



## **Minutes of 2011 Annual General Shareholders' Meeting of Far Eastern Department Stores**

**Date:** Thursday, 23 June 2011

**Time:** 9:00 a.m. Taipei time

**Place:** Auditorium in the Taipei Hero House

No. 20, Changsha Street, Section 1, Taipei, Taiwan

### **Shareholders present:**

**Number of shareholders and shareholder representatives present: 419 persons.**

**Total shares represented by shareholders present: 1,021,967,558 shares, which was 82.714% of total number of outstanding shares 1,235,547,845 shares.**

### **Invited observers:**

**Certified Public Accountant:** Mr. Shih Ching-Pin, Mrs. Yeh Shu-Chuan

**Attorney:** Mr. Chiang Ta-Chung, Mr. Yang Xiao-Bang

**Chairman:** Mr. Douglas T. Hsu, Chairman of the Board of Directors

**Recorder:** Mr. Frank Jou

**The aggregate shareholding of the shareholders present constituted a quorum.**

**The Chairman called the meeting to order.**

**The speech of Chairman (omitted)**

**The speech of invited observers (none)**

### **I . Matters to be Reported**

1. 2010 Messages to shareholders (omitted)
2. Financial report of 2010 (attached)
3. Supervisors' audit report on 2010 business report and financial statements(omitted)
4. Report of the amendment of certain provisions of the Company's " Meeting Rules of Board of Directors" (attached)
5. Report on offering of corporate bond (omitted)

**Shareholder # 0212298 Mr. Liu Tai Ann raised questions with respect to issues of the recognition of investment income from Pacific Liu Tong Investment Co. Ltd..**

**Shareholder # 0147464 Mr. Tao Jia Ju made suggestions to meeting time of the AGM and Supervisors' duties of the Company.**

**The questions were answered by the personnel designated by Chairman.**

**RESOLVED, that the above proposals were approved for reference.**

## **II. Matters to be Approved:**

1. To approve the 2010 financial statements

The Board of Directors proposes and recommends that each shareholder votes FOR the acceptance of 2010 business report and financial statements.

Board of Directors proposes

### **Explanatory Notes:**

(1) FEDS's 2010 financial statements, including business report, balance sheet, income statement, statement of changes in shareholders' equity, and statement of cash flows, have been audited by independent auditors, Mrs. Yeh Shu-Chuan and Mr. Shih Ching-Pin of Deloitte & Touche (please refer to P11~P18), and have been examined by and determined to be correct and accurate by Supervisors of FEDS. We thereby submit this report.

(2) Please approve the above-mentioned business report and financial statements.

**Shareholder # 0212298 Mr. Liu Tai Ann raised questions with respect to issues of the recognition of investment income from Pacific Liu Tong Investment Co. Ltd..**

**Shareholder # 0255593 Mr. Wu Sheng Hui raised questions with respect to issues of the recognition of investment income from Pacific Liu Tong Investment Co. Ltd..**

**Shareholder # 0212298 Mr. Liu Tai Ann raised questions with respect to issues**

**of the investment in Pacific Liu Tong Investment Co. Ltd..**

**Upon decision by the Chairman, the questions were answered by the personnel designated by Chairman and the proposal was put through to vote.**

**RESOLVED, that the above proposals be and hereby were approved as proposed.**

**The number of share vote approval for the proposal was 854,835,372, which was 84% of votes represented by the shareholders present. The number of share vote against the proposal was 0.**

2. To approve the proposal for the distribution of 2010 surplus earning.

The Board of Directors proposes and recommends that each shareholder votes FOR the distribution of 2010 surplus earning.

Board of Directors proposes

**Explanatory Notes:**

(1) All the closing transactions as of December 31, 2010 have been completely closed, and have been audited by the accounting firm, Deloitte and Touche. We thereby submit the proposal for distribution of 2010 profits:

1. Net Income of 2010	N.T\$ 2,567,143,311
2. 10% legal reserve (1*10%)	(256,714,331)
3. Undistributed profits of previous years	562,609,641
4. Earnings available for distribution (4=1-2+3)	2,873,038,621

(2)The earnings available for distribution are allocated as the following:

1. Dividend (60%)	N.T\$ 1,282,718,929
2. Cash bonus to shareholders (33%)	705,495,411
3. Total Distribution	1,988,214,340

Note: To distribute employee bonus of NT 85,514,595 and compensation of directors and supervisors of NT 64,135,946.

(3) Undistributed earnings after distribution N.T\$ 884,824,281

(4) The major items of the Distribution of 2010 Dividend :

- 1.Cash dividends to holders of common share

(NT\$ 1.00 per share)	N.T\$ 1,242,633,960
2. Stock dividends to holders of common share	
(NT\$ 0.60 per share at par value)	745,580,380
3. Total amount of 1.60 per share	1,988,214,340

(5) The distribution of 2010 dividends composes of 2010 surplus earning in priority and the undistributed profit from 1998 to 2009 in case 2010 surplus earning are insufficient to cover 2010 dividends.

