



Minutes of 2018 Annual General Shareholders' Meeting of Far Eastern Department Stores

Date: Thursday, 21 June 2018

Time: 9:00 a.m. Taipei time

Place: Auditorium in the Taipei Hero House

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

Shareholders present:

Total shares (including e-voting) represented by shareholders present: 959,362,057 shares, which was 68.101% of total number of outstanding shares 1,408,733,585 shares.

Attendee Directors: Mr. Douglas T. Hsu, Mrs. Nancy Hsu, Mrs. Yvonne Li, Mrs. Jin Lin Lian
Mrs. Philby Lee, Mr. You Hsin Chien, Mr. Raymond R. M. Tai,
Mr. Edward Yung Do Way

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

Recorder: Mr. James Tang



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. 2017 Business Report (please refer to P.2-P.7 of handbook for 2018 AGM)
2. Financial report of 2017 (please refer to P.8-P.29 of handbook for 2018 AGM)
3. Audit Committee's review report on 2017 business report and financial statements (please refer to P.30 of handbook for 2018 AGM)
4. Report of directors' and employees' compensation (please refer to P.31 of handbook for 2018 AGM)

RESOLVED, that the above proposals were approved for reference.

II. Matters to be Approved:

1. To accept 2017 business report and financial statements.

The Board of Directors proposes and recommends that each shareholder votes for the acceptance of 2017 business report and financial statements.

Explanatory Notes:

- (1) FEDS's 2017 business report and financial statements, including balance sheet, income statement, statement of changes in shareholders' equity, and statement of cash flows, has been audited by independent auditors, Shu-Chuan Yeh and Kuo-Tyan Hung of Deloitte & Touche, and has been examined by and determined to be correct and accurate by Audit Committee of FEDS. We thereby submit this report.
- (2) Please approve the above-mentioned business report and financial statements.

Resolution: the result of voting is as follows:

The number of shares represented by the shareholders present at the time of voting (including e-voting) was 959,362,057.

Number of votes (including e-voting)		% of votes represented by the shareholders present
Approval	892,501,310	93.0
Disapproval	275,497	-
Invalid	0	-
Abstention votes/No votes	66,585,250	7.0

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

2. To approve the proposal for the distribution of 2017 surplus earning.

The Board of Directors proposes and recommends that each shareholder votes for the distribution of 2017 surplus earning.

Explanatory Notes:

- (1) All the closing transactions as of December 31, 2017 have been completely closed, and have been audited by the accounting firm, Deloitte and Touche. We thereby submit the proposal for distribution of 2017 profits:

1.	Unappropriated earnings of January 1, 2017	NT\$ 794,124,174
2.	The adjustments of retained earnings for by using equity method	(15,462)
3.	Recognizing the re-measurements of defined benefit plans in retained earnings	(55,149,715)
4.	Un-appropriated earnings after adjustments(1-2-3)	738,958,997
5.	Net Income for the year ended December 31, 2017	1,535,986,187
6.	10% legal reserve (=5*10%)	(153,598,619)
7.	Special reserve	(12,543,416)
8.	Distributable net profit(4+5-6-7)	2,108,803,149
9.	Earnings distribution (NT\$1.0 per share)	(1,416,940,589)
10.	Un-appropriated earnings after distribution(=8-9)	691,862,560

- (2) The distribution of 2017 dividends composes of 2017 surplus earning in priority, and the undistributed profit from 1998 to 2016 in case 2017 surplus earning are insufficient to cover 2017 dividends, and then the undistributed profit before 1997 in case the surplus earning from 1998 to 2016 are insufficient to cover 2017 dividends.
- (3) After being approved at the annual General Shareholders' meeting (2018), the cash dividends to holders of common share will be distributed on the record date to be determined by Chairman authorized by the Board of Directors. Cash dividends allocated to each shareholder should be calculated to round down to full NT dollar (decimal places should be ignored). The sum of the amount lower than NT\$1 paid to each shareholder should be reclassified to other income. According to Article 28-2 of the ROC Securities and Exchange Law and other relevant regulations, the total numbers of common shares outstanding may change, and the ultimate cash to be distributed to each common share may need to be adjusted accordingly. It is proposed that the Board of Directors of FEDS be authorized to adjust the cash to be distributed to each common share based on the total amount of profits resolved to be distributed, the amount of earnings resolved to be capitalized, and the number of actual common shares outstanding on the record date for distribution.
- (4) Please approve the above-mentioned proposal for the distribution of 2017 profits.

