

**CONTINENTAL HOLDINGS CORPORATION
AND ITS SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
AND
INDEPENDENT AUDITORS' REPORT**

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Independent Auditors' Report

The Board of Directors

Continental Holdings Corporation

We have audited the accompanying consolidated balance sheets of Continental Holdings Corporation (the Company) as of December 31, 2014, and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our audit. We did not audit the financial statements of certain investee companies. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for these companies, is based solely upon the reports of the other auditors. As of December 31, 2014, and 2013, these companies' total assets amounted to \$6,498,875 thousand, \$3,726,588 thousand, constituting 11.95% and 6.56%, respectively, of the total consolidated assets. These companies' net operating income amounted to \$1,376,324 thousand and \$756,995 thousand, constituting 6.48% and 4.21% of the Company's consolidated net operating income for the years ended December 31, 2014 and 2013, respectively. In addition, we did not audit the financial statements of certain investee companies accounted for under the equity method. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for these companies, is based solely upon the reports of the other auditors. As of December 31, 2014 and 2013, the Company's investment in these companies amounted to \$3,146,998 thousand and \$2,745,726 thousand, constituting 5.78% and 4.83% of the total consolidated assets. Gain on long-term equity investments that was recognized amounted to \$239,495 thousand and \$374,358, constituting (29.02) % and 33.28% of the Company's net income before taxes for the year ended December 31, 2014 and 2013.

We conducted our audit in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Those standards and regulations 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.



In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Continental Holdings Corporation and its subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their consolidated cash flows for the years ended December 31, 2014 and 2013, in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” , and with the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission .

A handwritten signature of 'KPMG' in black ink, written in a cursive, slightly slanted style.

Taipei, Taiwan, R.O.C.

March 26, 2015

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the 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 (or review) 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 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 auditors’ report and consolidated financial statements shall prevail.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014, AND 2013
(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6(1))	\$ 1,135,015	2	1,444,219	3
Current financial asset measured at fair value through profit or loss (Note 6(2))	-	-	55	-
Current available- for- sale financial assets(Notes 6(2))	2,979,385	6	4,092,893	7
Current derivative financial assets for hedging (Note 6(2))	24,303	-	66,153	-
Notes receivable, net (Note 6(3))	149,123	-	158,336	-
Accounts receivable, net (Notes 6(3) and 7)	3,195,303	6	3,942,177	7
Construction contracts receivable (Note 6(4))	3,629,938	7	3,146,178	6
Other receivables (Notes 6(3) and 7)	643,279	1	573,151	1
Current income tax assets (Note 6(17))	62,642	-	39,463	-
Inventory (Notes 6(5) and 8)	19,771,907	36	20,195,392	36
Prepayments	709,598	1	805,525	1
Other current assets (Note 8)	220,463	-	1,038,584	2
Total current assets	<u>32,520,956</u>	<u>59</u>	<u>35,502,126</u>	<u>63</u>
NON-CURRENT ASSETS				
Non-current financial assets at cost (Notes 6(2))	-	-	13,210	-
Non-current available-for-sale financial assets (Note 6(2))	1,322,188	3	1,339,905	2
Investments accounted for using equity method (Note 6(6))	3,296,966	6	2,795,272	5
Property, plant and equipment (Notes 6(7) and 8)	2,736,277	5	2,185,380	4
Investment property, net (Notes 6(8) and 8)	10,536,281	20	11,204,064	20
Intangible assets (Notes 6(9) and 8)	448,570	1	387,487	-
Deferred tax assets(Note 6(17))	5,018	-	4,994	-
Other non-current assets	12,689	-	38,301	-
Long-term receivables(Notes 6(3) and 8)	3,521,614	6	3,344,165	6
Total non-current assets	<u>21,879,603</u>	<u>41</u>	<u>21,312,778</u>	<u>37</u>
TOTAL	<u>\$ 54,400,559</u>	<u>100</u>	<u>56,814,904</u>	<u>100</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014, AND 2013
(In Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term borrowings (Note 6(11))	\$ 7,356,036	14	10,797,510	19
Short-term notes and bills payable (Note 6(10))	100,000	-	1,550,000	3
Notes and accounts payable	3,946,073	7	3,974,573	7
Construction contracts payable (Note 6(4))	1,223,294	2	1,084,581	2
Other payables	1,064,368	2	977,729	2
Current tax liabilities (Note 6(17))	20,105	-	105,611	-
Current provision (Note 6(13))	555,898	1	557,554	1
Advance receipts (Notes 6(4) 、(15) and 7)	7,225,508	13	5,983,867	11
Long-term liabilities, current portion (Note 6(12))	1,207,501	2	333,834	1
Other current liabilities, others	109,793	2	105,816	-
Total current liabilities	22,808,576	43	25,471,075	46
LONG-TERM LIABILITIES				
Long-term borrowings (Note 6(12))	11,139,340	20	11,194,801	20
Deferred income tax liabilities (Note 6(17))	2,228	-	4,431	-
Accrued pension liabilities (Note 6(16))	379,717	1	361,630	-
Credit balance of investments accounted for using equity method (Note 6(6))	493,286	1	-	-
Guarantee deposits received	122,745	-	128,073	-
Total non-current liabilities	12,137,316	22	11,688,935	20
Total Liabilities	34,945,892	65	37,160,010	66
STOCKHOLDERS' EQUITY				
Capital stock	8,832,160	16	8,411,581	15
Capital surplus	6,864,224	13	6,864,988	12
Retained earnings (Notes 6(16) 、(17))	4,537,162	8	6,381,109	11
Other equity interest	(1,418,876)	(3)	(2,766,845)	(5)
Total equity attributable to owners of parent (Note 6(18))	18,814,670	34	18,890,833	33
Non-controlling interests	639,997	1	764,061	1
Total equity	19,454,667	35	19,654,894	34
TOTAL	\$ 54,400,559	100	56,814,904	100

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

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014		2013	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 6(6), (14), (20) and 7) :				
Rental revenue	\$ 267,956	1	268,268	1
Construction revenue	20,738,703	98	17,495,862	98
Other operating revenue	220,746	1	184,414	1
Less: Sales returns and allowances	-	-	300	-
NET OPERATING REVENUES	<u>21,227,405</u>	<u>100</u>	<u>17,948,244</u>	<u>100</u>
OPERATING COSTS (Notes 6(5) and (14)) :				
Rental costs	100,527	-	112,974	1
Construction costs	18,015,081	85	15,871,187	88
Other operating costs	22,839	-	50,347	-
NET OPERATING COSTS	<u>18,138,447</u>	<u>85</u>	<u>16,034,508</u>	<u>89</u>
GROSS PROFIT FROM OPERATIONS	<u>3,088,958</u>	<u>15</u>	<u>1,913,736</u>	<u>11</u>
OPERATING EXPENSES (Notes 6(3), (16), (18) and 12) :				
Selling expenses	346,012	2	175,203	1
Administrative expenses	1,245,492	6	849,362	5
	<u>1,591,504</u>	<u>8</u>	<u>1,024,565</u>	<u>6</u>
NET OPERATING INCOME	<u>1,497,454</u>	<u>7</u>	<u>889,171</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSE (Note 6(21)) :				
Others income (Note7)	350,091	2	167,994	1
Other gains and losses	(2,242,219)	(11)	(13,261)	-
Finance costs (Note 6(5))	(227,597)	(1)	(327,494)	(2)
Share of profits of associates and joint ventures accounted for using equity method (Note 6(6))	(202,937)	(1)	408,578	2
TOTAL NON-OPERATING INCOME AND EXPENSE	<u>(2,322,662)</u>	<u>(11)</u>	<u>235,817</u>	<u>1</u>
INCOME BEFORE TAX	<u>(825,208)</u>	<u>(4)</u>	<u>1,124,988</u>	<u>6</u>
TAX EXPENSE	<u>151,068</u>	<u>1</u>	<u>186,379</u>	<u>1</u>
NET INCOME	<u>(976,276)</u>	<u>(5)</u>	<u>938,609</u>	<u>5</u>
OTHER COMPREHENSIVE INCOME (LOSS) :				
Other comprehensive income, before tax, exchange differences on translation	205,231	1	(114,713)	(1)
Other comprehensive income, before tax, available- for - sale financial assets	1,122,922	5	478,457	3
Other comprehensive income, before tax, cash flow hedges	19,116	-	457	-
Other comprehensive income, before tax, actuarial (losses) gains on defined benefit plans	(19,028)	-	18,400	-
Less: Income tax relating to components of other comprehensive income	3,235	-	(3,128)	-
OTHER COMPREHENSIVE INCOME (AFTER TAX)	<u>1,331,476</u>	<u>6</u>	<u>379,473</u>	<u>2</u>
COMPREHENSIVE INCOME	<u>\$ 355,200</u>	<u>1</u>	<u>1,318,082</u>	<u>7</u>
NET INCOME ATTRIBUTABLE TO :				
Net income, attributable to owners of parent	\$ (979,878)	(5)	920,401	5
Net income, attributable to non-controlling interests	3,602	-	18,208	-
	<u>\$ (976,276)</u>	<u>(5)</u>	<u>938,609</u>	<u>5</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO :				
Comprehensive income, attributable to owners of parents	\$ 352,908	1	1,300,336	7
Comprehensive income, attributable to non-controlling interests	2,902	-	17,746	-
	<u>\$ 355,200</u>	<u>1</u>	<u>1,318,082</u>	<u>7</u>
EARNINGS (LOSSES) PER SHARE (DOLLARS) (Note 19)				
BASIC EARNINGS (LOSSES) PER SHARE (DOLLARS)	<u>\$</u>	<u>(1.11)</u>	<u>\$</u>	<u>1.04</u>
DILUTED EARNINGS PER SHARE (DOLLARS)			<u>\$</u>	<u>1.04</u>