(6) After being approved at the annual General Shareholders' meeting (2011), the cash dividends to holders of common share will be distributed on the record date to be determined by the Board of Directors. Should FEDS subsequently repurchase its common shares or issue new common shares according to Article 28-2 of the ROC Securities and Exchange Law and other relevant regulations, the total numbers of common shares outstanding may change, and the ultimate cash and stock to be distributed to each common share may need to be adjusted accordingly. It is proposed that the Board of Directors of FEDS be authorized to adjust the cash and stock to be distributed to each common share based on the total amount of profits resolved to be distributed, the amount of earnings resolved to be capitalized, and the number of actual common shares outstanding on the record date for distribution.

(7) Please approve the above-mentioned proposal for the distribution of 2010 profits.

**Upon solicitation of comments by the Chairman, there was no objection voiced and the resolution was adopted unanimously by the shareholders present:**

**RESOLVED, that the proposal to approve the distribution of 2010 surplus earning be and hereby were accepted as submitted.**

### **III. Discussion**

1. Proposal to amend certain provisions of the Company's "Articles of Incorporation"

Board of Directors proposes

#### **Explanatory Notes:**

- (1) We propose to amend Article 3, Article 7, Article 8, Article 17, Article 20 and

Article 30 of the Company’s “Articles of Incorporation”. The amended provisions are shown in the attached comparison table.

(2) All provisions will take effect after approval at the Shareholder’s meeting, except Article 17 of the rules for independent director shall be applied in 2012 when reelection of all the directors takes place.

(3) Please approve the proposed resolutions.

**Upon solicitation of comments by the Chairman, there was no objection voiced and the resolution was adopted unanimously by the shareholders present:**

**RESOLVED, that the proposal to amend certain provisions of the Company’s “Articles of Incorporation” be and hereby were accepted as submitted.**

Section	Proposed Changes	Current Articles
Article 3	The Corporation may provide guarantee <u>in accordance to the regulations set out in the “Procedure for Endorsements and Guarantees”</u>	The Company may, where its businesses require, provide guarantee.
Article 7	The Company's total capital shall be Seventeen Billion and Five hundred Million New Taiwan Dollar (NT\$17,500,000,000) <u>divided into 1,750,000,000 shares of NT\$10 each.</u> The Board of Directors is authorized to issue the un-issued shares in separate trenches. Out of the above total capital amount, One Hundred Million New Taiwan Dollar (NT\$100,000,000) shall be divided into 10,000,000 shares of NT\$10 each, to be issued as warrants for employees to subscribe.	The Company's total capital shall be <u>Thirteen Billion and Five hundred Million New Taiwan Dollar (NT\$13,500,000,000)</u> divided into <u>1,350,000,000 shares of NT\$10 each.</u> The Board of Directors is authorized to issue the un-issued shares in separate trenches. Out of the above total capital amount, One Hundred Million New Taiwan Dollar (NT\$100,000,000) shall be divided into 10,000,000 shares of NT\$10 each, to be issued as warrants for employees to subscribe.
Article 8	Shares issued by the Company are not required to be evidenced by share certificates, provided that they shall be recorded at the Securities Central Depository Enterprises	The Company's shares shall be numbered and <u>issued following the signatures or seals by 3Directors or more and the authentication by the relevant authorities or the registration organizations as approved by the authorities in compliance with law.</u> Shares issued by the Company are not required to be evidenced by share certificates, provided that they shall be recorded at the Securities Central Depository Enterprises. <u>New shares issued by the Company may also be consolidated for the purposes of production of share certificates, subject to them being deposited at the Securities Central Depository Enterprises.</u>

