005.

In February 2005, the Company entered into a contract with Far Eastern Construction Company (FECC) to build a mall on the land owned by the Company and FECC for the Company's customers in the Pan-Chiao City area. Under the contract, the cost of the construction would be paid on the basis of land ownership ratio. The construction cost as of December 31, 2006 consisted mainly of the acquisition cost for land located in Pan-Chiao City and architect's fee of \$5,024,187 thousand.

In June 2005, the Company entered into an agreement to sell the land and building located in Tainan City to a related party, Yuan Bo Asset Management Company. The proceeds of this sale were \$291,244 thousand (including VAT of \$5,778 thousand). After the deduction of the relevant cost of \$286,359 thousand and expense and tax of \$6,307 thousand, the loss on this disposal was \$7,200 thousand. Proceeds of disposal of the land and building amounting to \$169,902 thousand and \$121,342 thousand (including VAT \$5,778 thousand), respectively, had been unpaid as of December 31, 2005 and was thus classified as other receivables, has been collected in August 2006. The transference of the title to the land and the building was registered in July 2005 and September 2005, respectively.

## 11. LEASEHOLD RIGHTS, NET

|                                       | <u>December 31</u>  |                     |
|---------------------------------------|---------------------|---------------------|
|                                       | <u>2006</u>         | <u>2005</u>         |
| Cost of A13 in the Hsinyi District    | \$ 3,168,336        | \$ 3,146,638        |
| Cost of Tao-Yuan Farmers' Association | 1,384,142           | 1,384,142           |
| Cost of Taichung She Chan             | <u>2,621</u>        | <u>-</u>            |
|                                       | 4,555,099           | 4,530,780           |
| Less: Accumulated amortization        | <u>536,314</u>      | <u>461,647</u>      |
|                                       | <u>\$ 4,018,785</u> | <u>\$ 4,069,133</u> |

- a. In September 2003, the Company acquired the land use rights for No. A13 in the Hsinyi district, which is owned by the Taipei City Government. The total amount of the land use rights was \$3,196,888 thousand, and the Company completed the registration of its acquisition of the land use right in October 2003. Under the contract, the Company has the right to use the land for 50 years from the completion of the right registration. The initial monthly rent is \$3,771, to be adjusted annually according to the land price announced on the contract date. The monthly rent has been adjusted to \$4,536 thousand since January 2004. The monthly rent is \$54,429 in 2006 and 2005, shown as rent expense (under operating expense).

In September 2003, the Company paid \$959,066 thousand, or 30% of the total land use rights payment. The rest, amounting to \$2,237,822 thousand, would be paid annually in five consecutive years at no interest. After the deduction of unrealized interest expenses of \$78,937 thousand, the net value of the rights was \$2,158,885 thousand, shown as accrued franchised liabilities. In 2006, the franchised liabilities amounted to \$601,282 thousand, current portion was \$302,694 thousand.

- b. Under an agreement made in March 1997, the Company built a commercial building on land owned by the Tao-Yuan Farmers' Association. The Company paid a guarantee deposit of \$150,000 thousand. The initial monthly rent is \$3,000 thousand, to be adjusted according to increases in the consumer price index.

Building and improvements pertain to a commercial building, including all improvements made thereon, the ownership of which will be transferred to Tao-Yuan Farmer Association in April 2018. The total construction cost of the commercial building is capitalized as leasehold rights, and cost amortization is from November 1999 to April 2018. The total amortization expense, classified as operating expenses - rental, was \$74,667 thousand in both 2006 and 2005.

- c. On November 28, 2005, the Company won the bid to lease land (No.89 and 91) located in the West Tun district in Taichung city, which was being managed by the Ministry of Education. Under the related contract, the Company has the leasing right for 20 years from April 6, 2007, in which one year, to be used for the Company's planning for constructing a building on the land, is rent free. On contract expiry, the Company has the right to extend the contract for another 20 years. The annual rent is \$140,288 thousand, to be adjusted every three years. The Company used a guarantee amounting to \$280,576 thousand and provided by Mega International Commercial Bank (formerly the International Commercial Bank of China) as the contract guarantee deposit for the period ending December 25, 2007. For assurance of the Company's transfer of the ownership of the building to the national government, the building will be entrusted to a certain financial institution in the Republic of China. In addition, the national government requires the Company to register with the authorities any building impairment due to force majeure (e.g., earthquakes) or other reasons. As of December 31, 2006, the cost of building development was \$2,621 thousand.

## 12. PROPERTY LEASED TO OTHERS, NET

|                                | <u>December 31</u>  |                     |
|--------------------------------|---------------------|---------------------|
|                                | <u>2006</u>         | <u>2005</u>         |
| Cost                           |                     |                     |
| Land                           | \$ 966,002          | \$ 966,002          |
| Building and equipment         | 528,891             | 528,282             |
| Furniture and equipment        | <u>9,732</u>        | <u>9,732</u>        |
|                                | <u>1,504,625</u>    | <u>1,504,016</u>    |
| Revaluation increment          |                     |                     |
| Land                           | 211,744             | 211,744             |
| Building and equipment         | <u>3,027</u>        | <u>3,027</u>        |
|                                | <u>214,771</u>      | <u>214,771</u>      |
| Less: Accumulated depreciation |                     |                     |
| Cost                           |                     |                     |
| Building and equipment         | 118,732             | 102,904             |
| Furniture and equipment        | <u>9,703</u>        | <u>9,674</u>        |
|                                | 128,435             | 112,578             |
| Revaluation increment          |                     |                     |
| Building and equipment         | <u>2,016</u>        | <u>1,972</u>        |
| Total accumulated depreciation | <u>130,451</u>      | <u>114,550</u>      |
|                                | <u>\$ 1,588,945</u> | <u>\$ 1,604,237</u> |

The Company's lease contracts are mainly as follows:

- a. The Company leases the land located in Yung-Kang Tainan County to Far Eastern Hon Li Do Co. and Far Eastern Geant Co., Ltd. under a contract expiring on September 23, 2015. Under the contract, the Company received deposits of \$13,380 thousand from Far Eastern Hon Li Do Co., classified as deposits received, and receives monthly rent from Far Eastern Geant Co., Ltd. The monthly rent has been adjusted to \$8,886 thousand since October 2005.
- b. The Company leases the site located in Kaohsiung City to two related parties, Far Eastern International Bank and Oriental Securities Co., for their office building; the lease terms will end in February 2010 and July 2007, respectively.
- c. The Company leases sections of sites separately located at the Tainan branch and the Hsin-Chu branch to Warner Village Movies Co. for its movie theatres in July and November 2002, respectively. Both lease terms are 15 years each, and the monthly rent for Tainan branch has been adjusted to \$3,095 thousand since July 2006 and for the Hsin-Chu branch adjusted to \$4,245 thousand since November 2006. Under the contract, the Company obtained \$33,000 thousand, classified as deposits received.
- d. The Company leases the site located in Ren-ai Road Taipei City to Wellcome Department Stores Ltd. and two related parties, Yu Ming Advertising Agency Co. and Far Eastern CitySuper Ltd., the lease term will end in August 2008 and August 2007, respectively.

The rental income on all lease contracts for the next five years is summarized below.

| <b>Year</b> |            |
|-------------|------------|
| 2007        | \$ 241,085 |
| 2008        | 220,906    |
| 2009        | 221,751    |
| 2010        | 218,650    |
| 2011        | 220,294    |

### 13. IDLE ASSETS, NET

|                                | <u>December 31</u> |                   |
|--------------------------------|--------------------|-------------------|
|                                | <u>2006</u>        | <u>2005</u>       |
| Cost                           |                    |                   |
| Land                           | \$ 153,247         | \$ 153,247        |
| Buildings and equipment        | 225,078            | 225,078           |
| Furniture and equipment        | <u>21,162</u>      | <u>28,403</u>     |
|                                | <u>399,487</u>     | <u>406,728</u>    |
| Revaluation increment          |                    |                   |
| Land                           | 255,291            | 255,291           |
| Buildings and equipment        | <u>16,470</u>      | <u>16,470</u>     |
|                                | <u>271,761</u>     | <u>271,761</u>    |
|                                | <u>671,248</u>     | <u>678,489</u>    |
| Less: Accumulated depreciation |                    |                   |
| Cost                           |                    |                   |
| Buildings and equipment        | 177,201            | 173,972           |
| Furniture and equipment        | 20,648             | 27,605            |
| Revaluation increment          |                    |                   |
| Buildings and equipment        | <u>14,489</u>      | <u>14,390</u>     |
|                                | <u>212,338</u>     | <u>215,967</u>    |
|                                | <u>\$ 458,910</u>  | <u>\$ 462,522</u> |

The depreciation expense for idle assets is \$3,497 thousand in 2006, classified as nonoperating expenses and losses - other expenses.

### 14. REFUNDABLE DEPOSITS

|                             | <u>December 31</u> |                   |
|-----------------------------|--------------------|-------------------|
|                             | <u>2006</u>        | <u>2005</u>       |
| Deposits on lease contracts | \$ 150,276         | \$ 150,252        |
| Others                      | <u>10,771</u>      | <u>16,285</u>     |
|                             | <u>\$ 161,047</u>  | <u>\$ 166,537</u> |

### 15. SHORT-TERM DEBTS

|  | <u>December 31</u>  |                     |
|--|---------------------|---------------------|
|  | <u>2006</u>         | <u>2005</u>         |
| Unsecured bank loan - interest from 1.720% to 1.800% in 2006 and from 1.400% to 1.448% in 2005 | \$ 1,870,000        | \$ 1,000,000        |
| Secured bank loan - interest 1.720% in 2006 and from 1.448% to 1.449% in 2005                  | <u>350,000</u>      | <u>350,000</u>      |
|  | <u>\$ 2,220,000</u> | <u>\$ 1,350,000</u> |

## 16. SHORT-TERM NOTES AND BILLS PAYABLE

|   | <b>December 31</b>      |                   |                         |                   |
|---|-------------------------|-------------------|-------------------------|-------------------|
|   | <b>2006</b>             |                   | <b>2005</b>             |                   |
|   | <b>Interest<br/>(%)</b> | <b>Value</b>      | <b>Interest<br/>(%)</b> | <b>Value</b>      |
| Mega Bills Finance                        | 1.55                    | \$ 450,000        | -                       | \$ -              |
| China Bills Finance                       | 1.57                    | 350,000           | 1.32-1.36               | 250,000           |
| Taiwan Bills Finance                      | 1.52                    | <u>150,000</u>    | 1.15                    | <u>150,000</u>    |
|   |                         | 950,000           |                         | 400,000           |
| Less: Discount on notes and bills payable |                         | <u>1,213</u>      |                         | <u>460</u>        |
|   |                         | <u>\$ 948,787</u> |                         | <u>\$ 399,540</u> |

## 17. BONDS ISSUED

|                                      | <b>Due in<br/>One Year</b> | <b>Due Over<br/>One Year</b> | <b>Total</b>        |
|--------------------------------------|----------------------------|------------------------------|---------------------|
| <u>December 31, 2006</u>             |                            |                              |                     |
| Domestic secured bonds issued on:    |                            |                              |                     |
| August 7 and 8, 2002                 | \$ 500,000                 | \$ -                         | \$ 500,000          |
| November 25, 26, 27, 28 and 29, 2002 | 1,500,000                  | -                            | 1,500,000           |
| August 25, 26, 27 and 28, 2003       | -                          | 1,200,000                    | 1,200,000           |
| August 12, 2005                      | <u>-</u>                   | <u>500,000</u>               | <u>500,000</u>      |
|                                      | <u>\$ 2,000,000</u>        | <u>\$ 1,700,000</u>          | <u>\$ 3,700,000</u> |
| <u>December 31, 2005</u>             |                            |                              |                     |
| Domestic secured bonds issued on:    |                            |                              |                     |
| February 7 and 8, 2001               | \$ 300,000                 | \$ -                         | \$ 300,000          |
| June 20 and 21, 2001                 | 500,000                    | -                            | 500,000             |
| December 4, 5, 6 and 7, 2001         | 1,000,000                  | -                            | 1,000,000           |
| August 7 and 8, 2002                 | -                          | 500,000                      | 500,000             |
| November 25, 26, 27, 28 and 29, 2002 | -                          | 1,500,000                    | 1,500,000           |
| June 24, 2003                        | 500,000                    | -                            | 500,000             |
| August 25, 26, 27 and 28, 2003       | -                          | 1,200,000                    | 1,200,000           |
| August 12, 2005                      | <u>-</u>                   | <u>500,000</u>               | <u>500,000</u>      |
|                                      | <u>\$ 2,300,000</u>        | <u>\$ 3,700,000</u>          | <u>\$ 6,000,000</u> |

- a. The domestic secured bonds issued on February 7 and 8, 2001 had an aggregate face value of \$600,000. These instruments consisted of Types A and B bonds, each with a face value of \$300,000 thousand and interest rate of 5.38%, payable annually.

The bonds are repayable as follows: (i) \$300,000 thousand on February 7, 2005 and February 8, 2005, and (ii) \$300,000 thousand on February 7, 2006 and February 8, 2006. The bonds were mature and repaid in February 2006.

- b. The aggregate face value of domestic secured bonds issued on June 20 and 21, 2001 was \$500,000 thousand. These instruments consisted of Type A bonds with aggregate face value of \$300,000 thousand and Type B bonds with aggregate face value of \$200,000 thousand. The bonds will mature on June 20 and 21, 2006. For both bonds, the interest rate is 4.25%, payable annually. The bonds were mature and repaid in June 2006.



- c. The aggregate face value of domestic secured bonds issued on December 4 to 7, 2001 was \$1,000,000 thousand. These instruments consisted of Types A and B bonds, with face value of \$300,000 thousand each, and Types C and D bonds, with face value of \$200,000 thousand each. The bonds will all mature between December 4 and 7, 2006. Interest on all bonds is 2.6%, payable annually. The bonds were mature and repaid in December 2006.
- d. The aggregate face value of domestic secured bonds issued on August 7 and 8, 2002 was \$500,000 thousand. These instruments consisted of Type A bonds with face value of \$300,000 thousand and Type B bonds with face value of \$200,000 thousand. The bonds will mature on August 7 and 8, 2007. Interest on both bonds is 3.7%, payable annually.
- e. The aggregate face value of domestic secured bonds issued on November 25 to 29, 2002 was \$1,500,000 thousand. These instruments consisted of Types A, B, C, D and E bonds with face value of \$300,000 thousand each. The bonds will all mature on November 25 to 29, 2007. Interest on all bonds is 2.588%, payable annually.
- f. The average face value of domestic secured bonds issued on June 24, 2003 was \$500,000 thousand. The bonds will all mature on June 24, 2006. Interest on all bonds is 1.165%, payable annually. The bonds were mature and repaid in June 2006.
- g. The average face value of domestic secured bonds issued on August 25 to 28, 2003 was \$1,200,000 thousand. These instruments consisted of Types A, B, C and D bonds with face value of \$300,000 thousand each. The bonds will all mature on August 25 to 28, 2008. Interest on all bonds is 1.178%, payable annually.
- h. The average face value of domestic secured bonds issued on August 12, 2005 was \$500,000 thousand. The bond will all mature on August 12, 2010. Interest on all bond is 1.81% payable annually.

## 18. LONG-TERM BORROWINGS

|  | <u>December 31</u>  |                     |
|--|---------------------|---------------------|
|  | <u>2006</u>         | <u>2005</u>         |
| Secured bank loan - interest from 2.10% to 2.13% in 2006 and 1.51% to 2.00% in 2005              | \$ 405,700          | \$ 2,471,400        |
| Unsecured bank loan - interest from 1.80% to 2.13% in 2006 and 1.44% to 1.46% in 2005            | 1,000,000           | 750,000             |
| Commercial paper issued - interest from 1.47% to 2.262% in 2006 and from 1.26% to 1.612% in 2005 | <u>5,479,026</u>    | <u>896,367</u>      |
|  | 6,884,726           | 4,117,767           |
| Less: Current portion  | <u>584,917</u>      | <u>535,700</u>      |
|  | <u>\$ 6,299,809</u> | <u>\$ 3,582,067</u> |

The balance of secured bank loans amounted to \$285,700 thousand as of December 31, 2006 and to \$571,400 thousand as of December 31, 2005 was repayable semiannually until October 2007. The other borrowings were repayable within one year. Under the loans contracts, the Company could extend the repayment deadline for these loans. Thus, these secured bank loans were classified as long-term liabilities.

As of December 31, 2006, unused bank credit lines aggregated \$6,439,000 thousand, of which the Company, Bai-Ding, Bai-Yang, Yu-Ming, Feds Asia Pacific and Far Eastern Hon Li Do Co., Ltd. collectively had unused bank credit lines aggregating \$1,317,000 thousand.

## 19. STOCKHOLDERS' EQUITY

Under relevant regulations, capital surplus from equity-method investments cannot be used for any purpose while other capital surplus items can only be used to offset a deficit. Further, paid-in capital from the issue of stock in excess of par value may be capitalized (as stock dividend) at a certain percentage of the Company's paid-in capital.

The Company's Articles of Incorporation provide that annual net income less any deficit, 10% legal reserve and a certain amount for operational requirements should be appropriated, together with the unappropriated earnings from prior years, as follows:

|   |     |
|---|-----|
| Dividend                                  | 60% |
| Additional dividend                       | 33% |
| Bonus to employees                        | 4%  |
| Remuneration to directors and supervisors | 3%  |

The Company's dividend distribution depends on economic conditions, tax obligations, and operating requirements for cash. For the purpose of smoothing the dividend distribution, the dividend is distributed according to the Article of Incorporation. The distribution of cash dividends should be over 10% of total cash and stock dividends for the year by principals.

Under regulations promulgated by the Securities and Futures Commission, a special reserve equivalent to the net debit balance of specific accounts shown in the stockholders' equity, other than the deficit and the cost of the treasury stock arising from the reclassification of the Company's stock held by subsidiaries since January 1, 2002, should be appropriated from unappropriated retained earnings. The balance of the special reserve should be adjusted according to the debit balance of such accounts at year-end.

Legal reserve should be appropriated until the reserve equals the Company's paid-in capital. This reserve may be used to offset a deficit. When the reserve exceeds 50% of the Company's paid-in capital, the excess may be distributed as follows: (a) as stock dividends or bonus if the Company has no earnings; or (b) the portion of the excess that is over 25% of the Company's paid-in capital, as stock dividends if the Company has no deficit.