Resolution: the result of voting is as follows:

The number of shares represented by the shareholders present at the time of voting (including e-voting) was 959,362,057.

Number of votes (including e-voting)		% of votes represented by the shareholders present
Approval	896,328,790	93.4
Disapproval	300,584	-
Invalid	0	-
Abstention votes/No votes	62,732,683	6.6

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

III. Discussion and Election

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

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

Explanatory Notes:

- (1) In accordance with the actual operation situation, we planned to specify the company's dividend policy, with the amendments to the "Articles of Incorporation" "Article 28, Article 30, amendments in the following table.
- (2) Please approve the proposed resolutions.

Resolution: the result of voting is as follows:

The number of shares represented by the shareholders present at the time of voting (including e-voting) was 959,362,057.

Number of votes (including e-voting)		% of votes represented by the shareholders present
Approval	896,296,160	93.4
Disapproval	299,511	-
Invalid	0	-
Abstention votes/No votes	62,766,386	6.6

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

2. Proposal to amend the certain provisions of the Company's "Procedures for Acquisition and Disposition of Assets"

The Board of Directors proposes and recommends that each shareholder votes FOR the amendments of certain provisions of the Company's "Procedures for Acquisition and Disposition of Assets".

Explanatory Notes:

- (1) According to FSC's opinion, the internal auditors of company shall regularly review the appropriateness of internal controls for derivative product trading, thus, the board of directors shall not authorize the directors of audit department to conduct the management and supervision of derivative product trading. Therefore, amend "directors of Audit Department" to "the chairman or the person appointed by him", and amend article 10.
- (2) To simplify the "Procedures for Acquisition and Disposition of Assets" of the subsidiary companies, and amend article 14.

Resolution: the result of voting is as follows:

The number of shares represented by the shareholders present at the time of voting (including e-voting) was 959,362,057.

Number of votes (including e-voting)		% of votes represented by the shareholders present
Approval	896,216,646	93.4
Disapproval	326,475	-
Invalid	0	-
Abstention votes/No votes	62,818,936	6.6

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

3. Proposal to re-elect the Company's Directors(including independent directors)

The Board of Directors proposes and recommends that each shareholder votes for the re-election of the Company's Directors.

Explanatory Notes:

- (1) Pursuant to the Article 17 of the Company's Articles of Incorporation, the Company shall adopt a candidate nomination system for election of the Independent Directors, and the shareholders shall elect the Directors from among the nominees listed in the slate of the Director candidates.
- (2) The Company's Directors of 17th term will expire on June 21, 2018. Therefore, the Directors shall re-elect in the general shareholders' meeting in 2018 in accordance with Article 18 of the Company's Articles of Incorporation. After the re-election of Directors including three Independent Directors in the general shareholders' meeting in 2018, the respective appointments of Directors and Independent Directors will be from June 21, 2018 to June 20, 2021, and be for a period of 3 years.
- (3) Pursuant to the Article 192-1 of the Company Law and relative provisions, these nine Director candidates including three Independent Directors candidates reviewed and approved by the 13th meeting of 17th term of Board of Directors on May 2, 2018 ,the slate of candidates please refer to page 43~48 of handbook for 2018 AGM.
- (4) Please elect.

The following table is the election result.