	<p>The Company can issue special shares.</p> <p>In the event of the Company merging with another company, matters relating to the merger need not be approved by way of a resolution of the special shareholders meeting.</p>	<p><u>The Company may issue shares in large denominations upon demand by Securities Central Depository Enterprises.</u></p> <p>The Company can issue special shares.</p> <p>In the event of the Company merging with another company, matters relating to the merger need not be approved by way of a resolution of the special shareholders meeting.</p>
Article 17	<p>There shall be <u>7 to 9 Directors</u> and 2 Supervisors of the Company, who are elected and appointed from the persons with legal capacity at the shareholders' meeting. The total shares number of the registered shares of the Company held by all of the Directors and Supervisors shall be determined according to the provisions of "Rules and Review Procedures for Director and Supervisor Ownership Ratios at Public Companies".</p> <p><u>Independent directors shall not be less than two in number and not less than one-fifth of the total number of directors.</u></p> <p><u>In accordance with Article 192-1 of the Company Act, the Company shall adopt a candidates nomination system for election of the independent directors, and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates. Independent and non-independent directors shall be elected at the same time but on separate ballots.</u></p>	<p>There shall be <u>7 Directors</u> and 2 Supervisors of the Company, who are elected and appointed from the persons with legal capacity at the shareholders' meeting. The total shares number of the registered shares of the Company held by all of the Directors and Supervisors shall be determined according to the provisions of "Rules and Review Procedures for Director and Supervisor Ownership Ratios at Public Companies".</p>
Article 20	<p>Meetings of the Board of Directors, which shall be <u>held quarterly</u>, shall be convened by the Chairman. Unless otherwise stipulated by the Company Law, a quorum shall be present at the Board of Directors if it is attended by more than half of the Directors, and a resolution passed if approved by a majority of the Directors in attendance. The Chairman may, in case of emergency, convene meetings of the Board at any time.</p> <p>When a Director is unable to personally attend the meeting of the Board of Directors, he may entrust another Director to represent him in accordance with law.</p> <p><u>The notice of meeting of board of directors could be</u></p>	<p>Meetings of the Board of Directors, which shall be <u>held every three month</u>, shall be convened by the Chairman. Unless otherwise stipulated by the Company Law, a quorum shall be present at the Board of Directors if it is attended by more than half of the Directors, and a resolution passed if approved by a majority of the Directors in attendance. The Chairman may, in case of emergency, convene meetings of the Board at any time.</p> <p>When a Director is unable to personally attend the meeting of the Board of Directors, he may entrust another Director to represent him in accordance with law.</p>

	<u>served by way of writing document, e-mail or fax.</u>	
Article 30	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p>First amendment on December 20, 1967;  Second amendment on October 2, 1968;  Third amendment on July 29, 1969;  Fourth amendment on August 26, 1969;  Fifth amendment on February 19, 1970;  Sixth amendment on June 26, 1970;  Seventh amendment on August 21, 1972;  Eighth amendment on March 30, 1973;  Ninth amendment on May 2, 1974;  Tenth amendment on May 30, 1975;  Eleventh amendment on April 19, 1976;  Twelfth amendment on March 25, 1977;  Thirteenth amendment on March 6, 1978;  Fourteenth amendment on April 6, 1979;  Fifteenth amendment on April 18, 1980;  Sixteenth amendment on April 9, 1981;  Seventeenth amendment on April 15, 1982;  Eighteenth amendment on November 29, 1982;  Nineteenth amendment on May 12, 1983;  Twentieth amendment on May 12, 1984;  Twenty-first amendment on May 6, 1985;  Twenty-second amendment on May 7, 1986;  Twenty-third amendment on April 30, 1987;  Twenty-fourth amendment on April 28, 1988;  Twenty-fifth amendment on April 29, 1989;  Twenty-sixth amendment on April 30, 1990;  Twenty-seventh amendment on May 2, 1991;  Twenty-eighth amendment on April 24, 1992;  Twenty-ninth amendment on April 30, 1993;  Thirtieth amendment on April 7, 1994;  Thirty-first amendment on April 15, 1995;  Thirty-second amendment on May 10, 1996;  Thirty-third amendment on May 9, 1997;  Thirty-fourth amendment on May 18, 1998;  Thirty-fifth amendment on May 12, 1999;  Thirty-sixth amendment on May 10, 2000;  Thirty-seventh amendment on May 9, 2001;  Thirty-eighth amendment on May 31, 2002;  Thirty-ninth amendment on June 10, 2003;  Fortieth amendment on June 2, 2006;  Forty-first amendment of June 9, 2010</p>	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p>First amendment on December 20, 1967;  Second amendment on October 2, 1968;  Third amendment on July 29, 1969;  Fourth amendment on August 26, 1969;  Fifth amendment on February 19, 1970;  Sixth amendment on June 26, 1970;  Seventh amendment on August 21, 1972;  Eighth amendment on March 30, 1973;  Ninth amendment on May 2, 1974;  Tenth amendment on May 30, 1975;  Eleventh amendment on April 19, 1976;  Twelfth amendment on March 25, 1977;  Thirteenth amendment on March 6, 1978;  Fourteenth amendment on April 6, 1979;  Fifteenth amendment on April 18, 1980;  Sixteenth amendment on April 9, 1981;  Seventeenth amendment on April 15, 1982;  Eighteenth amendment on November 29, 1982;  Nineteenth amendment on May 12, 1983;  Twentieth amendment on May 12, 1984;  Twenty-first amendment on May 6, 1985;  Twenty-second amendment on May 7, 1986;  Twenty-third amendment on April 30, 1987;  Twenty-fourth amendment on April 28, 1988;  Twenty-fifth amendment on April 29, 1989;  Twenty-sixth amendment on April 30, 1990;  Twenty-seventh amendment on May 2, 1991;  Twenty-eighth amendment on April 24, 1992;  Twenty-ninth amendment on April 30, 1993;  Thirtieth amendment on April 7, 1994;  Thirty-first amendment on April 15, 1995;  Thirty-second amendment on May 10, 1996;  Thirty-third amendment on May 9, 1997;  Thirty-fourth amendment on May 18, 1998;  Thirty-fifth amendment on May 12, 1999;  Thirty-sixth amendment on May 10, 2000;  Thirty-seventh amendment on May 9, 2001;  Thirty-eighth amendment on May 31, 2002;  Thirty-ninth amendment on June 10, 2003;  Fortieth amendment on June 2, 2006;  Forty-first amendment of June 9, 2010</p>