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

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of Parent												
	Retained Earnings			Exchange differences on translation of foreign financial statements				Other Equity Interest					
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Earnings	Total	Unrealized gains (losses) on available-	for- sine financial asset	cash flow hedges	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance, January 1, 2013	58,411,581	6,864,224	191,523	888,894	4,804,401	5,884,818	(266,213)	(2,863,646)	(1,649)	(3,131,508)	18,029,115	815,892	18,845,007
Appropriation and distribution of retained earnings	-	-	114,722	-	(114,722)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	(2,881,607)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	2,881,607	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(420,579)	(420,579)	-	-	-	-	(420,579)	-	(420,579)
Net income	-	-	-	-	920,401	920,401	-	-	-	-	920,401	18,208	938,609
Other comprehensive income	-	-	-	-	15,272	15,272	(114,251)	478,457	457	364,663	379,935	(462)	379,473
Comprehensive income	-	-	-	-	935,673	935,673	(114,251)	478,457	457	364,663	1,300,336	17,746	1,318,082
Changes in equity of associates and joint ventures accounted for using equity method	-	764	-	-	(18,803)	(18,803)	-	-	-	-	(18,039)	(69,577)	(87,616)
Balance, December 31, 2013	8,411,581	6,864,988	306,245	3,770,501	2,304,363	6,381,109	(380,464)	(2,385,189)	(1,192)	(2,766,845)	18,890,833	764,061	19,654,894
Appropriation and distribution of retained earnings	-	-	92,040	-	(92,040)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	1,102,818	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,102,818)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(420,579)	(420,579)	-	-	-	-	(420,579)	-	(420,579)
Stock dividends of ordinary share	420,579	-	-	-	(420,579)	(420,579)	-	-	-	-	-	-	-
Net income	-	-	-	-	(979,878)	(979,878)	-	-	-	-	(979,878)	3,602	(976,276)
Other comprehensive income	-	-	-	-	(15,793)	(15,793)	205,931	1,122,922	19,116	1,347,969	1,321,176	(700)	1,331,476
Comprehensive income	-	-	-	-	(995,671)	(995,671)	205,931	1,122,922	19,116	1,347,969	352,298	2,902	355,200
Changes in equity of associates and joint ventures accounted for using equity method	-	(764)	-	-	(7,118)	(7,118)	-	-	-	-	(7,882)	(126,966)	(134,848)
Balance, December 31, 2014	89,832,160	6,864,224	398,285	2,667,683	1,471,194	4,537,162	(174,533)	(1,262,267)	17,924	(1,418,876)	18,814,670	639,997	19,454,667

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

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before tax	\$ (825,208)	1,124,988
Adjustments		
Adjustments to reconcile profit (loss)		
Depreciation expense	341,519	385,756
Amortization expense	14,668	25,694
Provision for bad debt expense	142,715	-
Loss on Financial assets and liabilities measured at fair value through profit or loss	55	1,637
Interest expense	227,597	327,494
Interest income	(32,883)	(38,559)
Dividend income	(88,196)	-
Share of profit (loss) of subsidiaries and associates accounted for using equity method	202,937	(408,578)
Gain (loss) on disposal of property, plant and equipment	(15,319)	(251)
Gain (loss) on disposal of property, plant and equipment (written off against construction costs)	(6,395)	-
Gain on disposal of investment properties	(302)	-
Impairment losses on financial assets	2,259,009	-
Gains from reversal of impairment losses on property, plant and equipment	-	(19,523)
Estimated provision for warranty reserve	12,076	(648,150)
Total adjustments to reconcile profit (loss)	3,057,481	(374,480)
Changes in operating assets and liabilities		
Notes receivable	9,167	(33,755)
Accounts receivable	577,711	(1,857,180)
Construction contracts receivable	(530,124)	(1,061,631)
Other receivables	(81,608)	(224,193)
Inventory	885,015	(1,293,403)
Investments accounted for using equity method	738	345,077
Prepayments	86,377	(17,790)
Other current assets	814,751	33,025
Other intangible assets	-	(48,115)
Total changes in operating assets	1,762,027	(4,157,965)
Accounts payable	29,788	762,720
Construction contract payable	141,185	480,060
Other payables	81,114	85,491
Provision	(13,732)	(20,583)
Advance receipts	1,258,970	439,212
Other current liabilities	13,801	23,010
Accrued pension liabilities	2,294	(2,843)
Total changes in operating liabilities	1,513,420	1,767,067
Total changes in operating assets and liabilities	3,275,447	(2,390,898)
Total adjustments	6,332,928	(2,765,378)
Net cash inflows (outflows) generated from operating activities	5,507,720	(1,640,390)
Interest received	36,001	38,559
Interest paid	(352,698)	(326,554)
Income taxes (return) paid	(120,811)	(95,615)
Net cash inflows (outflows) from operating activities	5,070,212	(2,024,000)

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands of New Taiwan Dollars)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposal of financial assets measured at fair value through profit or loss	(7,367)	(1,637)
Proceeds from capital reduction of financial assets at cost	14,500	-
Disposal of derivative financial assets	66,920	-
Acquisition of investment accounted for using equity method	(6,298)	-
Acquisition of property, plant and equipment	(498,372)	(178,393)
Proceeds from disposal of property, plant and equipment	26,001	39,770
Acquisition of intangible assets	(75,751)	(48,115)
Increase in other non-current assets	(174,473)	(207,135)
Increase in prepayments for equipment	(183,487)	(11,589)
Dividends received	88,196	88,211
Net cash used in investing activities	<u>(750,131)</u>	<u>(318,888)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in short-term borrowings	(3,447,656)	(306,868)
Increase in short-term notes and bill payable	-	84,000
Decrease in short-term notes and bill payable	(1,450,000)	-
Increase in long-term borrowings	805,291	2,448,609
Increase in guarantee deposit received	-	10,218
Decrease in guarantee deposit received	(5,328)	-
Cash dividends paid	(420,579)	(420,579)
Change in non-controlling interests	(126,966)	(69,577)
Net cash from (used in) financing activities	<u>(4,645,238)</u>	<u>1,745,803</u>
INFLUENCE OF EXCHANGE RATE	15,953	(35,036)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(309,204)	(632,121)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>1,444,219</u>	<u>2,076,340</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$ 1,135,015</u></u>	<u><u>1,444,219</u></u>

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

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of New Taiwan Dollars)

1. ORGANIZATION AND OPERATIONS

Continental Holdings Corp. (the Company) was established through shares exchange with Continental Engineering Corp. (CEC) on April 8, 2010 and CEC became 100% - owned by the Company. On the same day, the Company was approved to be a listed Company by Financial Supervisory Commission, Executive Yuan, R.O.C.. The consolidated financial statements as of December 31, 2014 consist of the Company and all of its subsidiaries(the Group), and the interests in a jointly controlled entities and associates. Please refer to Note 14 for the Group's main businesses.

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL STATEMENTS

The Board of Directors approved the consolidated financial statements on March 26, 2015.

3. NEW ACCOUNTING STANDARDS, AMENDMENT AND INTERPRETATIONS NOT YET ADOPTED

(a) 2013 International Financial Reporting Standards endorsed by the Financial Supervisory Commission, R.O.C., but not yet in effect.