These appropriations and earnings distributions should be approved by the stockholders in the following year and given effect to in the financial statements of that year. R.O.C. resident stockholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated when distributing unappropriated earnings.

On June 2, 2006 and June 7, 2005, the Company's stockholders resolved earnings appropriation and distribution of bonus to employees and remuneration to directors and supervisors in 2005 and 2004, that is shown as follows:

|   | <u>Earnings Appropriation</u> |                     | <u>Dividends Per Shares (NT\$)</u> |             |
|---|-------------------------------|---------------------|------------------------------------|-------------|
|   | <u>2005</u>                   | <u>2004</u>         | <u>2005</u>                        | <u>2004</u> |
| Legal reserve   | \$ 97,942                     | \$ 147,953          |                                    |             |
| Stock dividend - common stock                         | 414,559                       | 493,522             | \$ 0.40                            | \$ 0.50     |
| Cash dividend - common stock                          | 518,198                       | 592,227             | 0.50                               | 0.60        |
| Bonus to employees - cash paid                        | 40,119                        | 46,699              |                                    |             |
| Remuneration to directors and supervisors - cash paid | <u>30,089</u>                 | <u>35,024</u>       |                                    |             |
|   | <u>\$ 1,100,907</u>           | <u>\$ 1,315,425</u> |                                    |             |

The stock issuance in the year of 2005 and 2004 for the above appropriation of stock dividends was approved by the Securities and Futures Bureau (SFB), and the board of directors resolved that the effective date of stock dividend appropriation was August 9, 2006 and August 10, 2005, respectively.

The earnings appropriation for year of 2005 and 2004 were consistent with the resolution made by the Board of Director on March 9, 2006 and March 7, 2005, respectively.

Had the above bonus to employees and remuneration to directors and supervisors been paid entirely in cash and charged against earnings for 2005 and 2004, the after-tax basic earnings per share would have decreased from NT\$0.95 to NT\$0.88 in 2005 and from NT\$1.51 to NT\$1.43 in 2004.

As of the accompanying auditors' report date (February 26, 2007), the board of directors had not approved the proposal on the distribution of the 2006 earnings. Information on the appropriation of earnings can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange (<http://mops.tse.com.tw>).

## 20. TREASURY STOCK

| Reason for Acquisition                      | Shares in<br>Thousands<br>(Beginning<br>of Year) | Increase     | Decrease      | Shares in<br>Thousands<br>(End of<br>Year) |
|---|--|--------------|---------------|--|
| <u>Year 2006</u>                            |  |              |               |  |
| Company's issued stock held by subsidiaries | <u>33,830</u>                                    | <u>1,303</u> | <u>4,719</u>  | <u>30,414</u>                              |
| <u>Year 2005</u>                            |  |              |               |  |
| Company's issued stock held by subsidiaries | <u>44,977</u>                                    | <u>1,908</u> | <u>13,055</u> | <u>33,830</u>                              |

The related information about the Company's issued stock held by subsidiaries in the year of 2006 and 2005 were shown as follows:

|                          | Shares in<br>Thousands | Carrying<br>Value | Fair<br>Value     |
|--------------------------|------------------------|-------------------|-------------------|
| <u>December 31, 2006</u> |                        |                   |                   |
| Bai Ding Investment Co.  | 27,663                 | \$ 165,492        | \$ 575,344        |
| Bai Ying Investment Co.  | 2,751                  | <u>16,458</u>     | <u>57,218</u>     |
|                          |                        | <u>\$ 181,950</u> | <u>\$ 632,562</u> |
| <u>December 31, 2005</u> |                        |                   |                   |
| Bai Ding Investment Co.  | 27,835                 | \$ 173,175        | \$ 527,969        |
| Bai Ying Investment Co.  | 5,995                  | <u>37,204</u>     | <u>113,426</u>    |
|                          |                        | <u>\$ 210,379</u> | <u>\$ 641,395</u> |

The Company reclassified the Company's shares held by its subsidiaries from short-term and long-term investments to treasury stocks, which amounted to \$293,659 thousand, based on the Company's equity in these subsidiaries in 2002. The treasury stocks held by subsidiaries increased by 1,303 thousand shares in 2006 and 1,908 thousand shares in 2005 because of the Company's stock dividend distribution in 2006 and 2005. In the year of 2006 and 2005, subsidiaries disposed of 4,719 thousand treasury shares and 13,055

treasury shares, with proceeds amounting to \$91,727 thousand and \$267,861 thousand, respectively. After deducting the treasury stock acquisition cost of \$28,529 thousand and \$83,352 thousand from the foregoing proceeds, the Company debited \$63,197 thousand and \$184,378 thousand to capital surplus - treasury stock transactions based on the Company's equity in these subsidiaries.

Under the Securities and Exchange Law, the Company may not pledge or hypothecate treasury stock. In addition, the Company may not exercise any stockholders' rights on the treasury stock. The Company's stocks held by its subsidiaries are treated as treasury stock and the holders are entitled to the rights of stockholders, except that starting from June 22, 2005, pursuant to the revised Company Law, the holders are no longer entitled to the right to vote.

## 21. OTHER OPERATING REVENUES AND COSTS

|                                      | 2006              | 2005              |
|--------------------------------------|-------------------|-------------------|
| Other operating revenues             |                   |                   |
| Concessionaires' sales               | \$ 136,808        | \$ 135,613        |
| Revenue on property leased to others | 143,029           | 140,256           |
| Revenue on parking lots              | 65,981            | 64,276            |
| Other                                | <u>114</u>        | <u>-</u>          |
|                                      | <u>\$ 345,932</u> | <u>\$ 340,145</u> |
| Other operating costs                |                   |                   |
| Concessionaires' sales               | \$ 21,866         | \$ 21,864         |
| Revenue on property leased to others | 7,004             | 7,249             |
| Revenue on parking lots              | <u>16,146</u>     | <u>13,165</u>     |
|                                      | <u>\$ 45,016</u>  | <u>\$ 42,278</u>  |

## 22. INCOME TAX

The Basic Income Tax Act (the "Act") in ROC took effect on January 1, 2006. Based on this Act, income tax payable should be the higher of the tax payable under the Income Tax Law (the "Law") or the tax payable under the Act, which is 10% (as prescribed by the Executive Yuan) of the taxable income under the Law plus tax-exempt income under other laws and regulations. The Company had taken into consideration the effect of this new Act in calculating its tax liabilities.

- a. A reconciliation of income tax expense based on "income before income tax" at statutory rate and current income tax expense before tax credits was as follows:

|  | 2006             | 2005        |
|--|------------------|-------------|
| Tax on pretax income at 25% statutory rate | \$ 152,906       | \$ 260,108  |
| Add (deduct) tax effects of:               |                  |             |
| Permanent differences                      | (269,899)        | (303,608)   |
| Temporary differences                      | 194,312          | 92,264      |
| Loss carryforwards                         | (18,081)         | (48,764)    |
| Investment tax credit                      | (20,000)         | -           |
| Income basic tax                           | <u>4,648</u>     | <u>-</u>    |
| Current income tax payable                 | 43,886           | -           |
| Less: Withholding tax                      | <u>1,256</u>     | <u>-</u>    |
| Income tax payable                         | <u>\$ 42,630</u> | <u>\$ -</u> |

|  | 2006                | 2005                |
|--|---------------------|---------------------|
| b. Income tax expense consisted of:  |                     |                     |
| Income tax expense - current   | \$ 43,886           | \$ -                |
| Prior years' adjustment  | 1                   | 1                   |
| Income tax expense on short-term negotiable instruments taxed at 20%             | 8                   | 451                 |
| Income tax expense - deferred  | <u>(18,354)</u>     | <u>60,553</u>       |
| Income tax expense   | <u>\$ 25,541</u>    | <u>\$ 61,005</u>    |
| c. Deferred income tax consisted of the following:                               |                     |                     |
| Current  |                     |                     |
| Deferred income tax assets   |                     |                     |
| Unrealized interest expense  | \$ 16,210           | \$ -                |
| Allowance for doubtful accounts  | 9,966               | 10,534              |
| Allowance for losses on obsolescence   | 2,328               | 2,328               |
| Investment tax credits   | -                   | 20,000              |
| Loss carryforwards   | -                   | 16,243              |
| Others   | -                   | 7                   |
|  | <u>28,504</u>       | <u>49,112</u>       |
| Less: Valuation allowance  | <u>(11,983)</u>     | <u>(12,862)</u>     |
|  | 16,521              | 36,250              |
| Deferred income tax liabilities  |                     |                     |
| Unrealized exchange gain   | <u>(36)</u>         | <u>-</u>            |
| Net deferred tax assets  | <u>\$ 16,485</u>    | <u>\$ 36,250</u>    |
| Noncurrent   |                     |                     |
| Deferred income tax assets   |                     |                     |
| Cumulative equity in net loss of investees                                       | \$ 482,538          | \$ 318,700          |
| Difference of pension cost between financial reporting and tax reporting         | <u>8,914</u>        | <u>17,140</u>       |
|  | 491,452             | 335,840             |
| Less: Valuation allowance  | <u>(409,635)</u>    | <u>(271,391)</u>    |
|  | <u>81,817</u>       | <u>64,449</u>       |
| Deferred income tax liabilities  |                     |                     |
| Difference of depreciation expense between financial reporting and tax reporting | (249,231)           | (238,819)           |
| Cumulative equity in net income of foreign-domiciled investees                   | <u>(22,958)</u>     | <u>(54,121)</u>     |
|  | <u>(272,189)</u>    | <u>(292,940)</u>    |
| Net deferred tax liabilities   | <u>\$ (190,372)</u> | <u>\$ (228,491)</u> |
| d. Information on the integrated income tax system is as follows:                |                     |                     |
| Balance of imputation credit account (ICA)                                       | <u>\$ 36,066</u>    | <u>\$ 75,919</u>    |

The actual creditable tax ratio for earnings of the Company in 2005 was 12.17%. The projected creditable tax ratio for earnings of the Company as of December 31, 2006 was 12.40%. The imputation credit allocated to stockholders is based on the ICA balance as of the date of dividend distribution. Thus, the projected creditable ratio may adjust depending on the ICA balance on the date of dividend distribution.

The Company's unappropriated earnings before 1997 were used to offset deficit in 2002.

Income tax returns through 2004 had been examined and cleared by the tax authorities.

### 23. PAYROLL, DEPRECIATION AND AMORTIZATION EXPENSES

|                  | Operating<br>Costs | Operating<br>Expenses | Nonoperating<br>Expenses | Total               |
|------------------|--------------------|-----------------------|--------------------------|---------------------|
| <u>2006</u>      |                    |                       |                          |                     |
| Payroll expenses |                    |                       |                          |                     |
| Salary           | \$ 7,576           | \$ 741,912            | \$ -                     | \$ 749,488          |
| Insurance        | 596                | 53,551                | -                        | 54,147              |
| Pension          | <u>558</u>         | <u>25,570</u>         | -                        | <u>26,128</u>       |
|                  | 8,730              | 821,033               | -                        | 829,763             |
| Depreciation     | 17,110             | 420,542               | 18,523                   | 456,175             |
| Amortization     | <u>-</u>           | <u>77,251</u>         | <u>10,310</u>            | <u>87,561</u>       |
|                  | <u>\$ 25,840</u>   | <u>\$ 1,318,826</u>   | <u>\$ 28,833</u>         | <u>\$ 1,373,499</u> |
| <u>2005</u>      |                    |                       |                          |                     |
| Payroll expenses |                    |                       |                          |                     |
| Salary           | \$ 15,150          | \$ 746,899            | \$ -                     | \$ 762,049          |
| Insurance        | 1,180              | 53,061                | -                        | 54,241              |
| Pension          | <u>1,013</u>       | <u>30,025</u>         | -                        | <u>31,038</u>       |
|                  | 17,343             | 829,985               | -                        | 847,328             |
| Depreciation     | 17,174             | 411,937               | -                        | 429,111             |
| Amortization     | <u>-</u>           | <u>78,057</u>         | <u>13,268</u>            | <u>91,325</u>       |
|                  | <u>\$ 34,517</u>   | <u>\$ 1,319,979</u>   | <u>\$ 13,268</u>         | <u>\$ 1,367,764</u> |

### 24. HELD-FOR-SALE PROPERTY

The Company owned a land and a building (the property) located in the new Ban Qiao station area, designated as a special economic zone by the Taipei County Government (TPG). After the consolidation, the cost of land of \$7,646 thousand and the revaluation increment on property of \$152,986 thousand had been sold to the Bank of PanHsin on January 12, 2005 and the title of the land was transferred to the Bank of PanHsin on February 15, 2005. Proceeds from disposal of the land were \$496,720 thousand.

After the deduction from the proceeds of the relevant cost and revaluation increment of \$160,632 thousand, relevant expenses and tax of \$15,914 thousand, capital surplus of \$49,756 thousand reserved for asset revaluation increment in prior years and reserve of \$93,428 thousand for land revaluation increment tax, the gain on disposal of property was \$463,358 thousand. In addition, the Company made an agreement with the Bank of PanHsin that after the construction was completed, the Bank of PanHsin will lease to the Company the first three floors, approximately 64,800 sq ft., for the Company's management of the operating site.

However, the Company believes that the size of the replacement land is improper, so the Company raised an appeal to the Ministry of the Interior (MOTI). The appeal was dismissed by the Taipei High Administrative Court on September 29, 2006, but, after legal consultation, the Company deemed that the court decision was invalid because the land replacement rule was applied inappropriately. So the Company raised an appeal to The Supreme Administrative Court on November 1, 2006, and this case was still pending as of December 31, 2006.

## 25. EARNINGS PER SHARE

Numerators and denominators used to calculate earnings per share (EPS) were as follows:

|  | <u>Amount (Numerator)</u> |                      | <u>Shares in<br/>Thousands<br/>(Denominator)</u> | <u>Earnings Per<br/>Share (NT\$)</u> |                      |
|--|---------------------------|----------------------|--|--------------------------------------|----------------------|
|  | <u>Before<br/>Tax</u>     | <u>After<br/>Tax</u> |  | <u>Before<br/>Tax</u>                | <u>After<br/>Tax</u> |
| <u>2006</u>  |                           |                      |  |                                      |                      |
| Basic  |                           |                      |  |                                      |                      |
| Income before effects of changes<br>in accounting principles | \$ 611,665                | \$ 586,124           |  | \$ 0.59                              | \$ 0.56              |
| Effects of changes in accounting<br>principles               | <u>28</u>                 | <u>28</u>            |  | <u>-</u>                             | <u>-</u>             |
| Net income   | <u>\$ 611,693</u>         | <u>\$ 586,152</u>    | <u>1,044,166</u>                                 | <u>\$ 0.59</u>                       | <u>\$ 0.56</u>       |

### 2005

|                                      |                     |                   |                  |                |                |
|--------------------------------------|---------------------|-------------------|------------------|----------------|----------------|
| Net income of common<br>stockholders | <u>\$ 1,040,431</u> | <u>\$ 979,426</u> |                  |                |                |
| Basic earnings per share             |                     |                   | <u>1,035,223</u> | <u>\$ 1.01</u> | <u>\$ 0.95</u> |

Pro forma information on the assumption that the Company's stocks traded or held by subsidiaries are treated as investments instead of treasury stock is as follows:

|  | <u>Amount (Numerator)</u> |                      | <u>Shares in<br/>Thousands<br/>(Denominator)</u> | <u>Earnings Per<br/>Share (NT\$)</u> |                      |
|--|---------------------------|----------------------|--|--------------------------------------|----------------------|
|  | <u>Before<br/>Tax</u>     | <u>After<br/>Tax</u> |  | <u>Before<br/>Tax</u>                | <u>After<br/>Tax</u> |
| <u>2006</u>  |                           |                      |  |                                      |                      |
| Basic  |                           |                      |  |                                      |                      |
| Income before effects of changes<br>in accounting principles | \$ 674,863                | \$ 649,322           |  | \$ 0.63                              | \$ 0.60              |
| Effects of changes in accounting<br>principles               | <u>28</u>                 | <u>28</u>            |  | <u>-</u>                             | <u>-</u>             |
| Net income   | <u>\$ 674,891</u>         | <u>\$ 649,350</u>    | <u>1,077,853</u>                                 | <u>\$ 0.63</u>                       | <u>\$ 0.60</u>       |

### 2005

|                                   |                     |                     |                  |                |                |
|-----------------------------------|---------------------|---------------------|------------------|----------------|----------------|
| Net income of common stockholders | <u>\$ 1,224,809</u> | <u>\$ 1,163,804</u> |                  |                |                |
| Basic earnings per share          |                     |                     | <u>1,077,853</u> | <u>\$ 1.14</u> | <u>\$ 1.08</u> |

The denominators for the purposes of calculating the above basic EPS had been adjusted retroactively to reflect the issuance of stock dividends in August 2006. This adjustment caused the basic EPS in 2005 before and after tax to decrease from NT\$1.05 to NT\$1.01 and from NT\$0.98 to NT\$0.95, respectively.

## 26. PENSION PLAN

The Labor Pension Act (the "Act"), which took effect and the pension mechanism under the Act is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law before July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act or continue to be subject to the pension mechanism under the Labor Standards Law. For Company employees who were subject to the Labor Standards Law before July 1, 2005 and chose to be subject instead to the pension mechanism under the Act, their service years as of June 30, 2005 were retained. Based on the Act, the Company's rate of monthly contributions to employees' individual pension accounts is at 6% of monthly salaries and wages starting on July 1, 2005. In 2006 and 2005, the Company has accrued \$19,076 thousand and \$9,399 thousand as net pension cost for the defined contribution pension plan based on the Act.

The Company has a defined benefit plan under the Labor Standards Law, which provides benefits based on an employee's length of service and average salary of the six months before retirement. The Company contributes an amount equal to 6% of monthly salaries and wages to a pension fund. This fund is administered by a pension fund monitoring committee and deposited in the committee's name in the Central Trust of China.