Election result

Title.	Shareholder Number/ID	Name.	Votes Received.
Director	000008	Douglas Tong Hsu	1,079,226,013
Director	136279	Nancy Hsu, Representative of Ding & Ding Management Consultants Co.	994,719,778
Director	000010	Nicole Hsu, Representative of Far Eastern New Century Corporation	925,790,844
Director	000010	Yvonne Li, Representative of Far Eastern New Century Corporation	847,498,226
Director	005757	Jin Lin Liang, Representative of Asia Cement Corporation	845,433,072
Director	111468	Philby Chen, Representative of Yue-Li Investment Corporation	764,541,740
Independent Director	R10006****	CHIEN YOU HSIN	697,077,342
Independent Director	Q10022****	Raymond R. M. Tai	696,616,456
Independent Director	A10214****	EDWARD YUNG DO WAY	693,621,775

4. Proposal to lift the restriction on non-competition of the Company's directors as defined in Article 209 of the Company Law.

The Board of Directors proposes and recommends that each shareholder votes FOR lifting the restriction on non-competition of directors as defined in Article 209 of the Company Law.

Explanatory Notes:

- (1) According to Paragraph 1 of Article 209 of the Company Law, a director who performs any act for himself or on behalf of another person that is within the scope of the company's business shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.
- (2) As the Company's new directors might have invested in or managed other companies engaged in the business identical with or similar to the Company's and assumed the position of director or manager in the companies, we hereby ask the shareholders' meeting to approve the relief of the Company's restrictions on the non-competition of new directors and their representatives in accordance with Article 209 of the Company Law.

Resolution: the result of voting is as follows:

The number of shares represented by the shareholders present at the time of voting (including e-voting) was 959,362,057.

Number of votes (including e-voting)		% of votes represented by the shareholders present
Approval	893,571,489	93.1
Disapproval	1,494,261	0.2
Invalid	0	-
Abstention votes/No votes	64,296,307	6.7

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

To lift the restriction on non-competition of the Company's directors

Title	Name	Title and Competition Company	Major Business Scope
Direct	Douglas Tong Hsu	Chairman <ul style="list-style-type: none"> ● Far Eastern Ai Mai Co., Ltd. ● FEDS Asia Pacific Development Co., Ltd. ● FEDS New Century Development Co., Ltd. Director <ul style="list-style-type: none"> ● Pacific Sogo Department Stores Co., Ltd. ● Ya Tung Department Stores Ltd. ● Far Eastern City Super Co. Ltd. 	Retail and wholesale.
Direct	Nancy Hsu, Representative of Ding Ding Management Consultant Corporation	Chairman <ul style="list-style-type: none"> ● Ya Tung Department Stores Ltd. ● Far Eastern City Super Co. Ltd. Director <ul style="list-style-type: none"> ● Far Eastern Ai Mai Co., Ltd. ● FEDS Asia Pacific Development Co., Ltd. ● FEDS New Century Development Co., Ltd. ● Chubei New Century Shopping mall Co., Ltd. 	Retail and wholesale.
Direct	Yvonne Li, Representative of Far Eastern New Century Co., Ltd.	Director, <ul style="list-style-type: none"> ● Pacific Sogo Department Stores Co., Ltd. 	Retail and wholesale.
Direct	Philby Lee, Representative of Yue Li Investment Corporation.	Chairman <ul style="list-style-type: none"> ● Far Eastern Big City Shopping Malls Co., Ltd. ● Chubei New Century Shopping mall Co., Ltd Director <ul style="list-style-type: none"> ● Far Eastern Ai Mai Co., Ltd. ● Yuanshi digital technology Co.,Ltd. 	Retail and wholesale.

Shareholder # 0359696 raised questions about the operation and finance of company. The questions were answered by Chairman.