In accordance with Rule No. 1030010325 issued by the Financial Supervisory Commission ("FSC") on April 3, 2014, companies listed for trading on the stock exchange or over-the-counter market or for registration as emerging stock should adopt the 2013 version.(excluding IFRS 9 Financial Instruments) endorsed by the FSC beginning in 2015. The new standards, amendments and interpretations which were announced by the International Accounting Standards Board ("IASB") are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Amended IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
Amended IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
Amended IFRS 1 <i>Government Loans</i>	January 1, 2013
Amended IFRS 7 <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011
Amended IFRS 7 <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Subsidiaries adopt on January 1, 2014)

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
IFRS 11 <i>Joint Agreements</i>	January 1, 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
Amended IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
Amended IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
Amended IAS 19 <i>Employee Benefits</i>	January 1, 2013
Amended IAS 27 <i>Separate Financial Statements</i>	January 1, 2013
Amended IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

In the Group's assessment, except for the following standards, the 2013 IFRSs will not have any significant influence after their adoption:

i IAS 1 "*Presentation of Financial Statements*"

The primary amendment of IAS 1 requires profit or loss and other comprehensive income to be presented together, as well as entities to group items presented in other comprehensive income based on whether they are potentially re-classifiable to profit or loss subsequently. It also requires tax associated with items presented before tax to be shown separately for each of the two groups of the other comprehensive income items. The Group will follow the amendment of IAS 1 to present its comprehensive income statement.

ii IAS 19 "*Employee Benefits*"

The amendments to IAS 19 require companies to calculate a "net interest" amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur. However, they require companies to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it is incurred and will no longer be

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

amortized over the average period before meeting the vesting conditions on a straight-line basis. In addition, the amendments also require a broader disclosure of the defined benefit plans. In compliance with the standards above, the Group anticipates that Accrued pension liabilities will increase by \$4,689 thousand, and the retained earnings will decrease by \$4,689 thousand on January 1, 2014; Accrued pension liabilities will increase by \$3,835 thousand, and Retained earnings will decrease by \$4,689 thousand on December 31, 2014; Operating expenses will increase by \$10 thousand, and Actuarial loss on defined benefit plans, before tax, will decrease by \$864 thousand in Other comprehensive income for the year ended December 31, 2014.

iii IFRS 11 “*Joint Arrangements*”

IAS 31 “Interests in Joint Ventures” is replaced by IFRS 11. The revised standard eliminates the proportionate consolidation as a method to account for joint ventures. When determining the types of joint arrangements, it should be based according to the substance of the contract, not the legal form. The types of joint arrangements are “joint operation” and “joint venture”.

After evaluation, the Group determines that they will account for joint ventures by using the equity method instead of using the proportionate consolidated method. As of January 1, 2014, the Group anticipates that Cash and cash equivalents will increase by \$628,701 thousand; Accounts receivable and other receivables will increase by \$754,234 thousand; Construction contracts receivable will increase by \$2,513,840 thousand; Other current assets will increase by \$177,819 thousand; Property, plant and equipment will increase by \$47,395 thousand; Current derivative financial liabilities for hedging will increase by \$425 thousand; Accounts payable will increase by \$848,219 thousand; Construction contracts payable will increase by \$298,696 thousand; Advance receipts will increase by \$2,864,985 thousand; Other current liabilities will increase by \$59,320 thousand; Accrued pension liabilities will increase by \$4,689 thousand; and Other non-current liabilities will increase by \$798 thousand. Investments accounted for using equity method will decrease by \$49,546 thousand. As of December 31 2014, Cash and cash equivalents will increase by \$445,911 thousand; Accounts receivable and other receivables will increase by \$424,985 thousand; Construction contracts receivable will increase by \$409,839 thousand; Other current assets will increase by \$255,793 thousand; Property, plant and equipment will increase by \$6,420 thousand; Accounts payable will increase by \$445,851 thousand;

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
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Construction contracts payable will increase by \$483,916 thousand; Advance receipts will increase by \$797,362 thousand; Other current liabilities will increase by \$161,904 thousand, and Other non-current liabilities will increase by \$2,016 thousand. Investments accounted for using equity method will decrease by \$141,185 thousand, and Credit balance of investments accounted for using equity method will decrease by \$493,286 thousand. In respect of other comprehensive income statement for the year ended 2014, Operating revenue will increase by \$1,212,523 thousand; Operating costs will increase by \$1,655,036 thousand; Non-operating income and expenses will increase by \$1,472 thousand, and Loss on share of other comprehensive income of associate and joint ventures accounted using equity method will increase by \$441,041 thousand.

The adoption of 2013 IFRSs results in significant influences on the financial statement; the amounts are summarized as follows:

Accounts Influenced on Balance Sheet	2010 IFRSs	Influences	2013 IFRSs
January 1, 2014			
Cash and cash equivalents	\$ 1,444,219	628,701	2,072,920
Accounts receivable and other receivable	4,515,328	754,234	5,269,562
Construction contracts receivable	3,146,178	2,513,840	5,660,018
Other current assets	1,883,572	177,819	2,061,391
Investments accounted for using equity method	2,795,272	(49,546)	2,745,726
Property, plant and equipment	2,185,380	47,395	2,232,775
Influence on assets	\$ 15,969,949	4,072,443	20,042,392
Current derivative financial liabilities for hedging	-	425	425
Accounts payable	3,974,573	848,219	4,822,792
Construction contracts payable	1,084,571	298,696	1,383,277
Advance receipts	5,983,867	2,864,985	8,848,852
Other current liabilities	1,081,330	59,320	1,140,650
Accrued pension liabilities	361,630	4,689	366,319
Other non-current liabilities	128,073	798	128,871
Influence on liability	\$ 12,614,044	4,077,132	16,691,186
Retained earnings	\$ 6,381,109	(4,689)	6,376,420
Influence on equity	\$ 6,381,109	(4,689)	6,376,420

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Accounts Influenced on Balance Sheet	2010 IFRSs	Influences	2013 IFRSs
December 31, 2014			
Cash and cash equivalents	\$ 1,135,015	445,911	1,580,926
Accounts receivable and other receivables	3,832,440	424,985	4,257,425
Construction contracts receivable	3,629,938	409,839	4,039,777
Other current assets	992,703	255,793	1,248,496
Investments accounted for using equity method	3,296,966	(145,185)	3,151,781
Property, plant and equipment	2,736,277	6,420	2,742,697
Influence on assets	\$ 15,623,339	1,397,763	17,021,102
Accounts payable	\$ 3,944,123	445,851	4,389,974
Construction contracts payable	1,223,294	483,916	1,707,210
Advanced receipts	7,225,508	797,362	8,022,870
Other current liabilities	1,174,160	161,904	1,336,064
Accrued pension liabilities	379,317	3,835	383,552
Other non-current liabilities	122,745	2,016	124,761
Credit balance of investments accounted for using equity method	493,286	(493,286)	-
Influence on liabilities	\$ 14,562,833	1,401,598	15,964,431
Retained earnings	\$ 4,537,161	(3,835)	4,533,326
Influence on equity	\$ 4,537,161	(3,835)	4,533,326

Accounts Influenced on Other Comprehensive Income Statement	2010 IFRSs	Influence	2013 IFRSs
Year 2014			
Construction revenue	\$ 16,003,087	1,212,523	17,215,610
Construction costs	15,432,754	1,655,036	17,087,790
Operating expenses	1,591,465	10	1,591,475
Share of profit (loss) of joint ventures accounted for using equity method	(441,041)	441,041	-
Non-operating income and expenses	(2,169,970)	1,472	(2,168,498)
Influence on income before income tax	\$ (3,632,143)	(10)	(3,632,153)
Other comprehensive income before tax, actuarial gains(losses) on defined benefit plans	\$ (15,793)	864	(15,929)

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

iv. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 combines all related standards regarding the disclosures of the financial reports of the subsidiaries, joint ventures, associates, and non-consolidated entities. The Group will additionally disclose the information on the consolidated and non-consolidated entities.

v. IFRS 13 *Fair Value Measurement*

IFRS 13 defines the meaning of fair value and sets the method of calculation and the presentation of measurement of fair value. After assessing the standard, the Group does not expect any significant influence on its financial condition and performance, and will follow IFRS 13 to additionally disclose the information on the measurement of fair value.

- (b) New standards and interpretations of 2013 IFRSs issued by the IASB but not yet endorsed by the FSC

New Standards, Amendments and Interpretations	Effective Date Issued by IASB
IFRS 9 <i>Financial Instruments</i>	January 1, 2018
Amended IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016
Amended IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
Amended IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
Amended IAS 1 <i>Disclosure Initiative</i>	January 1, 2016
Amended IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amended IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amended IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
Amended IAS 27 <i>Equity Method in Separate Financial Statements</i>	January 1, 2016
Amended IAS 36 <i>Recoverable Amount Disclosure for Non-Financial Assets</i>	January 1, 2014
Amended IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014

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<u>New Standards, Amendments and Interpretations</u>	<u>Effective Date Issued by IASB</u>
IFRIC 21 <i>Levies</i>	January 1, 2014

The Group is assessing the influence on its financial condition and performance of the above standards and interpretations. The Group will disclose the related influence when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies presented in the consolidated financial statements are summarized as follows:

The significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements, except when otherwise indicated.