	<u>Forty-second amendment of June 23, 2011</u>	
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Note \*In case of any discrepancy between this English translation and the Chinese text of this document, the Chinese text shall prevail.

2. To approve the capitalization of 2010 stock dividends

The Board of Directors proposes and recommends that each shareholder votes FOR the capital increase of 2010 stock dividends.

Please vote.

Board of Directors proposes:

**Explanatory Notes:**

(1) For the purpose of improving the financial structure, it is proposed that FEDS's paid-in capital be increased by capitalizing the stock dividends to common share holders of NT\$ 745,580,380. A total number of 74,558,038 common shares, at par value of NT\$ 10 each share, shall be issued for such capital increase.

(2) After being approved at the Annual General Shareholders' Meeting and accepted by the regulatory authority in charge, the new shares will be distributed on a record date to be determined by the Board of Directors. Each common share holder will be entitled to receive a stock dividend of 60 common shares for each 1,000 common shares held by such shareholders. If the stock dividends include any fractional shares which are less than one full share, in accordance with Article 204 of the Company Law, the distribution will be made in the form of cash rounded to the nearest dollar amount calculated at par value. Such fractional shares will be purchased by Far Eastern Recreation Center Employee's Welfare Committee of FEDS. The new issued common shares should have the right to enjoy dividends of 2011 and the same rights & obligation as the previous issued common shares.

(3) Should FEDS subsequently repurchase its common shares or issue new common shares according to Article 28-2 of the ROC Securities and Exchange Law, regulations of conversion of bonds and other relevant regulations, the total numbers of common shares outstanding may change, and the ultimate stock to be distributed to each common share may need to be adjusted accordingly. It is proposed that the Board of Directors of FEDS be authorized to adjust the cash and stock to be distributed to each common share based on the total amount of profits resolved to be distributed, the amount of earnings resolved to be capitalized, and the number of actual common shares outstanding on the record date for distribution.

(4) Please approve the proposal for the capitalization of 2010 stock dividends.

**Upon solicitation of comments by the Chairman, there was no objection voiced and the resolution was adopted unanimously by the shareholders present:**



**RESOLVED, that the proposal to approve the capitalization of 2010 stock dividends be and hereby were accepted as submitted.**

3. Proposal to amend certain provisions of the “Election Procedures of Directors and Supervisors”

Board of Directors proposes

**Explanatory Notes:**

(1) We propose to amend Article 3 and Article 6 of the Company’s “Election Procedures of Directors and Supervisors”. The amended provisions are shown in the attached comparison table.

(2) Please approve the proposed resolutions.

**Upon solicitation of comments by the Chairman, there was no objection voiced and the resolution was adopted unanimously by the shareholders present:**

**RESOLVED, that the proposal to amend certain provisions of the “Election Procedures of Directors and Supervisors” be and hereby were accepted as submitted.**

Section	Proposed Changes	Current Articles
Article 3	<p>The election of directors and supervisors shall be pursued according to the number of position required. <u>The independent directors, non-independent directors and supervisors shall be elected at the same election with the number of selectees calculated separately; those candidates receiving more voting rights shall be elected as Directors. The same applies to the election of Supervisor(s).</u> If there are more than two candidates obtaining the same number of vote but the number of position offered is limited, a draw shall be made amongst the two candidates to determine. The chairperson shall conduct the drawing for the candidate who is absent.</p> <p><u>The Company, in accordance with Article 192-1 of the Company Act, shall adopt a candidates nomination system for election of the independent directors. Besides, their qualifications, independent condition, and other conditions should adhere to the</u></p>	<p>The election of directors and supervisors shall be pursued according to the number of position required and the candidates that <u>obtain more number of votes shall be elected.</u> If there are more than two candidates obtaining the same number of vote but the number of position offered is limited, a draw shall be made amongst the two candidates to determine. The chairperson shall conduct the drawing for the candidate who is absent.</p>

	<u>Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, and other regulation.</u>	
Article 6	If the candidate is a natural person with the stockholder status, the voters shall fill out the ballot with the name and stockholder number of the candidate. If the candidate is not of the stockholder status, the ballot shall be filled out with the name and <u>international identification number or passport number</u> of the candidate. If the candidate is the government or juristic stockholder, the ballot shall be filled out with the number, the name of government or juristic person and the representative name. If there are more than one representative, all the representative names shall be listed.	If the candidate is a natural person with the stockholder status, the voters shall fill out the ballot with the name and stockholder number of the candidate. If the candidate is not of the stockholder status, the ballot shall be filled out with the name and <u>identification number</u> of the candidate. If the candidate is the government or juristic stockholder, the ballot shall be filled out with the number, the name of government or juristic person and the representative name. If there are more than one representative, all the representative names shall be listed.