Other information on the defined benefit plan is summarized as follows:

|  | <b>2006</b>       | <b>2005</b>       |
|--|-------------------|-------------------|
| a. Net periodic pension cost   |                   |                   |
| Service cost   | \$ 13,794         | \$ 20,626         |
| Interest cost  | 12,968            | 17,087            |
| Projected return on plan assets  | (16,198)          | (15,007)          |
| Amortization   | <u>(10,212)</u>   | <u>(1,067)</u>    |
|  | <u>\$ 352</u>     | <u>\$ 21,639</u>  |
| b. Reconciliation of the funded status of the plan and prepaid pension cost            |                   |                   |
| Present value of benefit obligation:   |                   |                   |
| Vested benefit obligation  | \$ (107,975)      | \$ (110,116)      |
| Non-vested benefit obligation  | <u>(220,903)</u>  | <u>(228,153)</u>  |
| Accumulated benefit obligation   | (328,878)         | (338,269)         |
| Additional benefits based on future salaries   | <u>(65,235)</u>   | <u>(67,075)</u>   |
| Projected benefit obligation   | (394,113)         | (405,344)         |
| Fair value of plan assets  | <u>525,580</u>    | <u>489,502</u>    |
| Funded status  | 131,467           | 84,158            |
| Unrecognized net transition assets   | (153,772)         | (172,993)         |
| Unrecognized prior service cost due to the adoption of the Labor Standards Law in 1998 | (16,410)          | (17,778)          |
| Unrecognized net actuarial loss  | <u>149,813</u>    | <u>194,210</u>    |
| Prepaid pension cost   | <u>\$ 111,098</u> | <u>\$ 87,597</u>  |
| c. Vested benefits - undiscounted  | <u>\$ 132,796</u> | <u>\$ 133,416</u> |
| d. Actuarial assumptions   |                   |                   |
| Discount rate used in determining present value  | 2.75%             | 3.25%             |
| Future salary increase rate  | 2.00%             | 2.00%             |
| Expected rate of return on plan assets   | 2.75%             | 3.25%             |



|  | 2006             | 2005             |
|--|------------------|------------------|
| e. Contributions to and payments from the fund |                  |                  |
| Contributions                                  | \$ 23,852        | \$ -             |
| Payments                                       | <u>\$ 53,679</u> | <u>\$ 47,581</u> |

## 27. RELATED-PARTY TRANSACTIONS

Significant related party transactions, in addition to those shown in Notes 9, 10, 12 and 29, are summarized in the accompanying Tables 1 and 2.

| <u>Related Party</u>                         | <u>Relationship with the Company</u>                  |
|--|---|
| Far Eastern Textile Co.                      | Equity-method investor                                |
| Far Eastern Geant Co., Ltd.                  | Equity-method investee                                |
| Far Eastern Hon Li Do Co., Ltd.              | Equity-method investee                                |
| Bai Ding Investment Co.                      | Equity-method investee                                |
| Ya Tung Department Stores                    | Equity-method investee                                |
| Oriental Securities Corporation              | Equity-method investee                                |
| Yu Ming Advertising Agency Co.               | Equity-method investee                                |
| Bai Yang Investment Co.                      | Equity-method investee                                |
| Far Eastern CitySuper Ltd.                   | Equity-method investee                                |
| Pacific Liu Tong Investment Co.              | Equity-method investee                                |
| Ding Ding Integrated Marketing Service       | Equity-method investee                                |
| Asia Cement Corp.                            | Same Chairman of the Board of Directors               |
| Yuan Ding Co., Ltd.                          | Same Chairman of the Board of Directors               |
| Far Eastern International Bank               | Same Chairman of the Board of Directors               |
| Far Eastone Telecom Co., Ltd.                | Same Chairman of the Board of Directors               |
| Far Eastern Resource Development Ltd., Corp. | Same Chairman of the Board of Directors               |
| New Century Infocom Tech., Co., Ltd.         | Same Chairman of the Board of Directors               |
| Far Eastern Construction Company             | Same director   |
| FEDS Asia Pacific Development Co., Ltd.      | Subsidiary of Bai Yang Investment Co.                 |
| FEDS New Century Development                 | Subsidiary of Bai Yang Investment Co.                 |
| Far Eastern Apparel Co., Ltd.                | An indirect subsidiary of Far Eastern Textile Co.     |
| Far Eastern General Contractor Inc.          | An indirect subsidiary of Far Eastern Textile Co.     |
| Far Eastern International Leasing Corp.      | Equity-method investee of Bai Yang Investment Co.     |
| Yuan Bo Asset Management Company             | Subsidiary of Far Eastern International Leasing Corp. |
| Others                                       | Others (no transactions; see Table 10)                |

## 28. ASSETS PLEDGED OR MORTGAGED

The following assets had been pledged as security for purchases of certain items, as mortgages for bonds issued, commercial papers issued, as collaterals for bank loans and lawsuits:

|   | 2006                 | 2005                 |
|---|----------------------|----------------------|
| Pledged time deposits   | \$ 1,000             | \$ 2,000             |
| Long-term stock investments accounted for using equity method | 1,319,211            | 1,277,952            |
| Available-for-sale financial assets - noncurrent              | 1,457,000            | 763,600              |
| Property, net   | 9,892,808            | 9,767,340            |
| Idle assets, net  | <u>277,243</u>       | <u>278,445</u>       |
|   | <u>\$ 12,947,262</u> | <u>\$ 12,089,337</u> |

## 29. COMMITMENTS AND CONTINGENT LIABILITIES AS OF DECEMBER 31, 2006

Significant commitments and contingent liabilities are summarized as follows:

- a. Unused letters of credit aggregated \$8,882 thousand.
- b. Outstanding construction contracts aggregated \$751,327 thousand.
- c. Guarantees on the loans of related parties were as follows:

|                                   |                      |
|-----------------------------------|----------------------|
| Pacific Sogo Department Store Co. | \$ 5,205,747         |
| Bai-Ding Investment Corporation   | 3,900,000            |
| Far Eastern Geant Co., Ltd.       | 2,225,000            |
| FEDS Asia Pacific Development     | 2,110,000            |
| Tianjin FEDS Limits., Co          | 488,095              |
| Far Eastern Citysuper Ltd.        | 350,000              |
| Yu Ming Advertising Agency Co.    | 300,000              |
| Far Eastern Hon Li Do Co., Ltd.   | 230,000              |
| Bai Yang Investment Co.           | <u>130,000</u>       |
|                                   | <u>\$ 14,938,842</u> |

- d. In addition to the lease contracts mentioned in Notes 11 and 12, other major operating lease contracts are listed below:
  - 1) The Company leases from Asia Cement Corporation (a related party) the site of its store in Taipei. The lease agreement will expire on December 31, 2012, but the lessor allowed the Company to renew the lease upon its expiry. The total monthly rent is \$6,562 thousand.
  - 2) The Company leases from FEDS Asia Pacific Development (a related party) the site of its store in Kaohsiung. The lease agreement will expire on October 23, 2016, but the lessor allowed the Company to renew the lease upon its expiry. The total monthly rent is \$19,055 thousand.

The Company also executed lease contracts with other parties. The future minimum rental expenses for all lease contracts for the next five years are summarized below:

| Year | Rental Expense |
|------|----------------|
| 2007 | \$ 526,300     |
| 2008 | 554,814        |
| 2009 | 553,341        |
| 2010 | 553,341        |
| 2011 | 553,341        |

- e. In 1997, the Company and Taiwan Development and Trust Corporation (TDTC) entered into an agreement for the Company to buy land and building located in Hsin-Chu. The cost of this property was \$4,046,030 thousand after deducting the public funds and discounts of \$68,426 thousand from \$4,114,456 thousand (total cost of property - pretax). The building construction was completed on November 2002. The Company transferred the net amount of \$4,046,030 thousand from unfinished construction to the cost of property. However, as of December 31, 2002, the Company had not paid the construction final payment of \$457,819 thousand, shown as part of payable on property.

On January 23, 2003, TDTC sued the Company for not making the final payment of \$1,020,367 thousand (the final payment for the sales contract and additional payment for the change of design) and demanded that the Company make this payment plus interest. On February 14, 2006, the Taipei District Court ruled that the Company should pay TDTC \$724,111 thousand plus an (a) interest, from June 5, 2002 to the full-repayment date, of \$692,801 thousand based on the 0.03% daily interest rate for and (b) interests, from January 31, 2003 to the full-repayment date, of \$28,365 thousand based on the 0.03% daily interest rate and of \$2,945 thousand based on the 5% annual interest rate. However, the Company had raised an appeal with the Taiwan High Court against TDTC for serious breaches of the related contract and claim compensation from TDTC on March 10, 2006, which can be offset against the payments to TDTC. On May 25, 2006, the Company pledged a time deposit of \$725,000 thousand to the Taiwan High Court for exemption from the execution of assets. On November 27, 2006, the Company replaced the time deposit with 37,000 thousand shares of Asia Cement Corporation held by the Company and 35,500 thousand shares stock of Asia Cement Corporation held by Bai Ding Investment Company (total 72,500 thousand shares of Asia Cement Corporation). Taking into account possible result of the lawsuit, the Company recorded a payment of \$266,292 thousand, classified as payable - property and recognized a relevant depreciation expense of \$19,899 thousand. As of December 31, 2006, the Company had recorded a deferral interest payable of \$71,455 thousand.

- f. Pacific Liu Tong Investment Company (PLTIC), a major stockholder of Pacific Sogo Department Store (SOGO), was sued by Zhang Ming Qiang (“Zhang”) for capital subscription, approved illegally under resolutions passed by PLTIC’S stockholders in their meetings on May 29, 2002 and September 21, 2002. He included in his lawsuit the Company and Far Eastern Textile Company because they jointly had a significant investment in PLTIC. Zhang further demanded that PLTIC pay him \$5,000 thousand plus interest as board member remuneration. PLTIC countered that Zhang had no right to file this lawsuit because, under the Company Law, he was not considered a stockholder of PLTIC nor was he qualified to participate in PLTIC’s capital increase. PLTIC added that its stockholders’ meetings were held in compliance with the law and that the capital subscription by the Company and Far Eastern Textile Company was duly registered with the Ministry of Economic Affairs.

As of December 31, 2006, the lawsuit was pending before the Taiwan Taipei District Civil Court. After examining the possible outcome of this lawsuit, the Company considered that loss on this case was unlikely.

- g. On September 13, 2006, the Company entered into an agreement with Casino Guichard-Perrachon SA to acquire equity in Far Eastern Geant Company. On January 1, 2007, the Company paid \$737,584 thousand to Casino Guichard-Perrachon SA for 163,580 thousand shares of Far Eastern Geant Company. After this acquisition, the Company’s equity in Far Eastern Geant Company increased to 100%.

### 30. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

|   | December 31    |              |                |            |
|---|----------------|--------------|----------------|------------|
|   | 2006           |              | 2005           |            |
| Nonderivative Financial Instruments                   | Carrying Value | Fair Value   | Carrying Value | Fair Value |
| Assets  |                |              |                |            |
| Cash and cash equivalents                             | \$ 1,563,317   | \$ 1,563,317 | \$ 587,227     | \$ 587,227 |
| Financial assets at fair value through profit or loss | -              | -            | 830,000        | 830,028    |
| Notes receivable                                      | 194,293        | 194,293      | 27,436         | 27,436     |

(Continued)

|   | <b>December 31</b>        |                       |                           |                       |
|---|---------------------------|-----------------------|---------------------------|-----------------------|
|   | <b>2006</b>               |                       | <b>2005</b>               |                       |
|   | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
| <b>Nonderivative Financial Instruments</b>  |                           |                       |                           |                       |
| Accounts receivable   | \$ 233,314                | \$ 233,314            | \$ 187,269                | \$ 187,269            |
| Other receivable  | 201,651                   | 201,651               | 677,933                   | 677,933               |
| Pledged time deposit  | 1,000                     | 1,000                 | 2,000                     | 2,000                 |
| Long-term stock investments<br>accounted for using equity method<br>(including credit balance of<br>long-term stock investment) | 14,320,253                | 14,856,470            | 10,502,058                | 10,988,636            |
| Available-for-sale financial assets   | 2,405,818                 | 2,405,818             | 1,371,711                 | 1,607,190             |
| Financial assets carried at cost  | 162,570                   | 162,570               | 107,370                   | 107,370               |
| Refundable deposits   | 161,047                   | 161,047               | 166,537                   | 166,537               |
| <b>Liabilities</b>  |                           |                       |                           |                       |
| Short-term debts  | 2,220,000                 | 2,220,000             | 1,350,000                 | 1,350,000             |
| Short-term notes and bills payable  | 948,787                   | 948,787               | 399,540                   | 399,540               |
| Accounts payable  | 2,335,014                 | 2,335,014             | 1,764,407                 | 1,764,407             |
| Accrued expense   | 515,862                   | 515,862               | 501,126                   | 501,126               |
| Balance payables - property   | 784,936                   | 784,936               | 520,323                   | 520,323               |
| Bonds issued  | 3,700,000                 | 3,691,287             | 6,000,000                 | 6,024,893             |
| Long-term borrowings  | 6,884,726                 | 6,884,726             | 4,117,767                 | 4,117,767             |
| Franchise liability   | 601,282                   | 601,282               | 1,061,567                 | 1,061,567             |
| Deposits received   | 56,559                    | 56,559                | 56,447                    | 56,447                |
|   |                           |                       |                           | (Concluded)           |

Effective January 1, 2006, the Company adopted the Statements of Financial Accounting Standards No. 34 "Accounting for Financial Instruments". The cumulative effect of changes in accounting principles and the adjustments to stockholders' equity arising from the adoption of new SFAS was described in Note 3.

b. Methods and assumptions used in the determination of fair values of financial instruments

- 1) The carrying values of financial instruments approximate fair values because of the short maturity of these instruments. This assumption was applied to cash and cash equivalents, notes receivable, accounts receivable, other receivable, short-term debts, short-term notes and bills payable, accounts payables, accrued expenses and balance payables - property.
- 2) The fair values of financial assets at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices.
- 3) The fair values of the financial assets carried at cost and long-term investments in non-publicly listed companies accounted for by the equity method cannot be estimated because they have no quoted market prices in an active market and determining their fair values entails an unreasonably high cost.
- 4) The fair values of pledged time deposits, refundable deposits, and deposits received are based on book values because there is no big difference between the book values and the amounts of future cash flows.
- 5) The fair value of the bonds issued are based on their market values on the balance sheet date.
- 6) The fair value of long-term borrowings and the accrued franchise liability are based on the present values of expected cash outflows discounted at the rate of bank loans with similar maturities.

c. As of December 31, 2006 and 2005, financial assets exposed to fair value interest rate risk amounted to \$725,000 thousand and \$0 thousand, respectively, financial liabilities exposed to fair value interest rate risk amounted to \$10,900,308 thousand and \$7,957,934 thousand, respectively, and financial liabilities exposed to cash flow interest rate risk amounted to \$3,454,487 thousand and \$4,970,940 thousand, respectively.

d. Information about financial risks

1) Market risk

The Company's financial assets at fair value through profit or loss and available-for-sale assets were mostly mutual funds and publicly traded securities, with fair values that are affected by changes in market prices. Since the Company carefully chooses its investments, there is no significant market risk.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breach contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The amount of the largest credit risk on financial instruments held by the Company is the same as their carrying amounts.

3) Liquidity risk

The Company has sufficient working capital to meet cash needs upon settlement of obligations. Thus, no material liquidity risk was anticipated.

The Company's domestic mutual funds held for trading purposes and available-for-sale financial instruments are publicly traded in an active market and can be sold in the market at their approximate fair values. However, financial assets measured at holding cost have significant liquidity risks because these investments do not have quoted market prices in an active market.

4) Cash flow interest rate risk

Changes in market interest rates will affect the cash flows on the repayment of short-term debts and of some long-term borrowings with floating interest rates.

### **31. ADDITIONAL DISCLOSURES**

Following are the additional disclosures required by the Securities and Futures Bureau:

a. Financing provided: Table 3 (attached)

b. Endorsement/guarantee provided: Table 4 (attached)

c. Marketable securities held: Table 5 (attached)

d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached)

e. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: Table 7 (attached)

- f. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: None
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 8 (attached)
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 9 (attached)
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Table 10 (attached)
- j. Derivative financial transactions: None
- k. Investment in Mainland China
  - 1) Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Table 11 (attached)
  - 2) Significant direct or indirect transactions with the investee company, prices, payment terms and unrealized gain or loss:
    - a) Amount and percentage of purchases; the balance and percentage of related accounts payables: None
    - b) Amount and percentage of sales; the balance and percentage of related accounts receivables: None
    - c) Gain (loss) on and amounts of asset: None
    - d) The balance and purpose of note endorsement/guarantee provided or collateral security pledged: Table 4 (attached)
    - e) Maximum balance for the period, ending balance, interest rate and amount of financing provision: None
    - f) Other transactions which have significant influence over current year's gain or loss or financial status: None

### **32. SEGMENT INFORMATION**

- a. Industry information: The Company solely operates department stores.
- b. Geographic information: The Company operates entirely in the Republic of China in 2006 and 2005.
- c. Export sales: There were no export sales in 2006 and 2005.
- d. Sales to major customers: In 2006 and 2005, no revenue from a single customer was at least 10% of total operating revenues.