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the Regulations) and with the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC.

(2) Basis of preparation

(a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the balance sheets:

- i. Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- ii. Available-for-sale financial assets are measured at fair value;
- iii. Derivative financial instruments for hedging are measured at fair value; and
- iv. The defined benefit asset is recognized as plan assets, plus, unrecognized past service cost and actuarial losses, less, the actuarial gains and present value of the defined benefit obligation.

(b) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan Dollars, which is the Group's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Basis of consolidation

(a) Principle of preparation of the consolidated financial statements

The consolidated financial statements incorporate the financial statements of Continental Holdings Corp. and its subsidiaries.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date of obtaining control and are excluded from the date of losing control. The comprehensive income from subsidiaries is allocated to Continental Holdings Corp. and its non-controlling interests, even if the non-controlling interests have a deficit balance.

Transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions.

(b) The subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows:

Investor Company	Subsidiary	Main Business Scope	Percentage of ownership	
			2014.12.31	2013.12.31
The Company	Continental Engineering Corp. (CEC)	Civil engineering, construction	100.00%	100.00%
"	Continental Development Corp. (CDC)	Land development specific on residential housing and office building	100.00%	100.00%
CEC	Hsin-Dar Environment Engineering Co., Ltd. (HEC)	Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment.	100.00%	100.00%
"	CEC International Corp. (CIC)	Investment in and control of overseas corporations	100.00%	100.00%

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor Company	Subsidiary	Main Business Scope	Percentage of ownership	
			2014.12.31	2013.12.31
CEC	CEC International Corp. (India) Pvt. Ltd.(CICI)	Property developer and Civil engineering, construction Civil engineering, construction	100.00%	100.00%
"	CEC International Malaysia Sdn Bhd. (CIMY)	Property developer and Civil engineering, construction Civil engineering, construction	70.00%	70.00%
CDC	CEC Commercial Development Corp.	Rental of building	80.65%	80.65%
HEC	Fu-Da Construction Corp., Ltd. (SDC)	Construction of underground pipeline and environmental protection project, plumbing	100.00%	100.00%
"	North Shore Corp.(NSC) (Note)	Tamsui sewage drainage construction in New Taipei City	100.00%	100.00%

Note: North Shore Corp. was founded to perform the contract for the Tamsui sewage treatment plant in New Taipei City, and will be transferred without condition after the legal concession period.

(c) Subsidiaries excluded from the consolidated financial statements: None.

(4) Foreign currency

(a) Foreign currency transaction

Foreign currency transactions are recorded at the spot exchange rate on the date of the transaction. At the end of the reporting period (the reporting date), foreign currency monetary amounts are reported using the closing rate. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
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Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction.

Except for Available-for-sale equity instrument, financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective, and Qualifying cash flow hedges to the extent the hedge is effective are recognized in other comprehensive income arising on the retranslation, foreign currency differences arising on translation are recognized in profit or loss.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Taiwan Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Taiwan Dollars at average rate. Foreign currency differences are recognized in other comprehensive income.

When the Company disposes its foreign operation, resulting in losing control, joint control, or significant influence, the cumulative amounts in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely settled in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Classification of current and non-current assets and liabilities

The Group's primary businesses are construction, civil engineering, and real estate rental. The normal operating cycle of the Group is more than one year. The balance sheet accounts related to construction business are classified either as current or non-current based on the Group's operating cycle, which is usually 3~5 years. The remainder balance sheet accounts are classified based on the following standards:

The Group classifies an asset as current when:

- (a) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) It holds the asset primarily for the purpose of trading;
- (c) It expects to realize the asset within twelve months after the reporting period; or
- (d) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies a liability as current when any one of the following requirements is met. Liabilities that are not classified as current are non-current liabilities.

The Group classifies a liabilities as current when:

- (a) It expects to settle the liability in its normal operating cycle;
- (b) It holds the liability primarily for the purpose of trading;
- (c) The liability is due to be settled within twelve months after the reporting period;
or
- (d) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash comprises cash, and cash in bank. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

definition are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes that should be recognized as cash equivalents.

(7) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

A. Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss

A financial asset classified in this category is for the purpose of trading or is at fair value through profit or loss.

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- Performance of the financial asset is evaluated on a fair value basis;
- A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in other gains and losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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(b) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost, and changes are measured at fair value afterwards. Impairment losses, dividend income, and changes in the carrying amount of available-for-sale financial assets from foreign exchange gains or losses and interest income using the effective interest method are recognized in profit and loss, while other changes in carrying amount are recognized in other comprehensive income and presented in unrealized gain (loss) on available-for-sale financial assets in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is made. Such dividend income is included in other income of non-operating income and expenses.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

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Interest income is recognized in profit or loss, and it is included in other income of non-operating income and expenses.

(d) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an available-for-sale investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

For financial assets at amortized cost, an impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

For financial assets at amortized cost, an impairment loss is calculated as the difference between asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
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An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. The fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, and then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Losses on doubtful debts and recoveries of accounts receivables are included in administrative expenses. Impairment losses and recoveries of financial assets except accounts receivables are recognized in profit or loss, and they are included in other gains and losses of non-operating income and expenses.

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(e) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in other gains and losses.

The part of the financial asset that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amounts allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in other gains and losses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

B. Financial liabilities and equity

(a) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing.

Interest and gain or loss related to the financial liability is recognized in profit or loss, and it is included in finance costs of non-operating income and expense.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
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Upon conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

(b) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. The Group designates financial liabilities, other than the ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis;
- Performance of the financial liabilities is evaluated on a fair value basis;
- A hybrid instrument contains one or more embedded derivatives.

Financial liabilities are measured at fair value when recognized originally, and the transaction costs are recognized in profit or loss as incurred. The financial liabilities would be measured at fair value in the subsequent valuation, and the profit or loss of measurement (interest expenses included) would be recognized in profit or loss, and are included in other gains or losses.

(c) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in other revenues and expenses.

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(d) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses.

(e) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

C. Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in other gains and losses.

When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

The Group designates its hedging instrument, including derivatives, embedded derivatives, and non-derivative instrument for a hedge of a foreign currency risk, as cash flow hedge.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged item attributable to the hedged risk.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in other equity—effective portion of cash flow hedge gain (loss). Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is included in other gains and losses.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and it is presented in the same accounting caption with the hedged item recognized in the statement of comprehensive income. However, when the expected hedged trading are recognized as non-financial assets or liabilities, the amount accumulated in the equity and the retained in other comprehensive income recognized as “other equity –gains (losses) on effective portion of cash flow hedges” will be reclassified as non-financial assets or liabilities measured at cost from other equity.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost shall comprise all costs of purchase, costs of conversion, costs incurred in bringing the inventories to their present location and condition, and borrowings. Net realizable value is the balance that estimates the selling price, less, estimated costs of completion and the estimated costs of selling. The measurement of net realizable value is as follows:

- (a) Land held for development: the net realizable value is the replacement cost or estimated price (based on the market condition), less, the estimated selling expenses at the end of the period.
- (b) Building construction in progress: the net realizable value is the estimated price (based on the market condition), less, the estimated costs of completion and selling expenses at the end of the period.
- (c) Real estate held for sale: the net realizable value is the estimated price (based on the market condition), less, the estimated selling expenses at the end of the period.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(9) Construction contracts

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost, plus, profit recognized to date, less, progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts in progress is presented as construction contract receivable for contract work in the statements of financial position for all contracts in which costs incurred, plus, recognized profits exceed progress billings. If progress billings exceed costs incurred, plus, recognized profits, then the difference is presented as amount due to customers for construction contract payable in the statement of financial position.

When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized immediately. In future, when estimating the reduction of annual losses, the reduced losses will be recoverable and stated as annual profit.

(10) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

The consolidated financial reports include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(11) Interests in Joint Ventures

A jointly controlled entity is an entity which is established as the result of a contractual arrangement between the Group and other ventures to jointly control its financial and operating policies. Consensus for all decisions must be obtained from the ventures. The Group uses the equity method to account for a jointly controlled entity.

(12) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently measurement with any change therein recognized in profit or loss. After initial recognition, the calculation of depreciation expense including depreciation method, useful life and residual value are pursuant to property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalized borrowing costs.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its cost for subsequent accounting.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated with a separate depreciation or depreciation method.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(b) Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(c) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the amount can be reliably measured. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated with the direct method over its useful life. Each significant item of property, plant and equipment shall be evaluated and depreciated separately if it possesses a different useful life. The depreciation charged for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	4-60 years
Machinery and equipment	3-10 years
Transportation equipment	2-9 years
Office and other equipment	3-8 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation differs from the previous estimate, the change is accounted for as a change in an accounting estimate.