Note \*In case of any discrepancy between this English translation and the Chinese text of this document, the Chinese text shall prevail.

#### **IV. Extemporary motion**

**Shareholder # 0147464 Mr. Tao Jia Ju made suggestions to meeting time of the AGM and Supervisors' duties of the Company.**

**Shareholder # 0212298 Mr. Liu Tai Ann raised questions with respect to issues of the investment in Pacific Liu Tong Investment Co. Ltd..**

**The questions were answered by the personnel designated by Chairman.**

#### **V. Motion to Adjourn**

# FAR EASTERN DEPARTMENT STORES, LTD.

## BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

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

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash	\$ 289,824	1	\$ 278,918	1	Short-term debts	\$ 3,150,000	6	\$ 2,650,000	6
Available-for-sale financial assets - current	291,224	1	228,938	1	Short-term notes and bills payable	1,299,456	3	1,448,934	3
Receivables:					Accounts payable	2,331,803	5	2,238,613	5
Notes	15,516	-	13,320	-	Related parties - payables	61,385	-	54,555	-
Accounts, net of allowance for doubtful accounts of \$3,550 thousand in 2010 and \$4,133 thousand in 2009	181,765	-	180,841	-	Related parties - others	130,918	-	95,609	-
Related parties - notes and receivables	41,090	-	36,616	-	Income tax payable	198,220	-	-	-
Related parties - others	272,246	1	303,436	1	Accrued expenses	818,438	2	704,181	2
Others	100,659	-	114,730	-	Balance payable - property	88,909	-	259,058	1
Inventories	207,597	-	216,316	1	Other payables	93,543	-	94,953	-
Prepayments	262,435	-	149,264	-	Advance receipts	1,541,631	3	1,430,724	3
Deferred tax assets - current	30,654	-	31,322	-	Current portion of bonds issued	-	-	500,000	1
Noncurrent assets classified as held for sale	-	-	89,461	-	Current portion of long-term borrowings	995,898	2	-	-
Other current assets	15,004	-	16,433	-	Other current liabilities	744,721	2	583,984	1
Total current assets	1,708,014	3	1,659,595	4	Total current liabilities	11,454,922	23	10,060,611	22
<b>LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>				
Investments accounted for by the equity method	18,884,849	38	18,395,707	40	Bonds issued	2,200,000	4	1,200,000	2
Available-for-sale financial assets - noncurrent	2,682,262	6	2,576,840	5	Long-term borrowings	9,220,000	19	10,078,147	22
Financial assets carried at cost	102,540	-	116,728	-	Total long-term liabilities	11,420,000	23	11,278,147	24
Total long-term investments	21,669,651	44	21,089,275	45	<b>RESERVES</b>				
<b>PROPERTY</b>					Reserve for land revaluation increment tax	508,719	1	575,490	1
Cost					<b>OTHER LIABILITIES</b>				
Land	3,951,477	8	4,118,124	9	Deposits received	37,949	-	38,872	-
Buildings and equipment	6,746,476	14	6,972,872	15	Deferred tax liabilities - noncurrent	106,894	-	105,921	1
Furniture and equipment	3,418,045	7	3,400,286	7	Deferred credits - gains on related-party transactions	-	-	11,366	-
Total cost	14,115,998	29	14,491,282	31	Miscellaneous	14,589	-	7,743	-
Revaluation increment	1,213,827	2	1,212,414	3	Total other liabilities	170,798	-	163,902	1
Cost and appreciation	15,329,825	31	15,703,696	34	Total liabilities	23,554,439	47	22,078,150	48
Less: Accumulated depreciation	4,708,986	10	4,732,105	10	<b>STOCKHOLDERS' EQUITY</b>				
10,620,839	21	10,971,591	24	Capital stock NT\$10.00 par value					
Construction in progress and prepayments for equipment	7,015,101	14	5,946,369	13	Authorized - 1,350,000 thousand shares				
Leasehold rights, net	6,390,537	13	4,457,349	9	Issued and outstanding - 1,242,634 thousand shares in 2010 and 1,212,326 thousand shares in 2009	12,426,341	25	12,123,259	26
Property leased to others, net	1,237,289	3	1,487,794	3	Capital surplus:				
Net property	25,263,766	51	22,863,103	49	Additional paid-in capital - share issuance in excess of par	2,175,718	4	2,175,718	4
<b>OTHER ASSETS</b>					Treasury stock transactions	1,213,526	3	964,467	2
Idle assets, net	574,918	1	381,610	1	Long-term investments	375,941	1	384,643	1
Refundable deposits	159,143	-	159,028	-	Total capital surplus	3,765,185	8	3,524,828	7
Prepaid pension costs	215,728	1	194,847	1	Retained earnings:				
Miscellaneous	6,398	-	7,493	-	Legal reserve	1,718,606	4	1,525,328	4
Total other assets	956,187	2	742,978	2	Special reserve	1,000,564	2	1,000,564	2
					Unappropriated earnings	3,129,751	6	1,968,212	4
					Total retained earnings	5,848,921	12	4,494,104	10
					Other equity adjustments				
					Cumulative translation adjustments	(374,215)	(1)	139,364	-
					Net loss not recognized as pension costs	(8,300)	-	(10,386)	-
					Unrealized valuation gains on financial instruments	3,578,911	7	3,192,918	7
					Unrealized for asset revaluation increment	843,106	2	883,944	2
					Treasury stock - 7,086 thousand shares in 2010 and 13,392 thousand shares in 2009	(36,770)	-	(71,230)	-
					Total other equity adjustments	4,002,732	8	4,134,610	9
					Total stockholders' equity	26,043,179	53	24,276,801	52
<b>TOTAL</b>	<b>\$ 49,597,618</b>	<b>100</b>	<b>\$ 46,354,951</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 49,597,618</b>	<b>100</b>	<b>\$ 46,354,951</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated February 26, 2011)