**TABLE 1****FAR EASTERN DEPARTMENT STORES, LTD.****SUMMARY OF RELATED-PARTY BALANCES****DECEMBER 31, 2006 AND 2005****(In Thousands of New Taiwan Dollars)**

| Related Party                                | Accounts Receivable |            | Other Receivables |            | Unfinished Construction |            | Accounts Payable |            | Accrued Expenses |            | Deposits Received |            | Deferred Credits  |            |
|--|---------------------|------------|-------------------|------------|-------------------------|------------|------------------|------------|------------------|------------|-------------------|------------|-------------------|------------|
|  | Amount              | % to Total | Amount            | % to Total | Amount                  | % to Total | Amount           | % to Total | Amount           | % to Total | Amount            | % to Total | Amount            | % to Total |
| <u>2006</u>                                  |                     |            |                   |            |                         |            |                  |            |                  |            |                   |            |                   |            |
| Far Eastern Geant Co., Ltd.                  | \$ 5,953            | 3          | \$ 21             | -          | \$ -                    | -          | \$ 8,792         | -          | \$ 33            | -          | \$ -              | -          | \$ 363,639        | 99         |
| Far Eastern Hon Li Do Co., Ltd.              | -                   | -          | -                 | -          | -                       | -          | -                | -          | -                | -          | 13,380            | 24         | -                 | -          |
| Bai Ding Investment Co.                      | -                   | -          | -                 | -          | -                       | -          | -                | -          | 10               | -          | -                 | -          | 5,447             | 1          |
| Ya Tung Department Stores                    | 160                 | -          | 3                 | -          | -                       | -          | 156              | -          | -                | -          | -                 | -          | -                 | -          |
| Oriental Securities Corporation              | 1,292               | 1          | -                 | -          | -                       | -          | -                | -          | 1,366            | 1          | 472               | 1          | -                 | -          |
| Yu Ming Advertising Agency Co.               | 430                 | -          | 31                | -          | -                       | -          | 5,090            | -          | 671              | -          | -                 | -          | -                 | -          |
| Far Eastern Textile Ltd.                     | 5                   | -          | -                 | -          | -                       | -          | -                | -          | 8,676            | 2          | -                 | -          | -                 | -          |
| Asia Cement Corporation                      | 59                  | -          | -                 | -          | -                       | -          | -                | -          | 5,742            | 1          | -                 | -          | -                 | -          |
| Far Eastern International Bank               | -                   | -          | 260               | -          | -                       | -          | -                | -          | -                | -          | 1,409             | 2          | -                 | -          |
| Far EasTone Telecommunication Co., Ltd.      | 666                 | -          | 118               | -          | -                       | -          | -                | -          | 29               | -          | -                 | -          | -                 | -          |
| Far Eastern Resource Development Ltd., Corp. | -                   | -          | -                 | -          | -                       | -          | -                | -          | 353              | -          | -                 | -          | -                 | -          |
| Ding Ding Integrated Marketing Service       | 20                  | -          | 728               | 1          | -                       | -          | -                | -          | 22,281           | 4          | -                 | -          | -                 | -          |
| Far Eastern Apparel Co., Ltd.                | 3,017               | 1          | 20                | -          | -                       | -          | 35,502           | 2          | 689              | -          | -                 | -          | -                 | -          |
| Far Eastern General Contractor Inc.          | -                   | -          | -                 | -          | 117,939                 | 2          | -                | -          | -                | -          | -                 | -          | -                 | -          |
| Far Eastern Construction Co.                 | -                   | -          | 221               | -          | -                       | -          | -                | -          | -                | -          | -                 | -          | -                 | -          |
| Other  | 638                 | -          | 38                | -          | -                       | -          | -                | -          | -                | -          | 408               | 1          | -                 | -          |
|  | <u>\$ 12,240</u>    | <u>5</u>   | <u>\$ 1,440</u>   | <u>1</u>   | <u>\$ 117,939</u>       | <u>2</u>   | <u>\$ 49,540</u> | <u>2</u>   | <u>\$ 39,850</u> | <u>8</u>   | <u>\$ 15,669</u>  | <u>28</u>  | <u>\$ 369,086</u> | <u>100</u> |
| <u>2005</u>                                  |                     |            |                   |            |                         |            |                  |            |                  |            |                   |            |                   |            |
| Far Eastern Geant Co., Ltd.                  | \$ 7,492            | 4          | \$ 21             | -          | \$ -                    | -          | \$ 8,720         | 1          | \$ -             | -          | \$ -              | -          | \$ 363,639        | 99         |
| Far Eastern Hon Li Do Co., Ltd.              | -                   | -          | -                 | -          | -                       | -          | -                | -          | -                | -          | 13,380            | 24         | -                 | -          |
| Bai Ding Investment Co.                      | -                   | -          | -                 | -          | -                       | -          | -                | -          | -                | -          | -                 | -          | 5,447             | 1          |
| Ya Tung Department Stores                    | 475                 | -          | -                 | -          | -                       | -          | 284              | -          | 26               | -          | -                 | -          | -                 | -          |
| Oriental Securities Co., Ltd.                | 282                 | -          | -                 | -          | -                       | -          | -                | -          | 1,479            | -          | 472               | 1          | -                 | -          |
| Yu Ming Advertising Agency Co.               | 38                  | -          | -                 | -          | -                       | -          | 1,896            | -          | 379              | -          | -                 | -          | -                 | -          |
| Far Eastern Textile Co., Ltd.                | 770                 | 1          | -                 | -          | -                       | -          | -                | -          | 13,036           | 2          | -                 | -          | -                 | -          |
| Asia Cement Corp.                            | 60                  | -          | -                 | -          | -                       | -          | -                | -          | 5,742            | 1          | -                 | -          | -                 | -          |
| Far Eastern International Bank               | 5,114               | 3          | 69                | -          | -                       | -          | -                | -          | 42               | -          | 1,556             | 3          | -                 | -          |
| Far EasTone Telecom Co., Ltd.                | 130                 | -          | 65                | -          | -                       | -          | -                | -          | -                | -          | -                 | -          | -                 | -          |
| Far Eastern Resource Development Ltd., Corp. | -                   | -          | -                 | -          | -                       | -          | -                | -          | 866              | -          | -                 | -          | -                 | -          |
| Ding Ding Integrated Marketing Service       | -                   | -          | -                 | -          | -                       | -          | -                | -          | 18,271           | 4          | -                 | -          | -                 | -          |
| Yuan Bo Asset Management Company             | -                   | -          | 121,342           | 42         | -                       | -          | -                | -          | -                | -          | -                 | -          | -                 | -          |
| Far Eastern Apparel Co., Ltd.                | 1,612               | 1          | -                 | -          | -                       | -          | 38,110           | 2          | 2,222            | 1          | -                 | -          | -                 | -          |
| Far Eastern General Constructor Inc.         | -                   | -          | -                 | -          | -                       | -          | -                | -          | -                | -          | -                 | -          | -                 | -          |
| Other  | 300                 | -          | 6                 | -          | -                       | -          | 603              | -          | 352              | -          | 363               | -          | -                 | -          |
|  | <u>\$ 16,273</u>    | <u>9</u>   | <u>\$ 121,503</u> | <u>42</u>  | <u>\$ -</u>             | <u>-</u>   | <u>\$ 49,613</u> | <u>3</u>   | <u>\$ 42,415</u> | <u>8</u>   | <u>\$ 15,771</u>  | <u>28</u>  | <u>\$ 369,086</u> | <u>100</u> |

TABLE 2

**FAR EASTERN DEPARTMENT STORES, LTD. AND INVESTEEES**

**SUMMARY OF RELATED-PARTY TRANSACTIONS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)

| Related Party                                | Sales (Note A)   |            | Purchases (Note B) |            | Other Operating Revenue - Rental (Note C) |            | Operating Expenses (Note C) |            | Nonoperating Income and gains- Other Income |            | Nonoperating Expenses and Losses - Other expenses |            | Payable to Affiliates           |                         |                   |           |                  |            |
|--|------------------|------------|--------------------|------------|---|------------|-----------------------------|------------|---|------------|---|------------|---------------------------------|-------------------------|-------------------|-----------|------------------|------------|
|  | Amount           | % to Total | Amount             | % to Total | Amount                                    | % to Total | Amount                      | % to Total | Amount                                      | % to Total | Amount  | % to Total | Highest Balance During the Year | Date of Highest Balance | Year-End Amount   | Rate (%)  | Interest Expense |            |
|  |                  |            |                    |            |   |            |                             |            |   |            |   |            |                                 |                         |                   |           | Amount           | % to Total |
| <b>2006</b>                                  |                  |            |                    |            |   |            |                             |            |   |            |   |            |                                 |                         |                   |           |                  |            |
| Far Eastern Geant Co., Ltd.                  | \$ 2,273         | -          | \$ -               | -          | \$ 106,635                                | 31         | \$ -                        | -          | \$ 10                                       | -          | \$ -  | -          | \$ -                            | -                       | \$ -              | -         | \$ -             | -          |
| Far Eastern Hon Li Do Co., Ltd.              | -                | -          | -                  | -          | 257                                       | -          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Ya Tung Department Stores                    | 4,132            | -          | -                  | -          | -   | -          | 165                         | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Oriental Securities Corporation              | 2,467            | -          | -                  | -          | 3,031                                     | 1          | -                           | -          | -   | -          | 7,412   | 8          | -                               | -                       | -                 | -         | -                | -          |
| FEDS Asia Pacific Development Co., Ltd.      | -                | -          | -                  | -          | -   | -          | 228,124                     | 7          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Bai Yang Investment Co.                      | -                | -          | -                  | -          | 23  | -          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Yu Ming Advertising Agency Co.               | 186              | -          | 25,943             | -          | 4,133                                     | 1          | 3,585                       | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Resource Development Ltd., Corp. | -                | -          | -                  | -          | -   | -          | 4,149                       | -          | -   | 17         | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Textile Ltd.                     | -                | -          | -                  | -          | -   | -          | 28,911                      | 1          | 12,500                                      | 18         | 3   | -          | -                               | -                       | -                 | -         | -                | -          |
| Asia Cement Corporation                      | -                | -          | -                  | -          | -   | -          | 74,079                      | 2          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern International Bank               | 2,157            | -          | -                  | -          | 5,522                                     | 2          | -                           | -          | 2,340                                       | 3          | -   | -          | 500,000                         | 2006.9.12-2006.9.22     | -                 | 1.54-1.78 | 2,832            | 1          |
| Far Eastone Telecommunications Co., Ltd.     | -                | -          | -                  | -          | 1,802                                     | -          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Yuan Bo Asset Management Company             | -                | -          | -                  | -          | -   | -          | 2,160                       | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Ding Ding Integrated Marketing Service       | -                | -          | -                  | -          | -   | -          | 16,228                      | 1          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Apparel Co., Ltd.                | 4,764            | -          | 160,594            | 1          | 57  | -          | 8,134                       | 1          | -   | -          | 1,477   | 2          | -                               | -                       | -                 | -         | -                | -          |
| Other  | 722              | -          | 300                | -          | 2,055                                     | 1          | 7,730                       | -          | -   | -          | 10  | -          | -                               | -                       | -                 | -         | -                | -          |
|  | <u>\$ 16,701</u> | <u>-</u>   | <u>\$ 186,837</u>  | <u>1</u>   | <u>\$ 123,515</u>                         | <u>36</u>  | <u>\$ 373,265</u>           | <u>12</u>  | <u>\$ 14,867</u>                            | <u>21</u>  | <u>\$ 8,902</u>                                   | <u>10</u>  |                                 |                         | <u>\$ -</u>       |           | <u>\$ 2,832</u>  | <u>1</u>   |
| <b>2005</b>                                  |                  |            |                    |            |   |            |                             |            |   |            |   |            |                                 |                         |                   |           |                  |            |
| Far Eastern Geant Co., Ltd.                  | \$ 3,606         | -          | \$ -               | -          | \$ 104,366                                | 31         | \$ -                        | -          | \$ 208                                      | -          | \$ -  | -          | \$ -                            | -                       | \$ -              | -         | \$ -             | -          |
| Far Eastern Hon Li Do Co., Ltd.              | -                | -          | -                  | -          | 197                                       | -          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Ya Tung Department Stores                    | 4,822            | -          | -                  | -          | -   | -          | 312                         | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Oriental Securities Co., Ltd.                | 955              | -          | -                  | -          | 3,033                                     | 1          | -                           | -          | -   | -          | 7,370   | 11         | -                               | -                       | -                 | -         | -                | -          |
| FEDS Asia Pacific Development Co., Ltd.      | -                | -          | -                  | -          | 4   | -          | 228,000                     | 7          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Bai Yang Investment Co.                      | -                | -          | -                  | -          | 27  | -          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Yu Ming Advertising Agency Co.               | 66               | -          | 33,630             | -          | 4,127                                     | 1          | 2,965                       | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Resource Development Ltd., Corp. | -                | -          | -                  | -          | -   | -          | 8,019                       | 1          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Textile Co., Ltd.                | -                | -          | -                  | -          | -   | -          | 23,728                      | 1          | 6,000                                       | 10         | 146   | -          | -                               | -                       | -                 | -         | -                | -          |
| Asia Cement Corp.                            | -                | -          | -                  | -          | -   | -          | 74,079                      | 2          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern International Bank               | 6,589            | -          | -                  | -          | 5,793                                     | 2          | -                           | -          | 2,810                                       | 5          | -   | -          | 500,000                         | 2005.12.31              | 500,000           | 1.35-1.55 | 2,124            | 2          |
| Far Eastone Telecom Co., Ltd.                | -                | -          | -                  | -          | 2,009                                     | 1          | -                           | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Yuan Bo Asset Management Company             | -                | -          | -                  | -          | -   | -          | 1,190                       | -          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Ding Ding Integrated Marketing Service       | -                | -          | -                  | -          | -   | -          | 30,228                      | 1          | -   | -          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
| Far Eastern Apparel Co., Ltd.                | 2,419            | -          | 172,558            | 1          | 45  | -          | 6,860                       | -          | -   | -          | 1,817   | 3          | -                               | -                       | -                 | -         | -                | -          |
| Other  | -                | -          | 963                | -          | 1,991                                     | -          | 7,497                       | -          | 438   | 1          | -   | -          | -                               | -                       | -                 | -         | -                | -          |
|  | <u>\$ 18,457</u> | <u>-</u>   | <u>\$ 207,151</u>  | <u>1</u>   | <u>\$ 121,592</u>                         | <u>36</u>  | <u>\$ 382,878</u>           | <u>12</u>  | <u>\$ 9,456</u>                             | <u>16</u>  | <u>\$ 9,333</u>                                   | <u>14</u>  |                                 |                         | <u>\$ 500,000</u> |           | <u>\$ 2,124</u>  | <u>2</u>   |

Note A: Sales to related parties were under normal terms.

Note B: Purchases from related parties were under normal terms.

Note C: The rent pertaining to related parties is based on market rates and is received or paid monthly or yearly.



**FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES**

**FINANCING PROVIDED**

**YEAR ENDED DECEMBER 31, 2006**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| No. | Financier                         | Counterparty                    | Financial Statement Account  | Highest Balance for the Period | Ending Balance | Interest Rate | Nature of Financing | Transaction Amount | Reason for the Financing | Allowance for Doubtful Accounts | Collateral |       | Amount of Individual Company's Financing Limits | Amount of Financing Company's Financing Limits |
|-----|-----------------------------------|---------------------------------|------------------------------|--------------------------------|----------------|---------------|---------------------|--------------------|--------------------------|---------------------------------|------------|-------|---|--|
|     |                                   |                                 |                              |                                |                |               |                     |                    |                          |                                 | Item       | Value |   |  |
| 1   | Pacific Sogo Department Store Co. | Pacific Liu Tung Investment Co. | Stockholders current account | \$ 381,000                     | -              | 3.04-3.17%    | (Note A)            | -                  | To repay debt            | -                               | -          | \$ -  | \$ 2,462,250 (Note B)                           | \$ 2,462,250 (Note B)                          |

Note A: Short-term financing.

Note B: The upper limit is 40% of the financier's net value as of December 31, 2006.

Note C: Neither the total assets nor total revenues of Lian Ching Investment Co., Netmicro Technology Co. and Pacific Sogo Investment Co. individually reached at least 10% of the Company's total assets or total revenues. Thus, their information was not disclosed.

## FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

## ENDORSEMENT/GUARANTEES PROVIDED

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| No. | Endorser/Guarantor                     | Counter-party   |  | Limits on the Amount that can be Endorsed/ Guaranteed by Each (Note B) | Highest Balance for the Period | Ending Balance          | Value of Property, Plant, or Equipment Used as Collateral | Ratio of Accumulated Amount of Collateral to Net Equity Based on the Latest Financial Statement of the Endorser/Guarantor | Maximum Collateral/ Guarantee Amounts Allowable |  |
|-----|--|---|--|--|--------------------------------|-------------------------|---|---|---|--|
|     |  | Name  | Nature of Relationship of the Company (Note A) |  |                                |                         |   |   |   |  |
| 0   | Far Eastern Department Store Ltd.      | Pacific Sogo Department Store Co.                       | d.   | \$ 20,862,270 (Note B)   | \$ 5,270,056                   | \$ 5,205,747            | \$ -  | 25  | \$ 41,724,540 (Note C)                          |  |
|     |  | Bai Ding Investment Co.                                 | a.   | 20,862,270 (Note B)  | 3,900,000                      | 3,900,000               | -   | 19  | 41,724,540 (Note C)                             |  |
|     |  | Far Eastern Geant Co., Ltd.                             | a.   | 20,862,270 (Note B)  | 2,225,000                      | 2,225,000               | -   | 11  | 41,724,540 (Note C)                             |  |
|     |  | FEDS Asia Pacific Development Ltd.                      | a.   | 20,862,270 (Note B)  | 2,110,000                      | 2,110,000               | -   | 10  | 41,724,540 (Note C)                             |  |
|     |  | Tianjin FEDS Limits, Co.                                | d.   | 20,862,270 (Note B)  | 488,095                        | 488,095                 | -   | 2   | 41,724,540 (Note C)                             |  |
|     |  |   |  |  |                                | (RMB117,000,000)        | (RMB117,000,000)  |   |   |  |
|     |  | Far Eastern CitySuper Ltd.                              | a.   | 20,862,270 (Note B)  | 350,000                        | 350,000                 | -   | 2   | 41,724,540 (Note C)                             |  |
|     |  | Yu Ming Advertising Agency Co.                          | a.   | 20,862,270 (Note B)  | 300,000                        | 300,000                 | -   | 1   | 41,724,540 (Note C)                             |  |
|     |  | Far Eastern Hon Li Do Co., Ltd.                         | a.   | 20,862,270 (Note B)  | 230,000                        | 230,000                 | -   | 1   | 41,724,540 (Note C)                             |  |
|     |  | Bai Yang Investment Co.                                 | a.   | 20,862,270 (Note B)  | 710,000                        | 130,000                 | -   | 1   | 41,724,540 (Note C)                             |  |
| 1   | Yu Ming Advertising Agency Co.         | Pacific Sogo Department Store Co.                       | c.   | 58,015 (Note B)  | 666                            | 333                     | -   | 1   | 116,030 (Note C)                                |  |
| 2   | Bai Ding Investment Co.                | Far Eastern Department Stores, Ltd.                     | g.   | 3,287,326 (Note B)   | 355,000 (Note H)               | 355,000 (Note H)        | 355,000   | 11  | 6,574,652 (Note C)                              |  |
|     |  | Pacific Sogo Department Store Co.                       | c.   | 3,287,326 (Note B)   | 400,458 (Note I)               | 400,458 (Note I)        | 192,000   | 12  | 6,574,652 (Note C)                              |  |
| 3   | Bai Yang Investment Co.                | Pacific Sogo Department Store Co.                       | c.   | 7,626,129 (Note B)   | 65,934                         | 41,292                  | -   | 1   | 15,252,258 (Note C)                             |  |
| 4   | Feds Asia Pacific Development Ltd.     | Pacific Sogo Department Store Co.                       | c.   | 2,180,402 (Note B)   | 65,934                         | 41,292                  | -   | 2   | 4,360,804 (Note C)                              |  |
| 5   | Feds New Century Development Co., Ltd. | Pacific Sogo Department Store Co.                       | c.   | 208,215 (Note B)   | 65,934                         | 41,292                  | -   | 20  | 416,430 (Note C)                                |  |
| 6   | Far Eastern Hon Li Do Co., Ltd.        | Pacific Sogo Department Store Co.                       | c.   | 54,554 (Note B)  | 4,662                          | 2,997                   | -   | 5   | 109,108 (Note C)                                |  |
| 7   | Ya Tung Department Store Ltd.          | Pacific Sogo Department Store Co.                       | c.   | 85,968 (Note B)  | 36,630                         | 22,977                  | -   | 27  | 171,936 (Note C)                                |  |
| 8   | Feds Development Ltd. (BVI)            | Tianjin FEDS Limits, Co.                                | a.   | 221,345 (Note B)   | 125,153 (RMB30,000,000)        | 125,153 (RMB30,000,000) | -   | 57  | 442,690 (Note C)                                |  |
| 9   | Pacific Liu Tong Investment Co.        | Pacific Sogo Department Store Co.                       | a.   | 29,743,980 (Note D)  | 11,655,000                     | 11,655,000              | -   | 196   | 59,487,960 (Note E)                             |  |
| 10  | Pacific Sogo Department Store Co.      | Pacific Liu Tong Investment Co.                         | a.   | 12,311,248 (Note C)  | 1,585,000                      | 700,000                 | -   | 11  | 24,622,496 (Note F)                             |  |
|     |  | Taiwan Chong-Guang Ltd.                                 | -  | 12,311,248 (Note C)  | 304,297                        | 234,297                 | -   | 4   | 24,622,496 (Note F)                             |  |
|     |  | Hong-Tong Comprehensive Commercial Developing Co., Ltd. | -  | 12,311,248 (Note C)  | 4,000,000                      | 4,000,000               | -   | 65  | 24,622,496 (Note F)                             |  |

- Note A:
- Company's subsidiary.
  - Investee of Company's subsidiary.
  - Subsidiary of the Company and its subsidiaries.
  - Investee of subsidiary of the Company's subsidiary.
  - Business transactions.
  - Investee of the Company.
  - Parent company.