IV. Extemporary motion

None

V. Motion to Adjourn

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Far Eastern Department Stores, Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of Impairment Loss of Goodwill

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

The goodwill of the Group mainly derived from the merger and acquisition of operating segments in mainland China. When testing goodwill for impairment, management should evaluate whether the recoverable amount is higher than the carrying amount. In determining the recoverable amount, management should estimate the future cash flows from operating segments in mainland China and determine the optimal discount rate. Significant assumptions involve both judgments made by management and material estimation uncertainty. Thus, the evaluation of impairment loss of goodwill is considered a key audit matter. For the accounting policy related to impairment loss of the goodwill, refer to Notes 4, 5 and 18 of the accompanying consolidated financial statements.

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

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

Fair Value Evaluation of Investment Properties

As of December 31, 2017, the carrying amount of investment properties was NT\$8,738,216 thousand, accounting for 8% of total consolidated assets, which is material to the consolidated financial statements. The Group's investment properties are subsequently measured using the fair value model. In the process of fair value assessment, valuation technique and inputs require consideration of the future scheme of investment properties to estimate the discounted fair value of future cash flows. Future cash flows are extrapolated using the existing lease contracts of the Group and market rentals.

Since the cash flow forecasts are subject to economic conditions, which have a high level of measurement uncertainty, we have resultantly identified the fair value evaluation of investment properties as a key audit matter. Refer to Notes 4, 5 and 17 to the accompanying consolidated financial statements for the relevant detailed information.

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

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

Others Matter

We have also audited the parent company only financial statements of Far Eastern Department Stores, Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance, including members of the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2018

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS **DECEMBER 31, 2017 AND 2016** **(In Thousands of New Taiwan Dollars)**

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

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

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

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

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

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

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

(Concluded)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company											
			Retained Earnings				Other Equity					
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Gain on Property Revaluation	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	\$ 14,169,406	\$ 3,315,420	\$ 2,728,379	\$ 2,461,168	\$ 2,673,946	\$ 57,483	\$ 1,767,337	\$ 2,170,970	\$ (97,110)	\$ 29,246,999	\$ 7,604,872	\$ 36,851,871
Appropriation of 2015 earnings												
Legal reserve	-	-	171,477	-	(171,477)	-	-	-	-	-	-	-
Special reserve	-	-	-	68,426	(68,426)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(1,416,940)	-	-	-	-	(1,416,940)	-	(1,416,940)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(158,320)	(158,320)
	-	-	171,477	68,426	(1,656,843)	-	-	-	-	(1,416,940)	(158,320)	(1,575,260)
Net profit for the year ended December 31, 2016	-	-	-	-	1,134,252	-	-	-	-	1,134,252	361,306	1,495,558
Other comprehensive (loss) income for the year ended December 31, 2016, net of income tax	-	-	-	-	(136,670)	790	(201,180)	-	-	(337,060)	48,050	(289,010)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	997,582	790	(201,180)	-	-	797,192	409,356	1,206,548
Difference between equity purchase price and carrying amount arising from actual acquisition of subsidiary	-	-	-	-	(1,128)	-	-	-	-	(1,128)	1,128	-
Adjustments resulting from investments in associates accounted for using the equity method	-	4,448	-	-	-	-	-	-	-	4,448	5,381	9,829
Decreases in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(50,186)	(50,186)
BALANCE AT DECEMBER 31, 2016	\$ 14,169,406	\$ 3,319,868	\$ 2,899,856	\$ 2,529,594	\$ 2,013,557	\$ 58,273	\$ 1,566,157	\$ 2,170,970	\$ (97,110)	\$ 28,630,571	\$ 7,812,231	\$ 36,442,802
Appropriation of 2016 earnings												
Legal reserve	-	-	113,425	-	(113,425)	-	-	-	-	-	-	-
Special reserve	-	-	-	114,149	(114,149)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(991,858)	-	-	-	-	(991,858)	-	(991,858)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(273,138)	(273,138)
	-	-	113,425	114,149	(1,219,432)	-	-	-	-	(991,858)	(273,138)	(1,264,996)
Net profit for the year ended December 31, 2017	-	-	-	-	1,535,986	-	-	-	-	1,535,986	309,036	1,845,022
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	(55,150)	27,775	(144,654)	-	-	(172,029)	12,821	(159,208)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,480,836	27,775	(144,654)	-	-	1,363,957	321,857	1,685,814
Adjustments resulting from investments in associates accounted for using the equity method	-	(3,937)	-	-	(15)	-	-	-	-	(3,952)	(1,490)	(5,442)
BALANCE AT DECEMBER 31, 2017	\$ 14,169,406	\$ 3,315,931	\$ 3,013,281	\$ 2,643,743	\$ 2,274,946	\$ 86,048	\$ 1,421,503	\$ 2,170,970	\$ (97,110)	\$ 28,998,718	\$ 7,859,460	\$ 36,858,178