## FAR EASTERN DEPARTMENT STORES, LTD.

### STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
<b>REVENUES</b>				
Sales	\$ 24,320,923	99	\$ 21,988,908	99
Other operating revenues	<u>282,195</u>	<u>1</u>	<u>214,290</u>	<u>1</u>
Total revenues	<u>24,603,118</u>	<u>100</u>	<u>22,203,198</u>	<u>100</u>
<b>COSTS</b>				
Cost of goods sold	19,592,662	80	17,735,782	80
Other operating costs	<u>59,820</u>	<u>-</u>	<u>50,119</u>	<u>-</u>
Total costs	<u>19,652,482</u>	<u>80</u>	<u>17,785,901</u>	<u>80</u>
GROSS PROFIT	<u>4,950,636</u>	<u>20</u>	<u>4,417,297</u>	<u>20</u>
<b>OPERATING EXPENSES</b>				
Selling	970,771	4	876,528	4
General and administrative	<u>2,995,888</u>	<u>12</u>	<u>2,850,456</u>	<u>13</u>
Total operating expenses	<u>3,966,659</u>	<u>16</u>	<u>3,726,984</u>	<u>17</u>
OPERATING INCOME	<u>983,977</u>	<u>4</u>	<u>690,313</u>	<u>3</u>
<b>NONOPERATING INCOME AND GAINS</b>				
Equity in earnings of equity-method investees, net	1,669,760	7	1,316,910	6
Dividend income	122,387	1	108,663	-
Gain on disposal of property and idle assets, net	72,531	-	-	-
Interest income	1,212	-	2,010	-
Other income	<u>97,335</u>	<u>-</u>	<u>116,077</u>	<u>1</u>
Total nonoperating income and gains	<u>1,963,225</u>	<u>8</u>	<u>1,543,660</u>	<u>7</u>
<b>NONOPERATING EXPENSES AND LOSSES</b>				
Interest expense	50,913	-	61,612	-
Impairment loss on financial assets carried at cost	12,470	-	39,927	-
Impairment loss on idle assets	32,931	-	-	-
Loss on disposal of property and idle assets	-	-	3,201	-
Other expenses	<u>83,883</u>	<u>1</u>	<u>98,987</u>	<u>1</u>
Total nonoperating expenses and losses	<u>180,197</u>	<u>1</u>	<u>203,727</u>	<u>1</u>

(Continued)

## FAR EASTERN DEPARTMENT STORES, LTD.

### STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	2,767,005	11	2,030,246	9
INCOME TAX EXPENSE	<u>199,862</u>	<u>1</u>	<u>97,470</u>	<u>-</u>
NET INCOME	<u>\$ 2,567,143</u>	<u>10</u>	<u>\$ 1,932,776</u>	<u>9</u>

  

	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	<u>\$ 2.25</u>	<u>\$ 2.09</u>	<u>\$ 1.66</u>	<u>\$ 1.58</u>
Diluted	<u>\$ 2.25</u>	<u>\$ 2.08</u>	<u>\$ 1.65</u>	<u>\$ 1.57</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:

	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	<u>\$ 2.43</u>	<u>\$ 2.27</u>	<u>\$ 1.74</u>	<u>\$ 1.66</u>
Diluted	<u>\$ 2.42</u>	<u>\$ 2.26</u>	<u>\$ 1.73</u>	<u>\$ 1.66</u>

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

(With Deloitte & Touche audit report dated February 26, 2011)

(Concluded)

**FAR EASTERN DEPARTMENT STORES, LTD.**

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2010 AND 2009  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Surplus							Other Equity Adjustments					Total Stockholders' Equity
	Capital Stock Issued and Outstanding	Additional Paid-in Capital - Share Issuance in Excess of Par	Treasury Stock Transactions	Long-term Investments	Retained Earnings			Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Unrealized Valuation Gains on Financial Instruments	Unrealized for Asset Revaluation Increment	Treasury Stock	
					Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE, JANUARY 1, 2009	\$ 11,770,154	\$ 2,175,718	\$ 835,591	\$ 372,157	\$ 1,496,641	\$ 1,484,033	\$ 286,864	\$ 317,743	\$ (6,584)	\$ 1,125,491	\$ 883,944	\$ (95,723)	\$ 20,646,029
Appropriation of prior year's earnings:													
Legal reserve	-	-	-	-	28,687	-	(28,687)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(483,469)	483,469	-	-	-	-	-	-
Stock dividends - 3%	353,105	-	-	-	-	-	(353,105)	-	-	-	-	-	-
Cash dividends - NTS\$0.3 per share	-	-	-	-	-	-	(353,105)	-	-	-	-	-	(353,105)
Adjustment due to subsidiaries' disposal of parent's stocks	-	-	128,876	-	-	-	-	-	-	-	-	24,493	153,369
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	(9,262)	-	-	-	-	(9,262)
Adjustment reported by equity-method investees	-	-	-	12,486	-	-	-	(169,117)	(3,802)	1,253,198	-	-	1,092,765
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	814,229	-	-	814,229
Net income in 2009	-	-	-	-	-	-	1,932,776	-	-	-	-	-	1,932,776
BALANCE, DECEMBER 31, 2009	12,123,259	2,175,718	964,467	384,643	1,525,328	1,000,564	1,968,212	139,364	(10,386)	3,192,918	883,944	(71,230)	24,276,801
Appropriation of prior year's earnings:													
Legal reserve	-	-	-	-	193,278	-	(193,278)	-	-	-	-	-	-
Stock dividends - 2.5%	303,082	-	-	-	-	-	(303,082)	-	-	-	-	-	-
Cash dividends - NTS\$0.75 per share	-	-	-	-	-	-	(909,244)	-	-	-	-	-	(909,244)
Adjustment due to subsidiaries' disposal of parent's stocks	-	-	249,059	-	-	-	-	-	-	-	-	34,460	283,519
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	(32,692)	-	-	-	-	(32,692)
Impairment loss on revaluation increment	-	-	-	-	-	-	-	-	-	-	(40,838)	-	(40,838)
Adjustment reported by equity-method investees	-	-	-	2	-	-	-	(480,887)	2,086	218,285	-	-	(260,514)
Adjustment arising from changes in percentage of ownership in investees	-	-	-	(8,704)	-	-	-	-	-	-	-	-	(8,704)
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	167,708	-	-	167,708
Net income in 2010	-	-	-	-	-	-	2,567,143	-	-	-	-	-	2,567,143
BALANCE, DECEMBER 31, 2010	<u>\$ 12,426,341</u>	<u>\$ 2,175,718</u>	<u>\$ 1,213,526</u>	<u>\$ 375,941</u>	<u>\$ 1,718,606</u>	<u>\$ 1,000,564</u>	<u>\$ 3,129,751</u>	<u>\$ (374,215)</u>	<u>\$ (8,300)</u>	<u>\$ 3,578,911</u>	<u>\$ 843,106</u>	<u>\$ (36,770)</u>	<u>\$ 26,043,179</u>

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

(With Deloitte & Touche audit report dated February 26, 2011)