Note B: The maximum is 100% of net assets based on the latest financial statements of the endorser/guarantor.

Note C: The amount is 200% of net assets based on the latest financial statements of the endorser/guarantor.

Note D: The amount is 500% of net assets based on the latest financial statements of the endorser/guarantor.

Note E: The amount is 1,000% of net assets based on the latest financial statements of the endorser/guarantor.

Note F: The amount is 400% of net assets based on the latest financial statements of the endorser/guarantor.

Note G: Neither the total assets nor total revenues of Lian Ching Investment Co. and Pacific Sogo Investment Co. individually reached at least 10% of the Company's total assets or total revenues. Thus, their information was not disclosed.

Note H: The amount represents 35,500 thousand shares of Asia Cement Corp.

Note I: Included 19,200 thousand shares of Far Eastern Textile Co., Ltd. and an endorsement of \$208,458 thousand.

Note J: The endorsement guarantee contracts or notes provided by the Bank.

## FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Holding Company                     | Securities Type and Issuer Name                 | Relationship with the Investor Company (Note A) | Financial Statement Account                      | December 31, 2006  |                       |                         |                                 | Note  |   |
|-------------------------------------|---|---|--|--------------------|-----------------------|-------------------------|---------------------------------|---|---|
|                                     |   |   |  | Shares (Thousands) | Carrying Value        | Percentage of Ownership | Market Value or Net Asset Value |   |   |
| Far Eastern Department Stores, Ltd. | <u>Stock</u><br>Bai Yang Investment Co.         | b   | Investments accounted for by the equity method   | 587,000            | \$ 7,554,095          | 100                     | \$ 7,625,130<br>(Note D)        | 83,200 thousand shares of Oriental Securities Corporation pledged for loans of the investor company |   |
|                                     | Oriental Securities Corporation                 | a   | Investments accounted for by the equity method   | 140,297            | 2,224,536             | 20                      | 2,229,319<br>(Note D)           |   |   |
|                                     | Pacific Liu Tong Investment Co., Ltd.           | b   | Investments accounted for by the equity method   | 140,867            | 2,107,295             | 35                      | 2,089,058<br>(Note D)           |   |   |
|                                     | Bai Ding Investment Co.                         | b   | Investments accounted for by the equity method   | 96,735             | 1,902,267             | 67                      | 2,191,048<br>(Note D)           |   |   |
|                                     | Far Eastern Geant Co., Ltd.                     | b   | Investments accounted for by the equity method   | 163,579            | 279,994               | 50                      | 287,899<br>(Note D)             |   |   |
|                                     | Feds Development Ltd. (BVI)                     | b   | Investments accounted for by the equity method   | 100                | 168,683               | 76                      | 168,683<br>(Note D)             |   |   |
|                                     | Ya Tung Department Stores                       | b   | Investments accounted for by the equity method   | 12,253             | 81,026                | 94                      | 81,026<br>(Note D)              |   |   |
|                                     | Far Eastern CitySuper Ltd.                      | b   | Investments accounted for by the equity method   | 30,600             | 73,898                | 77                      | 73,898<br>(Note D)              |   |   |
|                                     | Yu Ming Advertising Agency Co.                  | b   | Investments accounted for by the equity method   | 6,500              | 58,015                | 100                     | 58,015<br>(Note D)              |   |   |
|                                     | Far Eastern Hon Li Do Co., Ltd.                 | b   | Investments accounted for by the equity method   | 3,300              | 30,005                | 55                      | 30,005<br>(Note D)              |   |   |
|                                     | Ding Ding Integrated Marketing Service          | a   | Investments accounted for by the equity method   | 3,000              | 17,577                | 10                      | 17,577<br>(Note D)              |   |   |
|                                     | Asian Merchandise Company                       | b   | Investments accounted for by the equity method   | 950                | 4,812                 | 100                     | 4,812<br>(Note D)               |   |   |
|                                     | Bai Chin (Singapore) Pte., Ltd.                 | b   | Investments accounted for by the equity method   | 90                 | -                     | 90                      | -                               |   |   |
|                                     | Asia Cement Corp.                               | c   | Available-for-sale financial assets - noncurrent | 51,068             | 1,068,261<br>(Note F) | 2                       | 1,583,111<br>(Note B)           |   | 47,000 thousand shares of Asia Cement Corp. pledged for loans of the investor company and a guarantee for court |
|                                     | Far Eastern Textile Co., Ltd.                   | f   | Available-for-sale financial assets - noncurrent | 16,223             | 123,679<br>(Note F)   | -                       | 462,368<br>(Note B)             |   |   |
|                                     | Far Eastern International Bank                  | c   | Available-for-sale financial assets - current    | 23,099             | 179,771<br>(Note F)   | 1                       | 360,339<br>(Note B)             |   |   |
|                                     | Kaohsiung M.R.T.                                | -   | Financial assets carried at cost                 | 10,000             | 100,000               | 1                       | 96,973<br>(Note D)              |   |   |
|                                     | Far Eastern Finance & Leasing Corp.             | -   | Financial assets carried at cost                 | 6,440              | 62,560                | 9                       | 76,626<br>(Note D)              |   |   |
|                                     | Yuan Ding Co., Ltd.                             | c   | Financial assets carried at cost                 | 2                  | 10                    | -                       | 38<br>(Note D)                  |   |   |
|                                     | Hwa An International Trade                      | -   | Financial assets carried at cost                 | -                  | -                     | -                       | -                               |   |   |
| Bai Ding Investment Co.             | <u>Stock</u><br>Oriental Securities Corporation | a   | Investments accounted for by the equity method   | 97,116             | 1,539,862             | 14                      | 1,543,173<br>(Note D)           | 22,030 thousand shares of Oriental Securities Co., Ltd. pledged for loans of the investor company   |   |
|                                     | Pacific Liu Tong Investment Co., Ltd.           | a   | Investments accounted for by the equity method   | 50,125             | 763,581               | 13                      | 743,354<br>(Note D)             |   |   |
|                                     | Far Eastern International Leasing Corp.         | a   | Investments accounted for by the equity method   | 7,475              | 151,948               | 2                       | 107,877<br>(Note D)             |   |   |

(Continued)

| Holding Company                         | Securities Type and Issuer Name                                  | Relationship with the Investor Company (Note A) | Financial Statement Account                                     | December 31, 2006  |                  |                         |                                 | Note  |
|---|--|---|---|--------------------|------------------|-------------------------|---------------------------------|---|
|   |  |   |   | Shares (Thousands) | Carrying Value   | Percentage of Ownership | Market Value or Net Asset Value |   |
|   | Pacific Sogo Department Stores Co., Ltd.                         | a   | Investments accounted for by the equity method                  | 4,914              | \$ 84,202        | 1                       | \$ 83,673 (Note D)              |   |
|   | Yu Ming Advertising Agency Co.                                   | a   | Investments accounted for by the equity method                  | 1,002              | 37,070           | 47                      | 37,070 (Note D)                 |   |
|   | Far Eastern Hon Li Do Co., Ltd.                                  | a   | Investments accounted for by the equity method                  | 2,670              | 24,276           | 45                      | 24,276 (Note D)                 |   |
|   | Ya Tung Department Stores  | a   | Investments accounted for by the equity method                  | 747                | 4,941            | 6                       | 4,941 (Note D)                  |   |
|   | Feds Asia Pacific Development Co., Ltd.                          | a   | Investments accounted for by the equity method                  | 500                | 4,225            | -                       | 5,451 (Note D)                  |   |
|   | Feds New Century Development Co., Ltd.                           | a   | Investments accounted for by the equity method                  | 3                  | 8                | -                       | 45 (Note D)                     |   |
|   | Far Eastern Geant Co., Ltd.                                      | a   | Investments accounted for by the equity method                  | -                  | 2                | -                       | - (Note D)                      |   |
|   | Bai Chin (Singapore) Pte., Ltd.                                  | a   | Investments accounted for by the equity method                  | 10                 | -                | 10                      | -                               |   |
|   | Far Eastern Department Stores, Ltd.                              | e   | Available-for-sale financial assets - current                   | 27,663             | 438,326 (Note F) | 3                       | 575,401 (Note B)                |   |
|   | Asia Cement Corp.  | c   | Available-for-sale financial assets - noncurrent                | 49,351             | 981,019 (Note F) | 2                       | 1,529,867 (Note B)              | 46,500 thousand shares of Asia Cement Corp. pledged for commercial paper issued by investor company and a guarantee for court     |
|   | Far Eastern Textile Co., Ltd.                                    | c   | Available-for-sale financial assets - noncurrent                | 30,612             | 409,029 (Note F) | 1                       | 872,434 (Note B)                | 19,200 thousand shares of Pacific Sogo Department Stores Co., Ltd. for deposit by court   |
|   | New Century Infocom Tech., Co., Ltd.                             | c   | Financial assets carried at cost                                | 44,560             | 342,221          | 1                       | 391,429 (Note D)                | 33,350 thousand shares of New Century Infocomm Tech., Co., Ltd. pledged or mortgaged as collaterals for loans by investor company |
|   | Chung-Nan Textile Co., Ltd.                                      | -   | Financial assets carried at cost                                | 2,984              | 81,390           | 5                       | 109,214 (Note E)                |   |
|   | Ding Ding Management Consultants Co., Ltd.                       | -   | Financial assets carried at cost                                | 180                | 11,817           | 5                       | 6,714 (Note D)                  |   |
|   | Yue Ding Industry Co., Ltd.                                      | -   | Financial assets carried at cost                                | 1,000              | 10,000           | 2                       | 10,352 (Note D)                 |   |
|   | Ya Tung Securities Investment Advisory Co., Ltd.                 | -   | Financial assets carried at cost                                | 1                  | 10               | -                       | 11 (Note D)                     |   |
| Feds Asia Pacific Development Co., Ltd. | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.            | a   | Investments accounted for by the equity method                  | 9,900              | 167,892          | 2                       | 146,817 (Note D)                |   |
|   | Far Eastern Hon Li Do Co., Ltd.                                  | a   | Investments accounted for by the equity method                  | 6                  | 60               | -                       | 55 (Note D)                     |   |
| Feds New Century Development Co., Ltd.  | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.            | a   | Investments accounted for by the equity method                  | 9,900              | 167,892          | 2                       | 146,817 (Note D)                |   |
|   | Beneficiary certificate<br>Far Eastern Alliance Taiwan Bond Fund | -   | Financial assets at fair value through profit or loss - current | 3,069              | 32,955 (Note F)  | -                       | 33,134 (Note C)                 |   |
|   | Upamc James Bond Fund  | -   | Financial assets at fair value through profit or loss - current | 525                | 8,000 (Note F)   | -                       | 8,102 (Note C)                  |   |
| Feds Development Ltd. (BVI)             | <u>Stock</u><br>Tianjin FEDS Limits., Co.                        | a   | Other liabilities   | -                  | (34,229)         | 100                     | (34,229) (Note D)               |   |
|   | Chongqing Bai Ding Business Management Consulting Co., Ltd.      | a   | Investments accounted for by the equity method                  | -                  | 1,340            | 100                     | 1,340 (Note E)                  |   |

(Continued)

| Holding Company         | Securities Type and Issuer Name                  | Relationship with the Investor Company (Note A)                 | Financial Statement Account                                     | December 31, 2006  |                     |                         |                                 | Note  |  |
|-------------------------|--|---|---|--------------------|---------------------|-------------------------|---------------------------------|---|--|
|                         |  |   |   | Shares (Thousands) | Carrying Value      | Percentage of Ownership | Market Value or Net Asset Value |   |  |
| Bai Yang Investment Co. | Kowloon Cement Corp., Ltd.                       | -   | Financial assets carried at cost                                | 46                 | \$ 9,585            | 2                       | \$ 13,784<br>(Note E)           | Stocks thousand shares of New Century Infocomm Tech., Co., Ltd. pledged for loans by investor company |  |
|                         | Millennium Microtech Holding Corporation         | -   | Financial assets carried at cost                                | 43                 | 521                 | -                       | -<br>(Note E)                   |   |  |
|                         | <u>Stock</u>                                     |   |   |                    |                     |                         |                                 |   |  |
|                         | Far Eastern International Leasing Corp.          | a   | Investments accounted for by the equity method                  | 104,196            | 1,504,139           | 34                      | 1,503,730<br>(Note D)           |   |  |
|                         | Feds Asia Pacific Development Co., Ltd.          | a   | Investments accounted for by the equity method                  | 139,500            | 1,522,441           | 70                      | 1,520,830<br>(Note D)           |   |  |
|                         | Bai Ding Investment Co.                          | a   | Investments accounted for by the equity method                  | 48,385             | 1,050,373           | 33                      | 1,095,920<br>(Note D)           |   |  |
|                         | Feds New Century Development Co., Ltd.           | a   | Investments accounted for by the equity method                  | 13,792             | 207,807             | 100                     | 208,094<br>(Note D)             |   |  |
|                         | Pacific Liu Tong Investment Co., Ltd.            | a   | Investments accounted for by the equity method                  | 9,900              | 167,892             | 2                       | 146,817<br>(Note D)             |   |  |
|                         | Feds Development Ltd. (BVI)                      | a   | Investments accounted for by the equity method                  | 31                 | 52,663              | 24                      | 52,663<br>(Note D)              |   |  |
|                         | Far Eastern Hon Li Do Co., Ltd.                  | a   | Investments accounted for by the equity method                  | 12                 | 77                  | -                       | 109<br>(Note D)                 |   |  |
|                         | Ya Tung Department Stores                        | a   | Investments accounted for by the equity method                  | -                  | 7                   | -                       | -<br>(Note D)                   |   |  |
|                         | Far Eastern Geant Co., Ltd.                      | a   | Investments accounted for by the equity method                  | -                  | 6                   | -                       | -<br>(Note D)                   |   |  |
|                         | Far Eastern Department Stores, Ltd.              | e   | Available-for-sale financial assets - current                   | 2,751              | 43,587<br>(Note F)  | -                       | 57,218<br>(Note B)              |   |  |
|                         | Far Eastern International Bank                   | c   | Available-for-sale financial assets - current                   | 18,854             | 290,376<br>(Note F) | 1                       | 294,124<br>(Note B)             |   |  |
|                         | Asia Cement Corp.                                | c   | Available-for-sale financial assets - noncurrent                | 2,900              | 57,644<br>(Note F)  | -                       | 89,892<br>(Note B)              |   |  |
|                         | Far Eastern Textile Co., Ltd.                    | c   | Available-for-sale financial assets - noncurrent                | 1,801              | 27,659<br>(Note F)  | -                       | 51,334<br>(Note B)              |   |  |
|                         | New Century Infocom Tech., Co., Ltd.             | c   | Financial assets carried at cost                                | 20,560             | 157,900             | -                       | 180,606<br>(Note D)             |   |  |
|                         | Ya Tung Securities Investment Advisory Co., Ltd. | -   | Financial assets carried at cost                                | 1                  | 10                  | -                       | 11<br>(Note D)                  |   |  |
|                         | <u>Beneficiary certificate</u>                   |   |   |                    |                     |                         |                                 |   |  |
|                         | Far Eastern Alliance Taiwan Bond Fund            | -   | Financial assets at fair value through profit or loss - current | 21,094             | 227,000<br>(Note F) | -                       | 227,766<br>(Note C)             |   |  |
|                         | Primasia Money Market Fund                       | -   | Financial assets at fair value through profit or loss - current | 10,982             | 133,000<br>(Note F) | -                       | 133,424<br>(Note C)             |   |  |
|                         | Fubon Ju-I Fund                                  | -   | Financial assets at fair value through profit or loss - current | 7,010              | 85,000<br>(Note F)  | -                       | 85,747<br>(Note C)              |   |  |
|                         | HUWHWA Bond Fund                                 | -   | Financial assets at fair value through profit or loss - current | 4,222              | 53,444<br>(Note F)  | -                       | 53,986<br>(Note C)              |   |  |
|                         | Ta Chong Bond Fund                               | -   | Financial assets at fair value through profit or loss - current | 7,141              | 93,000<br>(Note F)  | -                       | 93,003<br>(Note C)              |   |  |
|                         | NITC Taiwan Bond Fund                            | -   | Financial assets at fair value through profit or loss - current | 3,586              | 50,000<br>(Note F)  | -                       | 50,529<br>(Note C)              |   |  |
|                         | Upamc James Bond Fund                            | -   | Financial assets at fair value through profit or loss - current | 5,097              | 78,000<br>(Note F)  | -                       | 78,638<br>(Note C)              |   |  |
|                         | Prudential Financial Fund                        | -   | Financial assets at fair value through profit or loss - current | 1,762              | 25,482<br>(Note F)  | -                       | 25,752<br>(Note C)              |   |  |
| JF (Taiwan) Bond Fund   | -  | Financial assets at fair value through profit or loss - current | 1,688   | 25,482<br>(Note F) | -                   | 25,752<br>(Note C)      |                                 |   |  |
| Polaris Di-Po Fund      | -  | Financial assets at fair value through profit or loss - current | 1,841   | 20,188<br>(Note F) | -                   | 20,398<br>(Note C)      |                                 |   |  |