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

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

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

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD. AND SUBSIDIARIES

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

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

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

(Concluded)

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Far Eastern Department Stores, Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Evaluation of Impairment Loss of Goodwill in Investments in Subsidiaries

Carrying amounts of investments in subsidiaries of Company include the goodwill acquired through indirect investment of Pacific Liu Tong Investment Co. Ltd. towards operating segments in mainland China. Under IAS 36, the management of the Company must test for impairment annually. When testing goodwill for impairment, the management should evaluate whether the recoverable amount is higher than the carrying amount. In determining recoverable amount, management should estimate the future cash flows from operating segments in mainland China and determine the optimal discount rate. Significant assumptions involve both judgments made by

management and material estimation uncertainty. Thus, the evaluation of impairment loss of goodwill in subsidiaries is considered a key audit matter. For the accounting policy related to investments in subsidiaries, please refer to Notes 4(6) and 5(1) of the accompanying financial statements, in which the goodwill impairment of investments in subsidiaries is included.

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

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

Fair Value Evaluation of Investment Properties

As of December 31, 2017, the carrying amount of investment properties was NT\$9,120,816 thousand, accounting for 15% of the total assets, which is material to the financial statements. The Company's investment properties are subsequently measured using the fair value model. In the process of fair value assessment, valuation technique and inputs require consideration of the future scheme of investment properties to estimate the discounted fair value of future cash flows. Future cash flows are extrapolated using the existing lease contracts of the Company and market rentals.

Since the cash flow forecasts are subject to economic conditions, which have a high level of measurement uncertainty, we have resultantly identified the fair value evaluation of investment properties as a key audit matter. Please refer to Notes 4(9), 5(2) and 13 to the accompanying financial statements for the relevant detailed information.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2018

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

FAR EASTERN DEPARTMENT STORES, LTD.

BALANCE SHEETS **DECEMBER 31, 2017 AND 2016** **(In Thousands of New Taiwan Dollars)**

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

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

FAR EASTERN DEPARTMENT STORES, LTD.

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

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

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD.

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

	2017		2016	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets	\$ (26,854)	-	\$ (107,830)	(1)
Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method	<u>(90,025)</u>	<u>(1)</u>	<u>(92,560)</u>	<u>(1)</u>
	<u>(116,879)</u>	<u>(1)</u>	<u>(200,390)</u>	<u>(2)</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(172,029)</u>	<u>(2)</u>	<u>(337,060)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,363,957</u>	<u>13</u>	<u>\$ 797,192</u>	<u>8</u>
EARNINGS PER SHARE, NT\$ (Note 25)				
Basic	<u>\$ 1.09</u>		<u>\$ 0.81</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 0.80</u>	

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

(Concluded)