**FAR EASTERN DEPARTMENT STORES, LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**(In Thousands of New Taiwan Dollars)**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,567,143	\$ 1,932,776
Depreciation	440,214	396,144
Amortization of deferred charges	5,061	6,940
Amortization of leasehold rights included in rental expense	74,822	74,822
Cash dividends from equity-method investees	1,269,073	1,027,241
Equity in earnings of equity-method investees, net	(1,669,760)	(1,316,910)
Impairment loss on financial assets carried at cost	12,470	39,927
Impairment loss on idle assets	32,931	-
(Gain) Loss on disposal of property and idle assets, net	(72,531)	3,201
Deferred income taxes	1,641	96,345
Increase in prepaid pension cost	(20,881)	(691)
Net changes in operating assets and liabilities		
Notes receivable	(2,196)	742
Accounts receivable	(924)	(12,081)
Accounts receivable - related parties	26,716	(27,683)
Other receivables	14,071	(25,476)
Inventories	8,719	79,913
Prepayments	(113,171)	(126,560)
Other current assets	1,429	48,040
Other payables	(1,378)	(2,087)
Advance receipts	242,058	68,085
Other current liabilities	160,737	(7,881)
Accounts payable - related parties	24,264	(20,767)
Accrued expenses	114,355	172,297
Income tax payable	198,220	-
Accounts payable	<u>93,092</u>	<u>412,234</u>
Net cash provided by operating activities	<u>3,406,175</u>	<u>2,818,571</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments accounted for by the equity method	(100,000)	(678,400)
Proceeds of the disposal of property	139,026	346
Proceeds of the disposal of idle assets	-	291
Real estate received in advance	-	36,000
Acquisition of property	(3,510,006)	(1,894,217)
Increase in refundable deposits	(115)	(200)
Increase in other assets	<u>(2,248)</u>	<u>(4,022)</u>
Net cash used in investing activities	<u>(3,473,343)</u>	<u>(2,540,202)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term debts	500,000	(300,000)
Decrease in short-term notes and bills payable	(149,478)	(345,300)
Repayments of bonds issued	(500,000)	-

(Continued)

# FAR EASTERN DEPARTMENT STORES, LTD.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	<u>2010</u>	<u>2009</u>
Issuance of bonds	1,000,000	-
Increase in long-term borrowings	137,751	715,895
Decrease in deposits received	(923)	(501)
Cash dividends	<u>(909,276)</u>	<u>(358,533)</u>
Net cash (used in) provided by financing activities	<u>78,074</u>	<u>(288,439)</u>
NET (DECREASE) INCREASE IN CASH	10,906	(10,070)
CASH, BEGINNING OF YEAR	<u>278,918</u>	<u>288,988</u>
CASH, END OF YEAR	<u>\$ 289,824</u>	<u>\$ 278,918</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 169,332	\$ 192,730
Less: Capitalized interest	<u>139,495</u>	<u>165,808</u>
Interest paid, excluding capitalized interest	<u>\$ 29,837</u>	<u>\$ 26,922</u>
Income tax paid	<u>\$ 2</u>	<u>\$ 2</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Dividends receivable from equity-method investees (classified as accounts receivable - related parties)	<u>\$ -</u>	<u>\$ 246,517</u>
Adjustment to advance receipts and depreciation	<u>\$ 95,151</u>	<u>\$ 101,306</u>
Adjustment to real estate received in advance and proceeds of the disposal of property	<u>\$ 36,000</u>	<u>\$ -</u>
Properties leased to others reclassified to noncurrent assets classified as held for sale	<u>\$ -</u>	<u>\$ 89,461</u>
Properties transferred to idle assets	<u>\$ 346,340</u>	<u>\$ -</u>
Leased assets transferred to properties	<u>\$ 223,150</u>	<u>\$ -</u>
Adjustment to impairment on revaluation increment, the reserve for land value increment tax and unrealized for asset revaluation increment	<u>\$ 107,609</u>	<u>\$ -</u>
Current portion of bonds issued	<u>\$ -</u>	<u>\$ 500,000</u>
Current portion of long-term borrowings	<u>\$ 995,898</u>	<u>\$ -</u>
Classification of credit balance in long-term investment to other liability	<u>\$ 14,589</u>	<u>\$ 7,743</u>
CASH PAID FOR ACQUISITION OF PROPERTY		
Acquisition of property	\$ 280,990	\$ 1,641,695
Acquisition of leasehold rights	2,008,010	414,503
Increase (decrease) in construction in progress and prepayments for equipment	1,068,732	(1,940)
Decrease (increase) in balance payable - property	170,149	(158,080)
Increase in balance payable - property - related parties	<u>(17,875)</u>	<u>(1,961)</u>
	<u>\$ 3,510,006</u>	<u>\$ 1,894,217</u>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 26, 2011)

(Concluded)



## **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, 2010 and 2009 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, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, effective January 1, 2009, Far Eastern Department Stores, Ltd. adopted the newly revised Statement of Financial Accounting Standards No. 10, "Inventories."

As stated in Note 29 to the financial statements, the Ministry of Economic Affairs revoked the capital registration of a direct subsidiary of the Company, Pacific Liu Tong Investment Co., Ltd. The impact

on the rights of Far Eastern Department Stores, Ltd. and subsidiaries of ownership of Pacific Liu Tong Investment Co., Ltd. as well as the settlement of this case will depend on the court's final judgment.

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, 2010 and have expressed a modified unqualified opinion thereon in our report dated February 26, 2011.

*Deloitte & Touche*

February 26, 2011

*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.*