(14) Leases

(a) Lessor

Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(b) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received by the lessor to enter into the operating lease are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the period when the lease adjustments are confirmed.

(15) Intangible Assets

(a) Goodwill

(1) Initial recognition

Goodwill acquired in a business combination is included in the investments accounted for using the equity method.

(2) Subsequent measurement

Goodwill is measured at cost, less, accumulated impairment losses. The carrying amount of the investments in associates includes goodwill. The impairment losses on investments would not be allocated to goodwill or any other assets.

(b) Service Concession Agreements

The Group shall recognize an intangible asset arising from service concession agreements when the Group has a right to charge from the public using the infrastructure. The intangible assets resulted from providing further construction receivable from construction or upgrade service in accordance with the service concession agreements are measured at the fair value on initial recognition. Subsequently, intangible assets are measured at cost, including those borrowing costs that are eligible for capitalization, less, accumulated amortization and any accumulated impairment losses.

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(c) Other Intangible Assets

Other intangible assets are measured at cost, less, accumulated amortization and any accumulated impairment losses.

(d) Amortization

The amortized amount of intangible assets with definite lives is determined after deducting its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible asset with indefinite life, from the date that they are available for use. For the estimated useful lives for the current and comparative years of significant item of intangible assets are as follows:

Service Concession Agreements 35 years

The useful life of intangible assets from service concession agreements is from the date the Group has a right to charge from the public using the infrastructure until the end of service concession agreements. Amortization methods, useful lives, and residual values are reviewed at each reporting date and adjusted if need.

The intangible asset with indefinite life is amortized, but shall be tested for impairment at least annually. In addition, it shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life for that asset. Any changes shall be accounted for as changes in accounting estimates.

(16) Impairment – Non-derivative financial assets

The Group measures whether impairment occurred in non-derivative financial assets for impairment (except for inventories, assets arising from construction contracts, deferred tax assets and assets arising from employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value, less, cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset shall be increased to its recoverable amount by reversing a previously recognized impairment loss.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, intangible assets with indefinite useful lives and those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

(17) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(a) Warranties

A provision for warranties is recognized when the underlying constructions are completed. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(b) After-sales service

A provision for warranties of After-sales service is recognized when products are sold or services are provided. The provision is based on historical warranty data with a weighting of all possible outcomes against their associated probabilities.

(18) Revenue

(a) Sale of real estate

Based on IFRS 15 'Revenue from Contracts with Customers', the contracts of building construction in progress with customers are within the scope of IFRS 11 'Construction Contracts' or IFRS 18 'Revenue'.

IFRS 11 'Construction Contracts' is applied when the customers could decide the main structure of the building before construction or could change the main structure of the building during the period of its construction; IFRS 18 'Revenue' is applied when the customers could change the minor structure or have a limited ability to affect the basic structural design.

Taken net of returns, trade discounts, and volume rebates into consideration, revenue is measured by the received or receivable amounts at fair value. Revenue is recognized when persuasive evidence exists, usually in the form of executed sales agreements, wherein, the significant risks and rewards of ownership have been transferred to the customers, and the recovery of the consideration is probable; the associated costs and possible returns of goods can be estimated reliably; the management cannot have any control over the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transference of risks and rewards depend on the individual terms of the sales agreements. For sales of timber or real estate, transference usually occur upon transferring the significant risks and the sales revenue of real estate would occur upon transferring the significant risks of ownership rewards of real estate to the counterparty.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Construction contract

Contract revenue includes the initial amount on the contract, plus, any changes under construction, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract costs would be recognized as assets in the recoverable range if the further contract activities occur.

The stage of completion assessed by reference to the proportion that contract costs incurred for work performed to date account for the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(c) Rental income

Rental income received from investment property shall be recognized on a straight-line basis over the lease term. Lease incentives given shall be regarded as part of the rental income and recognized as reduction of rental income on a straight-line basis over the lease term. The revenue from the conversion of investment property shall be recognized as "rental income" under non-operating income and expenses.

(d) Service Concession Agreements

Revenue from construction or service upgraded in accordance with the service concession agreements is recognized in proportion to the stage of completion of the contract activity, same as the accounting policy of contract revenue. Operating or service revenue is recognized during the period of services provided by the Group. The amounts received or receivable shall be allocated by reference of the relative fair values of services delivered when the Group provides two or more kinds of services.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Employee benefits

(a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses arising subsequently from defined benefit plans are recognized in other comprehensive income.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

(c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(20) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the below exceptions:

- (a) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (b) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - i. levied by the same taxing authority; or
 - ii. levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(21) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Group. The basic earnings per share are calculated based on the profit attributable to the ordinary shareholders of the Group divided by weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated based on the profit attributable to the ordinary shareholders of the Group, divided by weighted-average number of ordinary shares outstanding after adjustment for the effects of all potential dilutive ordinary shares, such as convertible notes and employee stock options.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group's potential dilutive ordinary shares include bonuses to employees.

(22) Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). The segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance. In addition, discrete financial information is available from the interval reporting system.

**5. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS,
JUDGMENTS AND ESTIMATION UNCERTAINTY**

The preparation of the consolidated financial statements in conformity with Governing the Preparation of Financial Reports requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management will continually review the estimates and basic assumptions. Changes in accounting estimates will be recognized in the period of change and the future period of their impact.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- (1) Note 6 (8), Classification of investment property
- (2) Note 6 (14), Lease classification

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year is included in the following notes:

- (1) Note 6 (4), Completion percentage of the construction contracts and the estimation of onerous contracts
- (2) Note 6 (16), Measurement of defined benefit obligations
- (3) Note 6 (13), Provisions
- (4) Note 6 (17), Realization of deferred tax assets

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>2014.12.31</u>	<u>2013.12.31</u>
Cash	\$ 19,831	17,996
Cash in banks	1,088,236	990,893
Cash equivalents	26,948	435,330
Cash and cash equivalents	\$ 1,135,015	1,444,219

Refer to Note 6(23) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(2) Financial assets

(a) The components of financial assets were as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Current:		
Financial assets at fair value through profit or loss	\$ -	55
Current derivative financial assets for hedging	24,303	66,153
Available-for-sale financial assets		
Stocks of unlisted companies	7,241,065	7,241,065
Adjustments of available-for-sale financial assets	(2,002,671)	(3,148,172)
Accumulated impairment, current available-for-sale financial assets	(2,259,009)	-
Subtotal	2,979,385	4,092,893
Total	\$ 3,003,688	4,159,101
Non-current:		
Stocks of unlisted companies	\$ 582,163	582,163
Adjustments of available-for-sale financial assets	740,025	757,742
	\$ 1,322,188	1,339,905
Non-current financial assets measured at cost		
Available for sale financial assets		
Stocks of unlisted companies	\$ -	14,500
Less: Accumulated impairment	-	(1,290)
Total	\$ -	13,210

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Group invests in domestic unlisted stock which considers being the permanent impairment loss for the continually declining of the market value. Because of the declining market value, the Group recognized an impairment loss amounting to \$2,259,009 thousand on December 31, 2014. Please refer to Note 6(21).

The Group liquidates their non-current financial assets measured at cost in 2014. The Group was given \$14,500 thousand as refund in 2014.

The aforementioned financial assets measured at cost held by the Group are measured at cost, less, impairment at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably.

As of December 31, 2014 and 2013, the aforesaid financial assets were not pledged as collateral.

(b) Sensitive analysis – the risk of equity price

If the equity price changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

Equity price at reporting date	2014		2013	
	After-tax other comprehensive income		After-tax other comprehensive income	
Increase 1%	\$	43,016		54,328
Decrease 1%	\$	(43,016)		(54,328)

(c) Foreign equity investments

The Group uses derivative financial instruments to hedge certain foreign exchange risk the Group is exposed to arising from the payment of facilities where the Group is expected to pay the facilities from foreign countries for some constructions. Since the estimated risk is significant, the Group holds the derivative financial instruments for hedging purposes.

As of December 31, 2014 and 2013, the items hedged and the hedge instrument the Group held are as follows:

Item Hedged	Hedge instrument	Hedge instrument designated to be hedge and fair value		Expected Cash flow Period	Expected Income Period
		2014.12.31	2013.12.31		
Expected Foreign liabilities	Foreign deposits	\$ 6,379	66,153	2014~2016	2014~2016
Expected Foreign liabilities	Change in value of Foreign currency	\$ 17,924	-	2014~2016	2014~2016

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Other

The Group holds Preferred A and C shares of Taiwan High Speed Rail Corporation (THSRC). (Preferred C4, C5 and C8 shares are included in Preferred C shares.) Based on the regulations of these preferred shares, all the creditors and the Group who have the preferred shares have the right to receive the financial assets from THSRC regardless of its condition without needing to have any sufficient funds or earnings, or restrictions by law. Therefore, the Group's managerial level regards these preferred shares as debts of THSRC.