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

						Other Equity (Note 21)				
	Share Capital (Note 21)	Capital Surplus (Note 21)	Retained Earnings (Notes 20, 21 and 24)			Exchange Differences on Translating Foreign Operations	Unrealized (Loss) Gain on Available-for-sale Financial Assets	Gain on Property Revaluation	Treasury Shares (Note 21)	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2016	\$ 14,169,406	\$ 3,315,420	\$ 2,728,379	\$ 2,461,168	\$ 2,673,946	\$ 57,483	\$ 1,767,337	\$ 2,170,970	\$ (97,110)	\$ 29,246,999
Appropriation of 2015 earnings										
Legal reserve	-	-	171,477	-	(171,477)	-	-	-	-	-
Special reserve	-	-	-	68,426	(68,426)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,416,940)	-	-	-	-	(1,416,940)
	-	-	171,477	68,426	(1,656,843)	-	-	-	-	(1,416,940)
Net profit for the year ended December 31, 2016	-	-	-	-	1,134,252	-	-	-	-	1,134,252
Other comprehensive (loss) income for the year ended December 31, 2016, net of income tax	-	-	-	-	(136,670)	790	(201,180)	-	-	(337,060)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	997,582	790	(201,180)	-	-	797,192
Difference between equity purchase price and carrying amount arising from actual acquisition of subsidiary	-	-	-	-	(1,128)	-	-	-	-	(1,128)
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	4,448	-	-	-	-	-	-	-	4,448
BALANCE AT DECEMBER 31, 2016	14,169,406	3,319,868	2,899,856	2,529,594	2,013,557	58,273	1,566,157	2,170,970	(97,110)	28,630,571
Appropriation of 2016 earnings										
Legal reserve	-	-	113,425	-	(113,425)	-	-	-	-	-
Special reserve	-	-	-	114,149	(114,149)	-	-	-	-	-
Cash dividends	-	-	-	-	(991,858)	-	-	-	-	(991,858)
	-	-	113,425	114,149	(1,219,432)	-	-	-	-	(991,858)
Net profit for the year ended December 31, 2017	-	-	-	-	1,535,986	-	-	-	-	1,535,986
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	(55,150)	27,775	(144,654)	-	-	(172,029)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,480,836	27,775	(144,654)	-	-	1,363,957
Adjustments resulting from investments in subsidiaries and associates accounted for using the equity method	-	(3,937)	-	-	(15)	-	-	-	-	(3,952)
BALANCE AT DECEMBER 31, 2017	\$ 14,169,406	\$ 3,315,931	\$ 3,013,281	\$ 2,643,743	\$ 2,274,946	\$ 86,048	\$ 1,421,503	\$ 2,170,970	\$ (97,110)	\$ 28,998,718

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

FAR EASTERN DEPARTMENT STORES, LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

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

(Continued)

FAR EASTERN DEPARTMENT STORES, LTD.

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

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

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

(Concluded)

Amendment of the certain provisions of the Company’s “Articles of Incorporation”

Section	Proposed Changes	Current Articles
Article 28	<p>Apart from paying all its income taxes in the case where there are profits at the end of the year, the Company shall make up for accumulated losses in past years. Where there is still balance, 10% of which shall be set aside by the Company as legal reserve. Subject to certain business conditions under which the Company may retain a portion, the Company may distribute to the shareholders the bonus which is the remainder based on shareholdings after deducting special reserve as required by law together with undistributed profits from previous years.</p> <p>The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be paid aimed at maintaining the stability of dividend distributions. <u>Save for the purposes of improving the financial structure, reinvestments, production expansion or other capital expenditures in which capital is required, when distributing shareholders' dividend, the dividend payout ratio each fiscal year shall be no less than fifty percent (50%) of the final surplus which is the sum of after-tax profit of the fiscal year to withhold previous loss, if any, legal reserve and special reserve as required by law; the cash dividends shall not be less than 10% of bonus to the shareholders distributed in the same year.</u></p>	<p>Apart from paying all its income taxes in the case where there are profits at the end of the year, the Company shall make up for accumulated losses in past years. Where there is still balance, 10% of which shall be set aside by the Company as legal reserve. Subject to certain business conditions under which the Company may retain a portion, the Company may distribute to the shareholders the bonus which is the remainder based on shareholdings after deducting special reserve as required by law together with undistributed profits from previous years.</p> <p>The distribution of dividends shall take into consideration the changes in the outlook for the Company's businesses, the lifespan of the various products or services that have an impact on future capital needs and taxation. Dividends shall be paid aimed at maintaining the stability of dividend distributions. When distributing dividends, the cash dividends shall not be less than 10% of bonus to the shareholders distributed in the same year.</p>