(Continued)

| Holding Company                          | Securities Type and Issuer Name                          | Relationship with the Investor Company (Note A) | Financial Statement Account                                     | December 31, 2006  |                    |                         |                                 | Note  |
|--|--|---|---|--------------------|--------------------|-------------------------|---------------------------------|---|
|  |  |   |   | Shares (Thousands) | Carrying Value     | Percentage of Ownership | Market Value or Net Asset Value |   |
| Ya Tung Department Stores                | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.    | a   | Investments accounted for by the equity method                  | 5,500              | \$ 93,271          | 1                       | \$ 81,565<br>(Note D)           |   |
|  | Far Eastern Hon Li Do Co., Ltd.                          | a   | Investments accounted for by the equity method                  | 6                  | 60                 | -                       | 55<br>(Note D)                  |   |
|  | Bai Ding Investment Co.                                  | a   | Investments accounted for by the equity method                  | 3                  | 33                 | -                       | 68<br>(Note D)                  |   |
|  | Feds New Century Development Co., Ltd.                   | a   | Investments accounted for by the equity method                  | 3                  | 8                  | -                       | 45<br>(Note D)                  |   |
|  | Far Eastern Geant Co., Ltd.                              | a   | Investments accounted for by the equity method                  | -                  | 2                  | -                       | -<br>(Note D)                   |   |
|  |  |   |   |                    |                    |                         |                                 |   |
| Yu Ming Advertising Agency Co.           | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.    | a   | Investments accounted for by the equity method                  | 100                | 850                | -                       | 1,483<br>(Note D)               |   |
|  | Far Eastern Hon Li Do Co., Ltd.                          | a   | Investments accounted for by the equity method                  | 6                  | 56                 | -                       | 55<br>(Note D)                  |   |
|  | Bai Ding Investment Co.                                  | a   | Investments accounted for by the equity method                  | 3                  | 33                 | -                       | 68<br>(Note D)                  |   |
|  | Feds New Century Development Co., Ltd.                   | a   | Investments accounted for by the equity method                  | 3                  | 18                 | -                       | 45<br>(Note D)                  |   |
|  | Ya Tung Department Stores                                | a   | Investments accounted for by the equity method                  | -                  | 7                  | -                       | -<br>(Note D)                   |   |
|  | Far Eastern Geant Co., Ltd.                              | a   | Investments accounted for by the equity method                  | -                  | 1                  | -                       | -<br>(Note D)                   |   |
|  | Asia Cement Corp.  | c   | Available-for-sale financial assets - noncurrent                | 1,134              | 20,176<br>(Note F) | -                       | 35,158<br>(Note B)              |   |
|  |  |   |   |                    |                    |                         |                                 |   |
| Far Eastern Hon Li Do Co., Ltd.          | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.    | a   | Investments accounted for by the equity method                  | 700                | 10,366             | -                       | 10,381<br>(Note D)              |   |
| Pacific Liu Tong Investment Co.          | <u>Stock</u><br>Pacific Sogo Department Stores Co., Ltd. | a   | Investments accounted for by the equity method                  | 284,153            | 6,458,375          | 79                      | 4,838,320<br>(Note D)           | 75,288 thousand shares of Pacific Sogo Department Store Co. pledged for loans or bonds issued by investor company |
| Pacific Sogo Department Stores Co., Ltd. | <u>Stock</u><br>ASUSTek Computer Inc.                    | -   | Financial assets at fair value through profit or loss - current | 327                | 49,612<br>(Note F) | -                       | 29,217<br>(Note B)              |   |
|  | CMC Magnetics Corp.                                      | -   | Financial assets at fair value through profit or loss - current | 510                | 29,401<br>(Note F) | -                       | 5,840<br>(Note B)               |   |
|  | China Development Financial Holding Co.                  | -   | Financial assets at fair value through profit or loss - current | 537                | 23,133<br>(Note F) | -                       | 8,061<br>(Note B)               |   |
|  | Quanta computer Inc.                                     | -   | Financial assets at fair value through profit or loss - current | 186                | 14,921<br>(Note F) | -                       | 11,013<br>(Note B)              |   |
|  | Pacific Construction Co., Ltd.                           | -   | Financial assets at fair value through profit or loss - current | 6,849              | 14,315<br>(Note F) | 1                       | 52,053<br>(Note B)              |   |
|  | DBTEL Inc.   | -   | Financial assets at fair value through profit or loss - current | 268                | 6,474<br>(Note F)  | -                       | 409<br>(Note B)                 |   |
|  | Pacific China Holdings (HK) Co., Ltd.                    | b   | Investments accounted for by the equity method                  | 11,400             | 4,182,469          | 60                      | 4,182,469<br>(Note D)           |   |
|  | Pacific Department Store Co., Ltd.                       | a   | Investments accounted for by the equity method                  | 29,672             | 239,812            | 26                      | 307,989<br>(Note D)             | 7,950 thousand shares of Pacific Department Store Co., Ltd. pledged for loans by investor company                 |
|  | Lian Ching Investment Co., Ltd.                          | b   | Investments accounted for by the equity method                  | 26,764             | -                  | 50                      | -<br>(Note D)                   |   |
|  | Pacific 88 Co., Ltd.                                     | a   | Investments accounted for by the equity method                  | 2,838              | 658                | 28                      | 658<br>(Note D)                 |   |

(Continued)

| Holding Company                       | Securities Type and Issuer Name                                     | Relationship with the Investor Company (Note A) | Financial Statement Account                                     | December 31, 2006  |                  |                         |                                 | Note |
|---------------------------------------|---|---|---|--------------------|------------------|-------------------------|---------------------------------|------|
|                                       |   |   |   | Shares (Thousands) | Carrying Value   | Percentage of Ownership | Market Value or Net Asset Value |      |
|                                       | Pacific United Consultant Co., Ltd.                                 | a   | Investments accounted for by the equity method                  | 4,071              | \$ 72,125        | 39                      | \$ 72,125 (Note D)              |      |
|                                       | Ding Ding Integrated Marketing Service                              | a   | Investments accounted for by the equity method                  | 3,000              | 17,578           | 10                      | 17,578 (Note D)                 |      |
|                                       | Pacific Venture Investment Ltd.                                     | a   | Investments accounted for by the equity method                  | 100,000            | -                | 48                      | - (Note D)                      |      |
|                                       | Sogo Department Store Co., Ltd.                                     | a   | Investments accounted for by the equity method                  | 7,120              | -                | 34                      | - (Note D)                      |      |
|                                       | Pacific Sogo Investment Co., Ltd.                                   | b   | Investments accounted for by the equity method                  | 99,990             | -                | 100                     | - (Note D)                      |      |
|                                       | Pacific Liu Tong Investment Co., Ltd.                               | e   | Financial assets carried at cost                                | 400                | 4,019            | -                       | 5,934 (Note D)                  |      |
|                                       | Pacific Securities Co., Ltd.  | -   | Financial assets carried at cost                                | 20,279             | 81,116           | 5                       | 165,178 (Note E)                |      |
|                                       | E-Shou Hi-tech Co., Ltd.  | -   | Financial assets carried at cost                                | 18,300             | -                | 15                      | - (Note E)                      |      |
|                                       | Tain Yuan Investment Co., Ltd.                                      | -   | Financial assets carried at cost                                | 98,000             | -                | 20                      | - (Note E)                      |      |
|                                       | Invenpec Besta Co., Ltd.  | -   | Financial assets carried at cost                                | 3                  | 99               | -                       | - (Note E)                      |      |
|                                       | PURETEK Corp.   | -   | Financial assets carried at cost                                | 119                | -                | -                       | - (Note E)                      |      |
|                                       | <u>Beneficiary certificate</u>                                      |   |   |                    |                  |                         |                                 |      |
|                                       | The First Global Investment Trust OTC Equity Fund                   | -   | Financial assets at fair value through profit or loss - current | 1,500              | 15,000 (Note F)  | -                       | 12,495 (Note C)                 |      |
|                                       | First Securities Investment Trust Fund                              | -   | Financial assets at fair value through profit or loss - current | 500                | 11,008 (Note F)  | -                       | 5,835 (Note C)                  |      |
|                                       | HSBC Taiwan MID & Small Cap Fund                                    | -   | Financial assets at fair value through profit or loss - current | 726                | 7,277 (Note F)   | -                       | 5,688 (Note C)                  |      |
|                                       | Fubon Elite Fund  | -   | Financial assets at fair value through profit or loss - current | 2,000              | 20,060 (Note F)  | -                       | 15,340 (Note C)                 |      |
|                                       | HSBC Taiwan Growth Fund   | -   | Financial assets at fair value through profit or loss - current | 511                | 10,029 (Note F)  | -                       | 10,695 (Note C)                 |      |
|                                       | Mega Selection Fund   | -   | Financial assets at fair value through profit or loss - current | 1,500              | 15,000 (Note F)  | -                       | 15,872 (Note C)                 |      |
|                                       | Sunrise Vision Fund   | -   | Financial assets at fair value through profit or loss - current | 1,000              | 10,000 (Note F)  | -                       | 12,540 (Note C)                 |      |
|                                       | Far Eastern Alliance Taiwan Flagship Security Investment Trust Fund | -   | Financial assets at fair value through profit or loss - current | 150                | 1,507 (Note F)   | -                       | 2,680 (Note C)                  |      |
|                                       | HSBC Trinity Balanced Fund  | -   | Financial assets at fair value through profit or loss - current | 900                | 9,027 (Note F)   | -                       | 9,717 (Note C)                  |      |
|                                       | HSBC New Japan Fund of Funds  | -   | Financial assets at fair value through profit or loss - current | 994                | 9,966 (Note F)   | -                       | 9,748 (Note C)                  |      |
|                                       | HSBC Global Emerging Markets Equity Fund                            | -   | Financial assets at fair value through profit or loss - current | 1,010              | 10,138 (Note F)  | -                       | 10,512 (Note C)                 |      |
|                                       | Far Eastern Alliance Taiwan Bond Fund                               | -   | Financial assets at fair value through profit or loss - current | 18,583             | 200,000 (Note F) | -                       | 200,650 (Note C)                |      |
|                                       | Polaris Di-Po Fund  | -   | Financial assets at fair value through profit or loss - current | 13,539             | 150,000 (Note F) | -                       | 150,018 (Note C)                |      |
|                                       | JIH Sun Bond Fund   | -   | Financial assets at fair value through profit or loss - current | 7,330              | 100,000 (Note F) | -                       | 100,011 (Note C)                |      |
|                                       | Fubon Chi-Hsiang Fund   | -   | Financial assets at fair value through profit or loss - current | 10,309             | 150,000 (Note F) | -                       | 150,036 (Note C)                |      |
| Pacific China Holdings (HK) Co., Ltd. | <u>Stock</u><br>Pacific China Holdings Co.                          | b   | Investments accounted for by the equity method                  | -                  | 6,970,781        | 100                     | 1,224,072 (Note D)              |      |

(Continued)

| Holding Company            | Securities Type and Issuer Name                                  | Relationship with the Investor Company (Note A) | Financial Statement Account                    | December 31, 2006  |                |                         |                                 | Note     |
|----------------------------|--|---|--|--------------------|----------------|-------------------------|---------------------------------|----------|
|                            |  |   |  | Shares (Thousands) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value |          |
| Pacific China Holdings Co. | <u>Stock</u>   |   |  |                    |                |                         |                                 |          |
|                            | Shanghai Pacific Department Store Co., Ltd.                      | b   | Investments accounted for by the equity method | -                  | \$ 853,267     | 73                      | \$ 853,267                      |          |
|                            | Chengdu Shangxia Pacific Department Store Co., Ltd.              | b   | Investments accounted for by the equity method | -                  | 300,440        | 100                     | 300,440                         | (Note D) |
|                            | Chengdu Quaxing Mansion Pacific Department Store Co., Ltd.       | b   | Other liabilities                              | -                  | (7,826)        | 100                     | (7,826)                         | (Note D) |
|                            | Chongqing Mentropolitan Plaza Pacific Department Store Co., Ltd. | b   | Investments accounted for by the equity method | -                  | 262,477        | 100                     | 262,477                         | (Note D) |
|                            | Beijing Xidan Pacific Department Store Co., Ltd.                 | b   | Investments accounted for by the equity method | -                  | 129,921        | 55                      | 129,921                         | (Note D) |
|                            | Chongqing Bai Ding Business Management Consulting Co., Ltd.      | b   | Investments accounted for by the equity method | -                  | 35,025         | 100                     | 35,025                          | (Note D) |
|                            | Shanghai Pacific Business Management Consulting Co., Ltd.        | a   | Investments accounted for by the equity method | -                  | 6,570          | 49                      | 6,570                           | (Note D) |

Note A: a. Equity-method investee.  
b. Subsidiary.  
c. Same director.  
d. A director of FEDS is one of its directors.  
e. Parent company.  
f. Equity-method investor.  
g. Its director related by consanguinity to FEDS's director.  
h. Cost-method investee.

Note B: The market values of the investment were determined at the closing price in December 31, 2006.

Note C: The market values of the investment were determined at the net asset value of the mutual funds on the last trading day in December 2006.

Note D: The market values of the investment were based on audited financial statements for the year ended December 31, 2006.

Note E: The market values of the investments were based on unaudited financial statements for the year ended December 31, 2006.

Note F: The carrying amount of financial assets at fair value through profit or loss and available-for-sale assets were the original carrying amount without adjusting to the market value.

Note G: Neither the total assets nor total revenues of Lian Ching Investment Co. and Pacific Sogo Investment Co. individually reached at least 10% of FEDS's total assets or total revenues. Thus, their information was not disclosed.

(Concluded)



## FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name                        | Marketable Securities Type and Issuer                   | Financial Statement Account                                     | Counter-party   | Nature of Relationship | Beginning Balance  |              | Acquisition        |                    | Disposal           |              |                 |                         | Ending Balance     |                 |   |
|-------------------------------------|---|---|---|------------------------|--------------------|--------------|--------------------|--------------------|--------------------|--------------|-----------------|-------------------------|--------------------|-----------------|---|
|                                     |   |   |   |                        | Shares (Thousands) | Amount       | Shares (Thousands) | Amount             | Shares (Thousands) | Amount       | Carrying Value  | Gain (Loss) on Disposal | Shares (Thousands) | Amount (Note K) |   |
| Far Eastern Department Stores, Ltd. | <u>Stock</u><br>Feds Asia Pacific Development Co., Ltd. | Investments accounted for by the equity method                  | Bai Yang Investment Co.   | Subsidiary             | 138,900            | \$ 1,508,186 | -                  | \$ -               | 138,900            | \$ 1,508,186 | \$ 1,508,186    | \$ -                    | -                  | \$ -            |   |
|                                     | Far Eastern International Leasing Corp.                 | Investments accounted for by the equity method                  | Bai Yang Investment Co.   | Subsidiary             | 104,196            | 1,357,991    | -                  | -                  | 104,196            | 1,357,991    | 1,357,991       | -                       | -                  | -               |   |
|                                     | Feds New Century Development Co., Ltd.                  | Investments accounted for by the equity method                  | Bai Yang Investment Co.   | Subsidiary             | 11,990             | 184,803      | -                  | -                  | 11,990             | 184,803      | 184,803         | -                       | -                  | -               |   |
|                                     | Bai Ding Investment Co.                                 | Investments accounted for by the equity method                  | Bai Yang Investment Co.   | Subsidiary             | 145,111            | 1,415,511    | -                  | 958,650 (Note A)   | 48,376             | 471,894      | 471,894         | -                       | 96,735             | 1,902,267       |   |
|                                     | Bai Yang Investment Co.                                 | Investments accounted for by the equity method                  | -   | Subsidiary             | 131,652            | 1,434,560    | 455,348 (Note B)   | 6,119,535 (Note C) | -                  | -            | -               | -                       | 587,000            | 7,554,095       |   |
|                                     | Far Eastern CitySuper Ltd.                              | Investments accounted for by the equity method                  | -   | Subsidiary             | 13,000             | (12,973)     | 17,600             | 86,871 (Note D)    | -                  | -            | -               | -                       | 30,600             | 73,898          |   |
|                                     | Ya Tung Department Stores                               | Investments accounted for by the equity method                  | -   | Subsidiary             | 9,762              | 36,244       | 10,000             | 100,000            | 7,509 (Note E)     | -            | 55,218 (Note F) | -                       | 12,253             | 81,026          |   |
|                                     | Pacific Liu Tong Investment Co., Ltd.                   | Investments accounted for by the equity method                  | -   | Subsidiary             | 91,600             | 1,370,023    | 49,267             | 737,272 (Note L)   | -                  | -            | -               | -                       | 140,867            | 2,107,295       |   |
|                                     |   | <u>Beneficiary certificate</u><br>HUWHWA Bond Fund              | Financial assets at fair value through profit or loss - current | -                      | -                  | 19,810       | 250,000            | -                  | -                  | 19,810       | 250,109         | 250,000                 | 109                | -               | - |
|                                     |   | JiH Sun Bond Fund   | Financial assets at fair value through profit or loss - current | -                      | -                  | 7,425        | 100,000            | -                  | -                  | 7,425        | 100,027         | 100,000                 | 27                 | -               | - |
|                                     | Fubon Chi-Hsiang III Fund                               | Financial assets at fair value through profit or loss - current | -   | -                      | 12,429             | 130,000      | -                  | -                  | 12,429             | 130,066      | 130,000         | 66                      | -                  | -               |   |
|                                     | NITC Taiwan Bond Fund                                   | Financial assets at fair value through profit or loss - current | -   | -                      | 7,195              | 100,000      | -                  | -                  | 7,195              | 100,056      | 100,000         | 56                      | -                  | -               |   |
|                                     | NITC Bond Fund  | Financial assets at fair value through profit or loss - current | -   | -                      | 19,556             | 250,000      | -                  | -                  | 19,556             | 250,125      | 250,000         | 125                     | -                  | -               |   |
| Bai Ding Investment Co.             | <u>Stock</u><br>Pacific Liu Tong Investment Co., Ltd.   | Investments accounted for by the equity method                  | -   | Equity method investee | 9,900              | 167,061      | 40,225             | 596,520 (Note M)   | -                  | -            | -               | -                       | 50,125             | 763,581         |   |
|                                     | Far Eastern Textile Co., Ltd.                           | Available-for-sale financial assets - noncurrent                | -   | -                      | 37,440             | 530,287      | 2,247 (Note N)     | -                  | 9,075              | 238,112      | 121,258         | 116,854                 | 30,612             | 409,029         |   |
| Bai Yang Investment Co.             | <u>Stock</u><br>Feds Asia Pacific Development Co., Ltd. | Investments accounted for by the equity method                  | Far Eastern Department Stores, Ltd.                             | Parent company         | 600                | 5,449        | 138,900            | 1,516,992 (Note G) | -                  | -            | -               | -                       | 139,500            | 1,522,441       |   |
|                                     | Far Eastern International Leasing Corp.                 | Investments accounted for by the equity method                  | Far Eastern Department Stores, Ltd.                             | Parent company         | -                  | -            | 104,196            | 1,504,139 (Note H) | -                  | -            | -               | -                       | 104,196            | 1,504,139       |   |
|                                     | Feds New Century Development Co., Ltd.                  | Investments accounted for by the equity method                  | Far Eastern Department Stores, Ltd.                             | Parent company         | 2                  | 14           | 13,790 (Note O)    | 207,793 (Note I)   | -                  | -            | -               | -                       | 13,792             | 207,807         |   |
|                                     | Bai Ding Investment Co.                                 | Investments accounted for by the equity method                  | Far Eastern Department Stores, Ltd.                             | Parent company         | 9                  | 89           | 48,376             | 1,050,284 (Note J) | -                  | -            | -               | -                       | 48,385             | 1,050,373       |   |