In accordance with Article 232-1 of the Taiwan Company Act, THSRC claimed that it has the right to decline the demand of the creditors and the Group for the payment of the preferred dividends and interests. Therefore, the creditors and the Group brought filed lawsuits against THSRC in 2014. However, not all of the charges brought against THSRC succeeded.

The judge ruled in favor of THSRC in the first and second verdicts which were decided on May 6, 2014, December 10, 2014, and January 20, 2015. Hence, the Group has appealed to the higher court.

As for the preferred stocks at their maturity and its interest, the Group has also filed a lawsuit on it. Currently, the case is still in judiciary proceeding. The Group claimed to redeem the Preferred C4 and C8 stocks and Shi-Lin District Court ruled that THSRC shall pay the Group the amount of \$391,065 thousand, and the interests will be accrued from the day after the Group has received the documents until the settlement day. However, the Group disagreed with the calculation of the interests, and therefore, it made an appeal to the High Court regarding this matter in December, 2014.

As of December 31, 2014, according to the issuance conditions of Taiwan High Speed Rail Preferred Shares, the accumulated preferred dividends and interests receivable from THSRC amounted to \$1,319,268 thousand, and the preferred shares amounted to \$3,384,315 thousand.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Accounts receivable, net

	<u>2014.12.31</u>	<u>2013.12.31</u>
Notes receivable from operating activities	\$ 149,123	158,336
Accounts receivable	6,859,632	7,286,342
Other receivables	643,279	573,151
Less: Allowance for bad debts	(142,715)	-
	<u>\$ 7,509,319</u>	<u>8,017,829</u>
Current	\$ 3,987,705	4,673,664
Non-current	3,521,614	3,344,165
	<u>\$ 7,509,319</u>	<u>8,017,829</u>

The past due but not impaired notes receivable, accounts receivable and other receivable aging analysis of the Group were as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Past due over one year	\$ 108,845	242,470

Movements of allowance for doubtful receivables for the year ended December 31, 2014 were as follows:

	<u>Impairment loss of individual assessment</u>	<u>Impairment loss of integrated assessment</u>	<u>Total</u>
Beginning balance	\$ -	-	-
Impairment loss	142,715	-	142,715
Ending balance	<u>\$ 142,715</u>	<u>-</u>	<u>142,715</u>

As of December 31, 2014 and 2013, the Group's parts of receivables were pledged as collateral. Please refer to Note 8.

(4) Construction contract

Construction contract revenue of the Group has been determined based on the percentage-of-completion method (i.e. the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs). Any expected excess of the total contract costs over the total contract revenue for the contract is immediately recognized as cost.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	For the year ended December 31	
	2014	2013
Construction revenue recognized in current profit or loss	\$ 16,003,087	15,673,845
	2014.12.31	2013.12.31
Accumulated costs incurred (including contract costs that relate to future activity on the contract)	\$ 76,225,998	60,026,466
Add: Accumulated losses recognized arising from the construction	(1,017,163)	(1,847,927)
Accumulated costs and profit recognized (less losses recognized)	75,208,835	58,178,539
Less: Progress billings	72,802,191	56,116,942
Amount due from customers for contract work – presented as an asset	\$ 2,406,644	2,061,597
Include:		
Construction contracts receivable	\$ 3,629,938	3,146,178
Construction contracts payable	(1,223,294)	(1,084,581)
	\$ 2,406,644	2,061,597
Advance received	\$ 2,842,644	1,865,373
Retention payable from construction contract	\$ 1,917,482	1,463,306
 (5) Inventory		
	2014.12.31	2013.12.31
Construction		
Material on hand	\$ 366,569	262,998
Real estate		
Real estate held for sale	\$ 2,140,477	598,631
Land held for development	5,053,613	12,379,389
Building Construction in progress	12,233,336	6,860,255
Prepayment for land	82,274	211,316
Subtotal	19,509,700	20,049,591
Less: Allowance for impairment loss	(104,362)	(117,197)
	\$ 19,771,907	20,195,392

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the year ended December 31, 2014 and 2013, the cost of inventory recognized as cost of sales and selling expenses were \$18,138,447 thousand and \$16,034,508 thousand, respectively. There were no factors that caused the net realized value to be lower than the cost. Therefore, it resulted to an increase in the net realized value and a decrease in recognizing the cost of sales amounting to \$12,835 thousand for the year ended 2014. Inventory write-downs and reversal were not recognized in 2013.

For the years ended December 31, 2014 and 2013, capitalizing interest costs were as follows:

	<u>2014</u>	<u>2013</u>
Interest costs	\$ 354,817	367,406
Capitalized interests	\$ 127,220	39,912
Capitalization interest rate	1.80%	1.76%

Please refer to Note 8 for information about inventory collateral.

(6) Investments accounted for using equity method

Equity-accounted investees of the Group as at the reporting date were as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Associates	\$ 3,146,998	2,745,726
Jointly controlled entities	(343,318)	49,546
	2,803,680	2,795,272
Add: Credit balance of investments accounted in jointly controlled entity for using equity method	493,286	-
	<u>\$ 3,296,966</u>	<u>2,795,272</u>

(a) Associates

In 2014 and 2013, the Group's shares of profits of associates accounted for using equity method were as follows:

	<u>2014</u>	<u>2013</u>
The Group's share of profits of the associates	\$ 239,495	374,358

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Financial information not adjusted according to the rate of Group's ownership for the investment in associates was summarized as follows:

	2014.12.31	2013.12.31
Total Assets	\$ 6,453,740	9,286,545
Total Liabilities	\$ 6,309	3,151,952
	2014	2013
Revenue	\$ 527,608	10,707,273
Net Income	\$ 526,710	1,893,478

(b) Joint controlled entities

Financial information for the investment in associates was summarized as follows:

The percentages of ownership were not adjusted as the joint percentage and actual distributable percentages of the Group.

	Ownership %	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Income	Losses
2014.12.31							
4070C	50.00%	\$ 67,855	-	107,021	-	197,417	138,296
3110D	70.00%	371,668	403	251,980	-	140,739	88,688
4120P	45.00%	415,604	64,291	312,633	61,070	370,042	358,949
6061E	64.103%	17,344	668	101,493	-	(4,147)	(4,088)
6090D	41.00%	179,282	2,549	181,832	-	61,770	61,770
6110I	49.00%	1,984,844	-	2,189,969	-	682,925	714,116
6120M	80.00%	381,646	-	366,633	-	169,141	162,224
6120D	70.00%	990,591	4,227	1,001,298	305,229	359,287	859,175
MEGA	45.00%	513,546	-	502,919	-	156	3,039
2013.12.31							
4070C	50.00%	\$ 175,827	82,727	176,842	-	411,337	410,063
3110D	70.00%	525,102	491	372,553	-	574,808	515,346
4120P	45.00%	391,211	28,111	350,025	25,143	169,474	164,394
6061E	64.103%	28,076	730	109,173	-	4,860	8,146
6090D	41.00%	102,980	2,952	105,932	-	53,769	53,769
6110I	49.00%	189,264	-	351,799	-	487,510	592,155
6120M	80.00%	23,442	-	16,104	-	144,120	138,552
6120D	70.00%	1,748,906	5,082	1,747,198	-	465,655	411,399

The Group does not have any contingent liabilities that were incurred in relation to its interests in the joint ventures; nor does it incur any contingent

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

liabilities together with the other ventures or on its own. In addition, the Group does not have any obligation to bear any liabilities incurred by other ventures.

The Group does not have any capital commitments in relation to its interest in joint ventures or its share in the capital commitments that have been incurred jointly with other ventures or its share of the capital commitments of the joint ventures themselves.

(c) Guarantee

As of December 31, 2014 and 2013, the investments accounted for using equity method were not pledged as collateral.