Section	Proposed Changes	Current Articles
Article 30	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p><u>Forty-seventh amendment of June 21, 2018</u></p>	<p>These Articles of Incorporation were drafted on August 2, 1967, and came into effect following its approval by a resolution of the General Shareholders' Meeting and the competent authorities. Amendments shall take effect following their approval at the Shareholders' Meetings.</p> <p>Forty-sixth amendment of June 17, 2016</p>

Amendment of the certain provisions of the Company's "Procedures for Acquisition and Disposition of Assets"

Section	Proposed Changes	Current Articles
Article 10(1)	<p>Acquisition or Disposition of Derivative Products</p> <p>1) Principles and Policies for Transactions</p> <p>a) to b) would be omitted</p> <p>c) Duties and Responsibilities</p> <p>i) Execution of transaction contracts and relevant documents: By the Chairman or a person so appointed by him as representative of the Company.</p> <p>ii) Execution of transaction and profit/loss evaluation:</p> <p>A. The Procurement Department shall be responsible for contracts involved goods related to raw materials; the Finance Department shall be responsible for contracts relating to finance.</p> <p>B. Account opening, transaction, confirmation, settlement: Director of the relevant department to decide or authorize.</p> <p>C. Production of transaction slip, invoice and application for funding to be undertaken by traders and approved by supervisors at various levels before forwarding the same to Finance, Accounting and Audit Departments.</p> <p>D. Designated staff at all relevant departments shall be responsible for profit/loss evaluation; evaluation forms shall be forwarded to <u>the chairman or a person so appointed by him</u>.</p> <p>iii) Accounting: The Accounting Department shall formulate record slips and enter into accounts based</p>	<p>Acquisition or Disposition of Derivative Products</p> <p>2) Principles and Policies for Transactions</p> <p>b) to b) would be omitted</p> <p>c) Duties and Responsibilities</p> <p>i) Execution of transaction contracts and relevant documents: By the Chairman or a person so appointed by him as representative of the Company.</p> <p>ii) Execution of transaction and profit/loss evaluation:</p> <p>A. The Procurement Department shall be responsible for contracts involved goods related to raw materials; the Finance Department shall be responsible for contracts relating to finance.</p> <p>B. Account opening, transaction, confirmation, settlement: Director of the relevant department to decide or authorize.</p> <p>C. Production of transaction slip, invoice and application for funding to be undertaken by traders and approved by supervisors at various levels before forwarding the same to Finance, Accounting and Audit Departments.</p> <p>D. Designated staff at all relevant departments shall be responsible for profit/loss evaluation; evaluation forms shall be forwarded to <u>the director of Audit Department</u>.</p> <p>iii) Accounting: The Accounting Department shall formulate record slips and enter into accounts based</p>

Section	Proposed Changes	Current Articles
Article 10(1)	<p>on the various receipts, and shall complete the relevant accounting reports according to the accounting cycles.</p> <p>iv) Audit: The Audit Department shall conduct regular and irregular audit based on the internal audit system.</p> <p>v) Legal: Legal counsel shall be responsible for review of transaction contracts.</p> <p>vi) Unless otherwise provided, only the administrator or those ranking above may implement the transaction for derivative products.</p> <p>d) to f) would be omitted</p>	<p>on the various receipts, and shall complete the relevant accounting reports according to the accounting cycles.</p> <p>iv) Audit: The Audit Department shall conduct regular and irregular audit based on the internal audit system.</p> <p>v) Legal: Legal counsel shall be responsible for review of transaction contracts.</p> <p>vi) Unless otherwise provided, only the administrator or those ranking above may implement the transaction for derivative products.</p> <p>d) to f) would be omitted</p>