(Continued)

| Company Name                             | Marketable Securities Type and Issuer                                   | Financial Statement Account                                     | Counter-party | Nature of Relationship | Beginning Balance  |           | Acquisition        |            | Disposal           |            |                |                         | Ending Balance     |           |
|--|---|---|---------------|------------------------|--------------------|-----------|--------------------|------------|--------------------|------------|----------------|-------------------------|--------------------|-----------|
|  |   |   |               |                        | Shares (Thousands) | Amount    | Shares (Thousands) | Amount     | Shares (Thousands) | Amount     | Carrying Value | Gain (Loss) on Disposal | Shares (Thousands) | Amount    |
| Pacific Sogo Department Stores Co., Ltd. | <u>Beneficiary certificate</u><br>Prudential Financial Fund             | Financial assets at fair value through profit or loss - current | -             | -                      | 2,644              | \$ 38,000 | 6,914              | \$ 100,000 | 7,796              | \$ 113,287 | \$ 112,518     | \$ 769                  | 1,762              | \$ 25,482 |
|  | Far Eastern Alliance Taiwan Bond Fund                                   | Financial assets at fair value through profit or loss - current | -             | -                      | 26,996             | 283,924   | 21,094             | 227,000    | 26,996             | 288,757    | 283,924        | 4,833                   | 21,094             | 227,000   |
|  | Polaris Di-Po Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | 9,355              | 100,971   | 4,560              | 50,000     | 12,074             | 132,666    | 130,783        | 1,883                   | 1,841              | 20,188    |
|  | Primasia Money Market Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 23,454             | 283,000    | 12,472             | 150,172    | 150,000        | 172                     | 10,982             | 133,000   |
|  | HUWHWA Bond Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | 8,512              | 107,000   | 11,851             | 150,000    | 16,141             | 205,180    | 203,556        | 1,624                   | 4,222              | 53,444    |
|  | JF (Taiwan) Bond Fund   | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 6,624              | 100,000    | 4,936              | 75,017     | 74,518         | 499                     | 1,688              | 25,482    |
|  | <u>Beneficiary certificate</u><br>Far Eastern Alliance Taiwan Bond Fund | Financial assets at fair value through profit or loss - current | -             | -                      | 28,174             | 300,000   | 18,583             | 200,000    | 28,174             | 300,504    | 300,000        | 504                     | 18,583             | 200,000   |
|  | Polaris Di-Po Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | 27,458             | 300,000   | 13,539             | 150,000    | 27,458             | 300,382    | 300,000        | 382                     | 13,539             | 150,000   |
|  | JIH Sun Bond Fund   | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 28,860             | 390,000    | 21,530             | 290,101    | 290,000        | 101                     | 7,330              | 100,000   |
|  | Fubon Chi-Hsiang II Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | 13,926             | 200,000   | -                  | -          | 13,926             | 200,246    | 200,000        | 246                     | -                  | -         |
|  | Truswell Premier Fund   | Financial assets at fair value through profit or loss - current | -             | -                      | 18,225             | 200,000   | -                  | -          | 18,225             | 200,341    | 200,000        | 341                     | -                  | -         |
|  | HSBC NTD Money Management Fund 2  | Financial assets at fair value through profit or loss - current | -             | -                      | 20,927             | 290,000   | -                  | -          | 20,927             | 290,442    | 290,000        | 442                     | -                  | -         |
|  | Fubon Chi-Hsiang Fund   | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 10,309             | 150,000    | -                  | -          | -              | -                       | 10,309             | 150,000   |
|  | Truswell Hua-win Bond Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 23,733             | 250,000    | 23,733             | 250,078    | 250,000        | 78                      | -                  | -         |
|  | TIIM Bond Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 17,730             | 250,000    | 17,730             | 250,066    | 250,000        | 66                      | -                  | -         |
|  | ABN AMRO Bond Fund  | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 13,283             | 200,000    | 13,283             | 200,102    | 200,000        | 102                     | -                  | -         |
|  | Upame James Bond Fund   | Financial assets at fair value through profit or loss - current | -             | -                      | -                  | -         | 16,219             | 250,000    | 16,219             | 250,182    | 250,000        | 182                     | -                  | -         |
| Pca Well Pool Fund                       | Financial assets at fair value through profit or loss - current         | -   | -             | -                      | -                  | 19,988    | 250,000            | 19,988     | 250,161            | 250,000    | 161            | -                       | -                  |           |

Note A: The amount included (a) equity in earnings of \$233,957 thousand; (b) a decrease of \$5,769 thousand in capital surplus; (c) cumulative translation adjustment of \$2,472 thousand ;(d) unrealized gains on financial instrument of \$712,545 thousand. A capital surplus of \$15,445 thousand increased by selling Company shares owned by Bai Ding Investment Company.

Note B: The acquisition consisted of 348 thousand shares and subscription for 455,000 thousand additional shares.

Note C: The amount included (a) the payment of \$3,956 thousand for acquisition; (b) subscription for additional shares by exchanging long-term investments and cash both amounting to \$5,137,616 thousand; (c) equity of \$251,165 thousand in earnings; (d) a decrease of \$968 thousand in cumulative translation adjustment; (e) capital surplus of \$3,009 thousand; (f) unrealized valuation gains on financial instrument of \$709,290 thousand; (g) a decrease of \$32,285 thousand in cash dividend. A capital surplus of \$47,752 thousand increased when Bai Yang Investment Company sold its holding of Company shares.

Note D: The amount included (a) a subscription for additional shares amounting to \$176,000 thousand; (b) equity of \$112,880 thousand in losses; and (c) adjustment of \$23,751 thousand to capital surplus because of the nonproportional subscription for an investee's newly issued shares.

Note E: The outstanding shares decreased because of capital reduction.

Note F: The amount included (a) equity of \$53,100 thousand in losses; (b) a decrease of \$133 thousand in cumulative translation adjustments; and (c) capital surplus of \$1,365 thousand; and (d) a decrease of \$3,350 thousand in capital surplus because of the nonproportional subscription for an investee's newly issued shares.

Note G: The amount included (a) the Company's subscription for additional shares of Bai Yang Investment Company at \$1,511,232 thousand; (b) equity of \$80,682 thousand in earnings; (c) a decrease of \$418 thousand in cumulative translation adjustments; (d) capital surplus of \$1,524 thousand; and (e) a decrease of \$76,028 thousand in cash dividends.

Note H: The amount included (a) the Company's subscription for additional shares of Bai Yang Investment Company amounting to \$1,280,569 thousand; (b) equity of \$10,847 thousand in losses; (c) unrealized valuation gain on financial instruments of \$262,595 thousand; (d) a decrease of \$28,133 thousand in cash dividends; and (e) a decrease of \$45 thousand in cumulative translation adjustment.

Note I: The amount included (a) the Company's subscription for additional shares of Bai Yang Investment Company amounting to \$185,132 thousand; (b) equity of \$33,070 thousand in earnings; (c) a decrease of \$600 thousand in cumulative translation adjustments; (d) capital surplus of \$2,184 thousand; and (e) a decrease of \$11,993 thousand in cash dividends.

Note J: The amount included (a) the Company's subscription for additional shares of Bai Yang Investment Company amounting to \$577,125 thousand; (b) equity of \$124,743 thousand in earnings; (c) cumulative translation adjustment of \$1,236 thousand; (d) unrealized valuation gain on financial instruments of \$350,065 thousand; and (e) a decrease of \$2,885 thousand in capital surplus.

Note K: The carrying amount of beneficiary securities and publicly traded securities were the original acquisition amounts without adjustments to the market value.

Note L: The amount included (a) a subscription for additional shares amounting to \$684,810 thousand; (b) equity of \$371,212 thousand in earnings; (c) capital surplus of \$6 thousand; (d) a decrease of \$47 thousand in cumulative translation adjustments; (e) a decrease of \$320,600 thousand in cash dividends; (f) and adjustment of \$1,891 thousand to capital surplus due to nonproportional subscription for the investee's newly issued shares.

Note M: The amount included (a) a subscription for additional shares amounting to \$559,129 thousand; (b) equity of \$79,983 thousand in earnings; (c) capital surplus of \$1 thousand; (d) cumulative translation adjustment of \$3,906 thousand; (e) a decrease of \$34,650 thousand in cash dividends; (f) and a decrease of \$11,849 thousand in capital surplus due to nonproportional subscription for the investee's newly issued shares.

Note N: Stock dividend.

Note O: The amount included (a) 11,990 thousand shares acquired from the Company by subscribing for additional shares of Bai Yang Investment Company ; and ( b) the stock dividend of 1,800 thousand shares issued by FEDES New Century Development.

(Concluded)

**FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES**

**AQUISITION OF INDIVIDUAL REAL ESTATES AT PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**YEAR ENDED DECEMBER 31, 2006**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| <b>Company Name</b>                     | <b>Types of Properties</b> | <b>Disposal Date</b> | <b>Disposal Price</b> | <b>Payment Terms</b> | <b>Counter-party</b>                  | <b>Nature of Relationship</b> | <b>Purpose of Acquisition</b> | <b>Price Reference</b>   | <b>Other Terms</b> |
|---|----------------------------|----------------------|-----------------------|----------------------|---------------------------------------|-------------------------------|-------------------------------|--|--------------------|
| Pacific SOGO Department Store Co., Ltd. | Land and building          | 2006.12.20           | \$ 520,000            | Fully Paid           | Taiwan Agriculture Industrial Company | -                             | Operation                     | The appraisal report issued by Chiun Lian Real Estate Appraiser Office | -                  |

**FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES**

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE CAPITAL STOCK**

**YEAR ENDED DECEMBER 31, 2006**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name                        | Related Party                 | Nature of Relationship              | Transaction Details |            |            |                                       | Abnormal Transaction |               | Note/Accounts (Payable) or Receivable |                | Note                              |
|-------------------------------------|-------------------------------|-------------------------------------|---------------------|------------|------------|---------------------------------------|----------------------|---------------|---------------------------------------|----------------|-----------------------------------|
|                                     |                               |                                     | Purchase/Sale       | Amount     | % to Total | Payment Terms                         | Unit Price           | Payment Terms | Ending Balance                        | % to Total     |                                   |
| Far Eastern Department Stores, Ltd. | Far Eastern Apparel Co., Ltd. | Equity method investee's subsidiary | Purchase            | \$ 160,594 | 1.10       | 45-60 days after the end of the month | -                    | -             | \$ 35,502                             | 2.00%          | Accounts payable                  |
| Pacific Sogo Department Store Co.   | Pacific 88 Co., Ltd.          | Equity-method investee              | Purchase            | 153,535    | 0.67       | 15-45 days after the end of the month | -                    | -             | 2,207<br>11,970                       | 0.05%<br>0.63% | Notes payable<br>Accounts payable |

**FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES**

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

**DECEMBER 31, 2006**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name                   | Related Party                     | Nature of Relationship  | Ending Balance | Turnover Rate | Overdue    |                      | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|--------------------------------|-----------------------------------|-------------------------|----------------|---------------|------------|----------------------|---------------------------------------|-------------------------|
|                                |                                   |                         |                |               | Amount     | Action Taken         |                                       |                         |
| Pacific Sogo Department Stores | Pacific 88 Co., Ltd.              | Equity-method investee  | \$ 274,064     | -             | \$ 274,064 | Collection expedited | \$ -                                  | \$ 220,538              |
|                                | Pacific Sogo Investment Co., Ltd. | Equity- method investee | 534,137        | -             | 534,137    | Collection expedited | -                                     | 534,137                 |

Note: Neither the total assets nor total revenues of Lian Ching Investment Co. and Pacific Sogo Investment Co., subsidiaries of Pacific Sogo Department Stores, individually reached at least 10% nor collectively reached 30% of FEDS's total assets or total revenues. Thus, their information was not disclosed.

## FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investor Company                         | Investee Company  | Location                                | Main Businesses and Products of the Investee Company | Investment Amount    |               | Balance as of December 31, 2006 |                         |                | Net Income (Loss) of the Investee | Equity in Net Income (Net Loss) (Note B) | Note A |   |
|--|---|---|--|----------------------|---------------|---------------------------------|-------------------------|----------------|-----------------------------------|--|--------|---|
|  |   |   |  | Dec. 31, 2006        | Dec. 31, 2005 | Shares (Thousands)              | Percentage of Ownership | Carrying Value |                                   |  |        |   |
| Far Eastern Department Stores, Ltd.      | Bai Yang Investment Co.                                     | Taipei City, R.O.C.                     | Investment   | \$ 5,422,181         | \$ 249,424    | 587,000                         | 100                     | \$ 7,554,095   | \$ 299,201                        | \$ 251,165                               | b      |   |
|  | Oriental Securities Corporation                             | Taipei City, R.O.C.                     | Securities brokerage                                 | 143,652              | 143,652       | 140,297                         | 20                      | 2,224,536      | 835,228                           | 157,587                                  | a      |   |
|  | Pacific Liu Tong Investment Co., Ltd.                       | Taipei City, R.O.C.                     | Investment   | 1,764,210            | 1,079,400     | 140,867                         | 35                      | 2,107,295      | 1,043,772                         | 371,212                                  | b      |   |
|  | Bai Ding Investment Co.                                     | Taipei City, R.O.C.                     | Investment   | 33,357               | 50,041        | 96,735                          | 67                      | 1,902,267      | 374,176                           | 233,957                                  | b      |   |
|  | Far Eastern Geant Co., Ltd.                                 | Taipei City, R.O.C.                     | Shopping mall  | 1,575,999            | 1,575,999     | 163,579                         | 50                      | 279,994        | (1,137,448)                       | (568,724)                                | b      |   |
|  | Feds Development Ltd. (BVI)                                 | British Virgin Island                   | Investment   | 26,190               | 26,190        | 100                             | 76                      | 168,683        | (163,568)                         | (124,651)                                | b      |   |
|  | Ya Tung Department Stores                                   | Taipei City, R.O.C.                     | Department store                                     | 284,921              | 184,921       | 12,253                          | 94                      | 81,026         | (63,108)                          | (53,100)                                 | b      |   |
|  | Far Eastern CitySuper Ltd.                                  | Taipei City, R.O.C.                     | Shopping mall  | 306,000              | 130,000       | 30,600                          | 77                      | 73,898         | (138,642)                         | (112,880)                                | b      |   |
|  | Yu Ming Advertising Agency Co.                              | Taipei City, R.O.C.                     | Advertising and importation of certain merchandise   | 60,000               | 60,000        | 6,500                           | 100                     | 58,015         | (14,805)                          | (4,601)                                  | b      |   |
|  | Far Eastern Hon Li Do Co., Ltd.                             | Taipei City, R.O.C.                     | Building rental                                      | 40,191               | 40,191        | 3,300                           | 55                      | 30,005         | 17,617                            | 9,689                                    | b      |   |
|  | Ding Ding Integrated Marketing Service                      | Taipei City, R.O.C.                     | Marketing  | 30,000               | 30,000        | 3,000                           | 10                      | 17,577         | (5,717)                           | (572)                                    | a      |   |
|  | Asian Merchandise Company                                   | U.S.A.                                  | Trading  | 5,316                | 5,316         | 950                             | 100                     | 4,812          | (27)                              | (27)                                     | b      |   |
|  | Bai Chin (Singapore) Pte., Ltd.                             | Singapore                               | Investment   | 1,718                | 1,718         | 90                              | 90                      | -              | (26)                              | (23)                                     | b      |   |
|  | Feds Asia Pacific Development Co., Ltd.                     | Taipei City, R.O.C.                     | Shopping mall  | -                    | 1,385,888     | -                               | -                       | -              | 114,341                           | -  | c      |   |
|  | Far Eastern International Leasing Corp.                     | Taipei City, R.O.C.                     | Leasing  | -                    | 1,354,548     | -                               | -                       | -              | (28,610)                          | -  | a      |   |
|  | Feds New Century Development Co., Ltd.                      | Taipei City, R.O.C.                     | Shopping mall  | -                    | 106,399       | -                               | -                       | -              | 33,973                            | -  | c      |   |
|  | Bai Ding Investment Co.                                     | Oriental Securities Corporation         | Taipei City, R.O.C.                                  | Securities brokerage | 163,563       | 163,563                         | 97,116                  | 14             | 1,539,862                         | 835,228                                  | -      | a |
|  |   | Pacific Liu Tong Investment Co., Ltd.   | Taipei City, R.O.C.                                  | Investment           | 658,129       | 99,000                          | 50,125                  | 13             | 763,581                           | 1,043,772                                | -      | b |
|  |   | Far Eastern International Leasing Corp. | Taipei City, R.O.C.                                  | Leasing              | 135,000       | 135,000                         | 7,475                   | 2              | 151,948                           | (28,610)                                 | -      | a |
| Pacific Sogo Department Stores Co., Ltd. |   | Taipei City, R.O.C.                     | Department store                                     | 33,490               | 33,490        | 4,914                           | 1                       | 84,202         | 1,454,376                         | -  | c      |   |
| Yu Ming Advertising Agency Co.           |   | Taipei City, R.O.C.                     | Importation of certain merchandise                   | 21,291               | 21,291        | 1,002                           | 47                      | 37,070         | 1,250                             | -  | a      |   |
| Far Eastern Hon Li Do Co., Ltd.          |   | Taipei City, R.O.C.                     | Building rental                                      | 28,672               | 28,672        | 2,670                           | 45                      | 24,276         | 17,617                            | -  | b      |   |
| Ya Tung Department Stores                |   | Taipei City, R.O.C.                     | Department store                                     | 52,754               | 52,754        | 747                             | 6                       | 4,941          | (63,108)                          | -  | b      |   |
| Feds Asia Pacific Development Co., Ltd.  |   | Taipei City, R.O.C.                     | Shopping mall  | 5,000                | 5,000         | 500                             | -                       | 4,225          | 114,341                           | -  | c      |   |
| Feds New Century Development Co., Ltd.   |   | Taipei City, R.O.C.                     | Shopping mall  | 20                   | 20            | 3                               | -                       | 8              | 33,973                            | -  | c      |   |
| Far Eastern Geant Co., Ltd.              |   | Taipei City, R.O.C.                     | Shopping mall  | 2                    | 2             | -                               | -                       | 2              | (1,137,448)                       | -  | b      |   |
| Bai Chin (Singapore) Pte., Ltd.          |   | Singapore                               | Investment   | 191                  | 191           | 10                              | 10                      | -              | (26)                              | -  | b      |   |
| Bai Yang Investment Co.                  |   | Taipei City, R.O.C.                     | Investment   | -                    | 551           | -                               | -                       | -              | 299,201                           | -  | b      |   |
| Feds Asia Pacific Development Co., Ltd.  |   | Pacific Liu Tong Investment Co., Ltd.   | Taipei City, R.O.C.                                  | Investment           | 99,000        | 99,000                          | 9,900                   | 2              | 167,892                           | 1,043,772                                | -      | b |
|  | Far Eastern Hon Li Do Co., Ltd.                             | Taipei City, R.O.C.                     | Building rental                                      | 231                  | 231           | 6                               | -                       | 60             | 17,617                            | -  | b      |   |
| Feds New Century Development Co., Ltd.   | Pacific Liu Tong Investment Co., Ltd.                       | Taipei City, R.O.C.                     | Investment   | 99,000               | 99,000        | 9,900                           | 2                       | 167,892        | 1,043,772                         | -  | b      |   |
| Feds Development Ltd. (BVI)              | Tianjin FEDS Limits., Co.                                   | Mainland China                          | Department store                                     | 159,716              | 94,526        | -                               | 100                     | (34,229)       | (181,615)                         | -  | c      |   |
|  | Chongqing Bai Ding Business Management Consulting Co., Ltd. | Mainland China                          | Consulting service                                   | 3,260                | 3,260         | -                               | 100                     | 1,340          | 7,087                             | -  | c      |   |
| Bai Yang Investment Co.                  | Feds Asia Pacific Development Co., Ltd.                     | Taipei City, R.O.C.                     | Shopping mall  | 1,517,296            | 6,064         | 139,500                         | 70                      | 1,522,441      | 114,341                           | -  | c      |   |
|  | Far Eastern International Leasing Corp.                     | Taipei City, R.O.C.                     | Leasing  | 1,280,569            | -             | 104,196                         | 34                      | 1,504,139      | (28,610)                          | -  | a      |   |
|  | Bai Ding Investment Co.                                     | Taipei City, R.O.C.                     | Investment   | 577,225              | 100           | 48,385                          | 33                      | 1,050,373      | 374,176                           | -  | b      |   |
|  | Feds New Century Development Co., Ltd.                      | Taipei City, R.O.C.                     | Shopping mall  | 185,152              | 20            | 13,792                          | 100                     | 207,807        | 33,973                            | -  | c      |   |
|  | Pacific Liu Tong Investment Co., Ltd.                       | Taipei City, R.O.C.                     | Investment   | 99,000               | 99,000        | 9,900                           | 2                       | 167,892        | 1,043,772                         | -  | b      |   |
|  | Feds Development Ltd. (BVI)                                 | British Virgin Island                   | Investment   | 92,556               | 92,556        | 31                              | 24                      | 52,663         | (163,568)                         | -  | b      |   |
| Far Eastern Hon Li Do Co., Ltd.          | Taipei City, R.O.C.   | Building rental                         | 234  | 234                  | 12            | -                               | 77                      | 17,617         | -                                 | b  |        |   |

(Continued)

| Investor Company                         | Investee Company   | Location              | Main Businesses and Products of the Investee Company | Investment Amount |               | Balance as of December 31, 2006 |                         |                | Net Income (Loss) of the Investee | Equity in Net Income (Net Loss) (Note B) | Note A |
|--|--|-----------------------|--|-------------------|---------------|---------------------------------|-------------------------|----------------|-----------------------------------|--|--------|
|  |  |                       |  | Dec. 31, 2006     | Dec. 31, 2005 | Shares (Thousands)              | Percentage of Ownership | Carrying Value |                                   |  |        |
| Ya Tung Department Stores                | Ya Tung Department Stores  | Taipei City, R.O.C.   | Department store                                     | \$ 7              | \$ 7          | -                               | -                       | \$ 7           | \$ (63,108)                       | b  |        |
|  | Far Eastern Geant Co., Ltd.                                      | Taipei City, R.O.C.   | Shopping mall  | 2                 | 2             | -                               | -                       | 6              | (1,137,448)                       | b  |        |
|  | Pacific Liu Tong Investment Co., Ltd.                            | Taipei City, R.O.C.   | Investment   | 55,000            | 55,000        | 5,500                           | 1                       | 93,271         | 1,043,772                         | b  |        |
|  | Far Eastern Hon Li Do Co., Ltd.                                  | Taipei City, R.O.C.   | Building rental                                      | 231               | 231           | 6                               | -                       | 60             | 17,617                            | b  |        |
|  | Bai Ding Investment Co.  | Taipei City, R.O.C.   | Investment   | 33                | 33            | 3                               | -                       | 33             | 374,176                           | b  |        |
|  | Feds New Century Development Co., Ltd.                           | Taipei City, R.O.C.   | Shopping mall  | 20                | 20            | 3                               | -                       | 8              | 33,973                            | c  |        |
|  | Far Eastern Geant Co., Ltd.                                      | Taipei City, R.O.C.   | Shopping mall  | 2                 | 2             | -                               | -                       | 2              | (1,137,448)                       | b  |        |
| Yu Ming Advertising Agency Co.           | Bai Yang Investment Co.  | Taipei City, R.O.C.   | Investment   | -                 | 4             | -                               | -                       | -              | 299,201                           | b  |        |
|  | Pacific Liu Tong Investment Co., Ltd.                            | Taipei City, R.O.C.   | Investment   | 1,200             | 1,200         | 100                             | -                       | 850            | 1,043,772                         | b  |        |
|  | Far Eastern Hon Li Do Co., Ltd.                                  | Taipei City, R.O.C.   | Building rental                                      | 100               | 100           | 6                               | -                       | 56             | 17,617                            | b  |        |
|  | Bai Ding Investment Co.  | Taipei City, R.O.C.   | Investment   | 33                | 33            | 3                               | -                       | 33             | 374,176                           | b  |        |
|  | Feds New Century Development Co., Ltd.                           | Taipei City, R.O.C.   | Shopping mall  | 20                | 20            | 3                               | -                       | 18             | 33,973                            | c  |        |
|  | Ya Tung Department Stores  | Taipei City, R.O.C.   | Department store                                     | 7                 | 7             | -                               | -                       | 7              | (63,108)                          | b  |        |
|  | Far Eastern Geant Co., Ltd.                                      | Taipei City, R.O.C.   | Shopping mall  | 2                 | 2             | -                               | -                       | 1              | (1,137,448)                       | b  |        |
| Far Eastern Hon Li Do Co., Ltd.          | Bai Yang Investment Co.  | Taipei City, R.O.C.   | Investment   | -                 | 4             | -                               | -                       | -              | 299,201                           | b  |        |
|  | Pacific Liu Tong Investment Co., Ltd.                            | Taipei City, R.O.C.   | Investment   | 8,400             | 8,400         | 700                             | -                       | 10,366         | 1,043,772                         | b  |        |
| Pacific Liu Tong Investment Co., Ltd.    | Pacific Sogo Department Stores Co., Ltd.                         | Taipei City, R.O.C.   | Department store                                     | 4,469,904         | 4,469,904     | 284,153                         | 79                      | 6,458,375      | 1,454,376                         | c  |        |
| Pacific Sogo Department Stores Co., Ltd. | Sogo Department Store Co., Ltd.                                  | Taipei City, R.O.C.   | Credit card business                                 | 32,984            | 32,984        | 7,120                           | 34                      | -              | -                                 | d  |        |
|  | Pacific Department Store Co., Ltd.                               | Taipei City, R.O.C.   | Department store                                     | 525,000           | 525,000       | 29,672                          | 26                      | 239,812        | 170,397                           | d  |        |
|  | Pacific United Consultant Co., Ltd.                              | Taipei City, R.O.C.   | Security and cleaning                                | 76,099            | 76,099        | 4,071                           | 39                      | 72,125         | 19,504                            | d  |        |
|  | Pacific 88 Co., Ltd.   | Taipei City, R.O.C.   | Clothing, restaurant                                 | 19,900            | 19,900        | 2,838                           | 28                      | 658            | (47,324)                          | d  |        |
|  | Pacific Sogo Investment Co., Ltd.                                | Taipei City, R.O.C.   | Investment   | 999,900           | 999,900       | 99,990                          | 100                     | -              | -                                 | c  |        |
|  | Pacific Venture Investment Ltd                                   | Hong Kong             | Investment   | 357,050           | 357,050       | 100,000                         | 48                      | -              | -                                 | d  |        |
|  | Lian Ching Investment Co., Ltd.                                  | Taipei City, R.O.C.   | Investment   | 270,641           | 270,641       | 26,764                          | 50                      | -              | -                                 | c  |        |
|  | Ding Ding Integrated Marketing Service Co., Ltd.                 | Taipei City, R.O.C.   | Marketing  | 30,000            | 30,000        | 3,000                           | 10                      | 17,578         | (5,717)                           | d  |        |
|  | Pacific China Holdings (HK) Co., Ltd.                            | Hong Kong             | Investment   | 4,000,000         | 4,000,000     | 11,400                          | 60                      | 4,182,469      | 660,913                           | c  |        |
| Pacific China Holdings (HK) Co., Ltd.    | Pacific China Holdings Co.                                       | British Virgin Island | Investment   | 619,305           | 619,305       | -                               | 100                     | 6,970,781      | 660,913                           | c  |        |
| Pacific China Holdings Co.               | Shanghai Pacific Department Store Co., Ltd.                      | Mainland China        | Department store                                     | 418,259           | 418,259       | -                               | 73                      | 853,267        | 571,005                           | c  |        |
|  | Chengdu Shangxia Pacific Department Store Co., Ltd.              | Mainland China        | Department store                                     | 228,165           | 228,165       | -                               | 100                     | 300,440        | 154,607                           | c  |        |
|  | Chengdu Quanxing Mansion Pacific Department Store Co., Ltd.      | Mainland China        | Department store                                     | 32,269            | 32,269        | -                               | 100                     | (7,826)        | 33,848                            | c  |        |
|  | Chongqing Mentropolitan Plaza Pacific Department Store Co., Ltd. | Mainland China        | Department store                                     | 97,785            | 97,785        | -                               | 100                     | 262,477        | 129,549                           | c  |        |
|  | Beijing Xidan Pacific Department Store Co., Ltd.                 | Mainland China        | Department store                                     | 215,127           | 215,127       | -                               | 55                      | 129,921        | 119,014                           | c  |        |
|  | Chongqing Pacific Business Management Consulting Co., Ltd.       | Mainland China        | Consulting service                                   | 6,519             | 6,519         | -                               | 100                     | 35,025         | 2,349                             | c  |        |
|  | Shanghai Pacific Business Management Consulting Co., Ltd.        | Mainland China        | Consulting service                                   | 5,590             | 5,590         | -                               | 49                      | 6,570          | 205                               | d  |        |

Note A: a. Equity-method investee.  
b. Subsidiary.  
c. Subsidiary of FEDS's subsidiary.  
d. Indirect investee.

Note B: Except for Bai Chin (Singapore) Ptd. Ltd., the equity in earnings (losses) of equity investees were based on audited financial statements as of and for the year ended December 31, 2006.

Note C: Neither the total assets nor total revenues of Lian Ching Investment Co. and Pacific Sogo Investment Co. individually reached at least 10% of FEDS's total assets or total revenues. Thus, their information was not disclosed.

Note D: The foreign-currency investments were translated at the rate of US\$1:NT\$32.595 prevailing on December 31, 2006.

(Concluded)



## FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

| Investee Company Name  | Main Businesses and Products   | Total Amount of Paid-in Capital (Note A) | Investment Type (e.g., Direct or Indirect) | Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2006 (Note A) | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2006 (Note A) | % Ownership of Direct and Indirect Investment | Investment Gain (Loss) | Carrying Value as of Dec. 31, 2006 | Accumulated Inward Remittance of Earnings as of Dec. 31, 2006 | Accumulated Investment in Mainland China as of Dec. 31, 2006 | Investment Amounts Authorized by Investment Commission, MOEA (Note G) | Upper Limit on Investment Defined by Investment Commission, MOEA |
|--|--------------------------------|--|--|---|------------------|--------|--|---|------------------------|------------------------------------|---|--|---|--|
|  |                                |  |  |   | Outflow          | Inflow |  |   |                        |                                    |   |  |   |  |
| Shanghai Pacific Department Store Co., Ltd.                      | Department store               | \$ 576,932                               | Note B                                     | \$ 418,259  | \$ -             | \$ -   | \$ 418,259 (Note E)  | 19  | \$ 91,738              | \$ 227,785                         | \$ - (Note G)   | \$ -   | \$ 174,383 (US\$5,350,000)  | \$ 5,672,454   |
| Chengdu Shangxia Pacific Department Store Co., Ltd.              | Department store               | 228,165                                  | Note B                                     | 228,165   | -                | -      | 228,165 (Note E)   | 27  | 41,273                 | 80,204                             |   |  |   |  |
| Chengdu Quanxing Mansion Pacific Department Store Co., Ltd.      | Department store               | 32,269                                   | Note B                                     | 32,269  | -                | -      | 32,269 (Note E)  | 27  | 9,036                  | (2,089)                            |   |  |   |  |
| Chongqing Mentropolitan Plaza Pacific Department Store Co., Ltd. | Department store               | 97,785                                   | Note B                                     | 97,785  | -                | -      | 97,785 (Note E)  | 27  | 34,584                 | 70,070                             |   |  |   |  |
| Beijing Xidan Pacific Department Store Co., Ltd.                 | Department store               | 391,140                                  | Note B                                     | 215,127   | -                | -      | 215,127 (Note E)   | 15  | 17,474                 | 34,683                             |   |  |   |  |
| Chongqing Pacific Business Management Consulting Co., Ltd.       | Business management consulting | 6,519                                    | Note B                                     | 6,519   | -                | -      | 6,519 (Note E)   | 27  | 627                    | 9,350                              |   |  |   |  |
| Shanghai Pacific Business Management Consulting Co., Ltd.        | Business management consulting | 11,408                                   | Note B                                     | 5,590   | -                | -      | 5,590 (Note E)   | 13  | 27                     | 1,754                              |   |  |   |  |
| Chongqing Bai Ding Business Management Consulting Co., Ltd.      | Business management consulting | 3,260                                    | Note C                                     | -   | -                | -      | -  | 100   | 7,087                  | 1,340                              |   |  |   |  |
| Tianjin FEDS Limits, Co.   | Department store               | 159,716                                  | Note D                                     | 94,526  | -                | -      | 94,526 (Note F)  | 100   | (181,615)              | (34,229)                           |   |  |   |  |

Note A: Translated at the rate of US\$1:NT\$32.595 prevailing on December 31, 2006.

Note B: Pacific Sogo Department Store Co. (subsidiary of FED'S subsidiary) invested US\$116,249,417 in the third country to set up the company in Mainland China and this investment had been approved by the Investment Commission (No. 091047678, dated on August 25, 2006).

Note C: The Company invested US\$100,000 thousand in FEDS Development (BVI) to set up the company in Mainland China and this investment had been approved by the Investment Commission (No. 07383, dated on July 8, 2004).

Note D: The Company invested US\$2,000,000 thousand in FEDS Development (BVI) to set up the company in Mainland China and this investment had been approved by the Investment Commission (No. 094004165, dated on March 2, 2005). Bai Yang Investment Company invested US\$2,900,000 thousand in FEDS Development (BVI) to set up the company in Mainland China and this investment had been approved by the Investment Commission (No. 094004905, dated on July 13, 2005).

Note E: The payment was made by Pacific Construction Company (the former stockholder).

Note F: The payment was made by Bai Yang Investment Company.

Note G: The payment made by the Company and the investment amount approved by the Investment Commission did not include the payment made by Subsidiary and the Subsidiary's investment amount approved by the Investment Commission