(7) Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of the Group for the years 2014 and 2013, were as follows:

	Land	Buildings	Machinery and equipment	Transportation equipment	Computer equipment	Furniture and office equipment	Total
Cost or deemed cost:							
Balance, January 1, 2014	\$ 1,150,082	485,655	1,646,847	205,200	78,738	143,527	3,710,049
Additions	-	-	463,952	20,808	11,969	1,643	498,372
Disposals	-	-	(83,694)	(13,120)	(15,315)	(1,816)	(113,945)
Reclassification	114,870	69,439	144,125	737	2,176	14,535	345,882
Effect of movements in exchange rates	-	-	47,549	851	1,162	9,411	58,973
Balance, December 31, 2014	\$ 1,264,952	555,094	2,218,779	214,476	78,730	167,300	4,499,331
Balance, January 1, 2013	\$ 1,150,082	482,419	1,731,870	208,073	63,295	136,448	3,772,187
Additions	-	5,873	121,246	16,287	18,946	16,041	178,393
Disposals	-	(2,637)	(86,547)	(17,026)	(2,633)	(1,926)	(110,769)
Reclassification	-	-	25,031	-	972	1,830	27,833
Effect of movements in exchange rates	-	-	(144,753)	(2,134)	(842)	(8,866)	(156,595)
Balance, December 31, 2013	\$ 1,150,082	485,655	1,646,847	205,200	79,738	143,527	3,711,049
Depreciation and impairment							
loss:							
Balance, January 1, 2014	\$ -	128,990	1,076,489	137,514	59,203	122,473	1,524,669
Depreciation	-	14,295	238,484	22,568	12,821	15,154	303,322
Reclassification	-	13,352	-	-	-	-	13,352
Disposals	-	-	(81,487)	(11,080)	(15,275)	(1,816)	(109,658)
Effect of movements in exchange rates	-	-	28,902	628	631	1,208	31,369
Balance, December 31, 2014	\$ -	156,637	1,262,388	149,630	57,380	137,019	1,763,054

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Computer equipment</u>	<u>Furniture and office equipment</u>	<u>Total</u>
Balance, January 1, 2013	\$ 19,523	118,987	971,497	123,736	53,246	120,674	1,407,663
Depreciation	-	12,640	254,340	24,284	32,317	20,830	344,411
Reversal of impairment loss	(19,523)	-	-	-	-	-	(19,523)
Disposals	-	(2,637)	(54,793)	(9,388)	(2,603)	(1,829)	(71,250)
Effect of movements in exchange rates	-	-	(94,555)	(1,118)	(23,757)	(17,202)	(136,632)
Balance, December 31, 2013	\$ -	128,990	1,076,489	137,514	59,203	122,473	1,524,669
Carrying amount:							
Balance, December 31, 2014	\$ 1,264,952	398,457	956,391	64,846	21,350	30,281	2,736,277
Balance, December 31, 2013	\$ 1,150,082	356,665	570,358	67,686	20,355	21,054	2,186,380

As of December 31, 2012, the accumulated impairment was \$19,523 thousand. However, the accumulated impairment was reversed during 2013 since the fair value of the land based on the independent appraisal report was higher than the cost.

As of December 31, 2014 and 2013, the properties were pledged as collateral, please refer to Note 8.

Please refer to Note 6(21) for details of the gain and loss on disposal of property, plant and equipment.

(8) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance, at January 1, 2014	\$ 9,963,932	2,173,763	12,137,695
Reclassification	(505,651)	(161,712)	(667,363)
Balance, at December 31, 2014	\$ 9,458,281	2,012,051	11,470,332
Balance, at January 1, 2013	\$ 9,963,932	2,173,763	12,137,695
Balance, at December 31, 2013	\$ 9,963,932	2,173,763	12,137,695
Depreciation and impairment losses :			
Balance, at January 1, 2014	\$ 501,205	432,426	933,631
Depreciation	-	38,197	38,197
Reclassification	-	(37,777)	(37,777)
Balance, at December 31, 2014	\$ 501,205	432,846	934,051

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Balance, at January 1, 2013	\$ 501,205	391,081	892,286
Depreciation	-	41,345	41,345
Balance, at December 31, 2013	<u>\$ 501,205</u>	<u>432,426</u>	<u>933,631</u>
Carrying amounts:			
Balance, at December 31, 2014	<u>\$ 8,957,076</u>	<u>1,579,205</u>	<u>10,536,281</u>
Balance at, December 31, 2013	<u>\$ 9,462,727</u>	<u>1,741,337</u>	<u>11,204,064</u>
Fair value:			
Balance, at December 31, 2014			<u>\$ 14,057,954</u>
Balance, at December 31, 2013			<u>\$ 13,337,333</u>

The Group defines investment property based the classification of assets. Investment property is a kind of property held for the purposes of earning rentals or capital appreciation, or for both. Hence, the Group considers if the main cash flow generated by a property can be independent of other assets held by the Group. Part of properties held by the Group is for earning rentals or capital appreciation purpose, and another part is for management purpose. If each part of investment properties can be sold independently, the Group shall account each part independently. If each part cannot be sold independently, only in the event that the part being held for management purpose is not important, the property is deemed as an investment property.

Investment property comprises a number of commercial properties that are leased to third parties. Refer to Note 6(14) for detail information (include rental revenue and other direct operating expenses).The investment property is based on a valuation by an independent evaluator. The valuation of property is assessed under market value.

As of December 31, 2014 and 2013, the aforesaid investment properties were pledged as collateral; please refer to Note 8.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(9) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2014 and 2013, were as follows:

	<u>Service Concession Agreements</u>
Cost or deemed cost:	
Balance, at January 1, 2014	\$ 433,868
Additions	75,751
Balance, at December 31, 2014	<u>\$ 509,619</u>
Balance, at January 1, 2013	\$ 385,753
Additions	48,115
Balance, at December 31, 2013	<u>\$ 433,868</u>
Amortization and impairment loss:	
Balance, at January 1, 2014	\$ 46,381
Amortization	14,668
Balance, at December 31, 2014	<u>\$ 61,049</u>
Balance, at January 1, 2013	\$ 33,534
Amortization	12,847
Balance, at December 31, 2013	<u>\$ 46,381</u>
Carrying amount:	
Balance, at December 31, 2014	<u>\$ 448,570</u>
Balance, at December 31, 2013	<u>\$ 387,487</u>

As of December 31, 2014 and 2013, there were no significant reversal, disposals, and impairment.

As of December 31, 2014 and 2013, the intangible assets were pledged as collateral; please refer to Note 8.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(10) Short-term Notes and Bills Payable

2014.12.31			
	Guarantee or Acceptance Agency	Interest Rate Range	Amount
Bills payable	financial institutions	1.301%	\$ 100,000

2013.12.31			
	Guarantee or Acceptance Agency	Annual interest rate	Amount
Bills payable	financial institutions	0.822%~1.43%	\$ 1,550,000

For details of the related assets pledged as collateral, please refer to Note 8.

(11) Short -term Borrowings

	2014.12.31	2013.12.31
Unsecured loans	\$ 364,812	3,279,086
Secured loans	6,991,224	7,518,424
	\$ 7,356,036	10,797,510
Unused credit limit	\$ 20,433,875	17,030,513
Annual interest rate	1.18%~2.35%	1.15%~2.7%

For details of the related assets pledged as collateral, please refer to Note 8.

(12) Long term borrowings

2014.12.31				
	Currency	Interest Rate Range	Matured Period	Amount
Unsecured loans	TWD	1.0306%~2.32%	2015~2018	\$ 2,200,000
	USD	1.0306%~1.0429%	2015	221,550
Secured loans	TWD	1.5243%~2.1797%	2015~2025	9,925,291
				12,346,841
Less: current portion				(1,207,501)
Total				\$ 11,139,340
Unused credit limit				\$ 391,000

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2013.12.31

	<u>Currency</u>	<u>Interest Rate Range</u>	<u>Matured</u>	
			<u>Period</u>	<u>Amount</u>
Unsecured loans	TWD	1.0544%~2.37%	2014~2015	\$ 1,337,085
	USD	1.0306%~1.0429%	2015	221,550
Secured loans	TWD	1.4545%~2.1987%	2014~2025	9,970,000
				11,528,635
Less: current portion				(333,834)
Total				<u>\$ 11,194,801</u>
Unused credit limit				<u>\$ 1,186,000</u>

- i. For details of the related assets pledged as collateral, please refer to Note 8.
- ii. The loan agreement requires Continental Engineering Corp. to maintain certain financial ratios: debt-to-equity ratio<150% (derestricted in 2014), interest coverage ratio>5(derestricted in 2014), current ratio>100%, financial debt-to-equity ratio<100%, long term liability and equity conformity ratio>100%, fixed long term conformity ratio<100%. As of December 31, 2014, Continental Engineering Corp. did not violate any terms in the loan agreement.
- iii. The loan agreement requires Hsin-Dar Environment Engineering Co., Ltd to maintain certain financial ratios: debt ratio \leq 250%, and net worth > 250 million. As of December 31, 2014, Hsin-Dar Environment Engineering Co. did not violate any terms in the loan agreement.
- iv. The loan agreement requires North Shore Corp. to maintain certain financial ratios:

<u>Financial ratio</u>	<u>2010~2016</u>	<u>2017~2023</u>
Debt ratio \leq	230%	150%
<u>Financial ratio</u>	<u>2012~2023</u>	
Liquidity ratio \geq	1	

As of December 31, 2014, North Shore Corp. did not violate any terms in the loan agreement.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Provision

	<u>Warranties</u>	<u>After-sales service</u>	<u>Total</u>
Balance, at January 1, 2014	\$ 141,996	415,558	557,554
Provision made during the year	15,011	11,490	26,501
Provision used during the year	(11,339)	(2,393)	(13,732)
Provision reversed during the year	(2,368)	(12,057)	(14,425)
Balance, at December 31, 2014	<u>\$ 143,300</u>	<u>412,598</u>	<u>555,898</u>
Balance, at January 1, 2013	\$ 167,295	1,058,992	1,226,287
Provision made during the year	14,780	4,018	18,798
Provision used during the year	(16,503)	(4,080)	(20,583)
Provision reversed during the year	(23,576)	(643,372)	(666,948)
Balance, at December 31, 2013	<u>\$ 141,996</u>	<u>415,558</u>	<u>557,554</u>

The provision for warranties and after-sales service relates mainly to construction contracts and sales premises for the years ended December 31, 2014 and 2013. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability within one to five years after the construction completed.