Section	Proposed Changes	Current Articles
Article 10(2)	<p>Acquisition or Disposition of Derivative Products</p> <p>2) Risk Management Measures:</p> <p>a) to h) would be omitted</p> <p>i) All positions in derivative trades shall be appraised on a weekly basis; where hedge positions trades are entered out of business necessity they shall be appraised at least twice a month. Appraisal reports shall be forwarded to <u>the chairman or a person so appointed by him.</u></p>	<p>Acquisition or Disposition of Derivative Products</p> <p>2) Risk Management Measures:</p> <p>a) to h) would be omitted</p> <p>i) All positions in derivative trades shall be appraised on a weekly basis; where hedge positions trades are entered out of business necessity they shall be appraised at least twice a month. Appraisal reports shall be forwarded to <u>senior managers authorized by the board of directors.</u></p>
Article 10(4)	<p>Acquisition or Disposition of Derivative Products</p> <p>4) Regular Appraisal and Measures In the Event of Irregularities</p> <p>a) <u>The chairman or a person so appointed by him</u> shall closely monitor and control the trading risk for derivative trades.</p> <p>b) <u>The chairman or a person so appointed by him</u> shall specifically conduct regular appraisal of the performance of derivative trades so as to establish whether there has been conformity with the pre-set operation policies and whether the risks to be undertaken in respect thereof are within the scope allowed by the Company.</p> <p>c) <u>The chairman or a person so appointed by him</u> shall regularly review the suitability of the existing risk management measures and whether the procedures set out in this Article have been complied with; This person shall furthermore monitor the trades and profits/losses status, and shall take the necessary measures and immediately report to the board</p>	<p>Acquisition or Disposition of Derivative Products</p> <p>4) Regular Appraisal and Measures In the Event of Irregularities</p> <p>a) <u>The board of directors shall appoint the directors of Audit Department</u> to closely monitor and control the trading risk for derivative trades.</p> <p>a) <u>The board of directors shall appoint a person</u> to specifically conduct regular appraisal of the performance of derivative trades so as to establish whether there has been conformity with the pre-set operation policies and whether the risks to be undertaken in respect thereof are within the scope allowed by the Company.</p> <p>c) <u>The director of the Audit Department</u> shall regularly review the suitability of the existing risk management measures and whether the procedures set out in this Article have been complied with; This person shall furthermore monitor the trades and profits/losses status, and shall take the necessary measures and immediately report to the board</p>

Section	Proposed Changes	Current Articles
Article 10(4)	<p>of directors where irregularities are discovered; The independent directors of the Company shall attend meetings of the board of directors and shall express their opinions.</p> <p>d) would be omitted</p>	<p>of directors where irregularities are discovered; The independent directors of the Company shall attend meetings of the board of directors and shall express their opinions.</p> <p>d) would be omitted</p>
Article 14(1)	<p>Subsidiaries of the Company shall comply with the following:</p> <p>1) The subsidiaries shall also formulate and implement their respective "Procedures for Acquisition or Disposition of Assets" in accordance with the provisions of "Regulations Governing Acquisition or Disposition of Assets by Public Companies", after the approval of their respective board of directors and Shareholders' Meeting, a copy of the said procedure shall be submitted to the accounting department of the Company <u>for supervision</u>. The aforesaid shall also apply to amendments to the said procedures.</p>	<p>Subsidiaries of the Company shall comply with the following:</p> <p>1)The subsidiaries shall also formulate and implement their respective "Procedures for Acquisition or Disposition of Assets" in accordance with the provisions of "Regulations Governing Acquisition or Disposition of Assets by Public Companies", after the approval of their respective board of directors and Shareholders' Meeting, a copy of the said procedure shall be submitted to the accounting department of the Company and <u>the subsidiary shall be listed and summarized by the accounting department of the Company to the Company's board of directors for approval.</u> The aforesaid shall also apply to amendments to the said procedures.</p>