(14) Operating leases

Please refer to Note 6(8) for operating leases of investment property. The future minimum lease receivables under non-cancellable leases are as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Less than one year	\$ 240,200	246,814
Between one and five years	745,710	691,099
More than five years	109,239	250,889
	<u>\$ 1,095,149</u>	<u>1,188,802</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the years ended December 31, 2014 and 2013, the rental revenue of investment property was \$267,956 thousand and \$268,268 thousand, respectively.

Repair and maintenance expenses arising from investment property (recognized as cost of rental sales) were as follows:

	<u>2014</u>	<u>2013</u>
Expenses that generated rental revenue	\$ 8,766	10,014
Expenses that not generated rental revenue	136	14
	<u>\$ 8,902</u>	<u>10,028</u>

(15) Advanced Receipts

	<u>2014.12.31</u>	<u>2013.12.31</u>
Advance receipts from construction contract	\$ 2,842,644	1,865,373
Advance receipts from real estate	4,343,688	4,073,954
Others	39,176	44,540
Total	<u>\$ 7,225,508</u>	<u>5,983,867</u>

The total contracts price which is associated with the above-mentioned advanced receipts, please refer to Note 9.

(16) Employee benefits

(a) Defined benefit plan

The present value of the defined benefit obligations and fair value of plan assets were as follows:

	<u>2014.12.31</u>	<u>2013.12.31</u>
Present value of defined benefit obligations	\$ 542,676	528,734
Fair value of plan assets	(162,959)	(167,104)
Accrued pension liability	<u>\$ 379,717</u>	<u>361,630</u>

The Group established the pension fund account for the defined benefit plan in Bank of Taiwan. The plan, under the Labor Standards Law, provides benefits based on an employee's length of service and average monthly salary for six-month period prior to retirement.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

i Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$162,885 thousand at the end of the reporting period. The information related to the pension fund includes the asset allocation and yield of the fund. Please refer to the website of the Bureau of Labor Fund, Ministry of Labor.

ii Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Defined benefit obligation, January 1	\$ 528,734	546,421
Benefits paid by the plan	(19,516)	(18,262)
Current service costs and interest	15,545	15,771
Actuarial (gain) losses	17,913	(15,196)
Defined benefit obligation, December 31	<u>\$ 542,676</u>	<u>528,734</u>

iii Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years 2014 and 2013 were as follows:

	<u>Years ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Fair value of plan assets, January 1	\$ 167,104	181,948
Contributions made	7,037	1,019
Benefits paid by the plan	(15,313)	(18,262)
Expected return on plan assets	2,011	2,192
Contributions for employer	-	131
Actuarial (gains) losses	2,120	76
Fair value of plan assets, December 31	<u>\$ 162,959</u>	<u>167,104</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

iv Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Current service costs	\$ 6,975	8,014
Interest on obligation	8,570	7,757
Expected return on plan assets	<u>(2,011)</u>	<u>(2,192)</u>
	<u>\$ 13,534</u>	<u>13,579</u>
Administrative expenses	<u>\$ 13,534</u>	<u>13,579</u>

v Actuarial gain/losses recognized in other comprehensive income

The Group actuarial gain/losses recognized in other comprehensive income for the years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Cumulative amount, January 1	\$ 14,544	29,816
Recognized during the period	<u>15,793</u>	<u>(15,272)</u>
Cumulative amount, December 31	<u>\$ 30,337</u>	<u>14,544</u>

vi Actuarial assumptions

The following were the principal actuarial assumptions at the measurement date:

	<u>2014</u>	<u>2013</u>
Discount rate	1.75%~1.8%	1.53%~1.8%
Expected return on plan assets	1.20%	1.20%
Long- term average adjustment rate of salary	2.5%~3.0%	2.5%~3.0%

The expected rate of return of plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

vii Historical information in experience adjustments

	<u>2014.12.31</u>	<u>2013.12.31</u>	<u>2012.12.31</u>	<u>2012.1.1</u>
Present value of the defined benefit obligation	\$ 542,676	528,734	546,421	520,159
Fair value of plan assets	<u>(162,959)</u>	<u>(167,104)</u>	<u>(181,948)</u>	<u>(195,786)</u>
Deficit (surplus) in the plan	<u>\$ 379,717</u>	<u>361,630</u>	<u>364,473</u>	<u>324,373</u>
Experience adjustments arising on plan liabilities	<u>\$ 17,913</u>	<u>(15,196)</u>	<u>27,434</u>	<u>-</u>
Experience adjustments arising on plan assets	<u>\$ (2,120)</u>	<u>(76)</u>	<u>803</u>	<u>-</u>

The Group expects to pay defined contribution benefit plans amounted to \$1,289 thousand within one year, after December 31, 2014.

viii When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including employee turnover rates and future salary changes, as of the financial statement date. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2014, the Group's accrued pension liabilities were \$379,717 thousand. If the employee turnover rate had increased or decreased by 1%, the Group's accrued pension liabilities would have decreased by \$3,797 thousand or increased by \$3,797 thousand, respectively.

(b) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The Group's pension costs under the defined contribution method were \$38,432 thousand and \$35,968 thousand for the years 2014 and 2013, respectively. Payment was made to the Bureau of Labor Insurance.

(c) Short-term employee benefits

The Group's short-term employee benefit plan includes the compensated absences liability. As of December 31, 2014 and 2013, the compensated absences liabilities were \$17,745 thousand, \$17,170 thousand, respectively.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Income Tax

(a) Income tax expense recognized in profits or losses

	2014	2013
Current income tax expense		
Current period	\$ 29,988	23,055
Prior years' adjustment on current income tax	(458)	(7,714)
Additional 10% surtax on unappropriate earnings	1,049	90,369
Current land value increment tax	122,707	78,387
	153,286	184,097
Deferred income tax expense		
Reversal of temporary difference	(2,218)	2,282
Income tax expense	\$ 151,068	186,379

(b) Income tax recognized in other comprehensive income (expense) benefit

	2014	2013
Defined benefit plan actuarial (losses) gains	\$ 3,235	(3,128)

(c) The reconciliation of income before tax to income tax expense (benefit) was as follows:

	2014	2013
Income before tax	\$ (825,208)	1,124,988
Income tax expense at domestic statutory tax rate	\$ (140,285)	191,246
Effect of difference tax rates on foreign countries	(40,422)	(2,083)
Tax-exempt income	(195,707)	(90,785)
Investment gain accounted for using equity method	(40,705)	(63,641)
Current tax loss from unrecognized deferred tax assets	31,736	(31,656)
Adjustment for prior periods	(458)	(7,714)
Impairment loss on financial asset	384,032	-
Additional 10% surtax on unappropriate earnings	1,049	90,369
Current land value increment tax	122,707	78,387
Others	29,121	22,256
Total	\$ 151,068	186,379

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Deferred Tax Assets and Liabilities

i. Unrecognized Deferred Tax Assets:

Deferred tax assets have not been recognized in respect of the following items:

	2014.12.31	2013.12.31
Deductible temporary difference	\$ 124,007	137,760
Taxable	1,072,200	1,106,748
	\$ 1,196,207	1,244,508

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset against taxable income over a period of ten years for local tax reporting purposes. The temporary difference associated with the net losses was not recognized as deferred tax assets as the Group is not expected to have enough taxable income to offset against taxable loss in the foreseeable future.

The estimated unused loss carry-forwards of the Group and domestic subsidiaries up to December 31, 2014 were as follows:

Years of losses	Unused amount	Year of expiry
The Company:		
2010 (assessed)	\$ 104,672	2020
2011 (assessed)	1,770	2021
2012 (assessed)	2,449	2022
2013 (filed)	2,198	2023
2014 (estimated)	18	2024
Domestic subsidiaries		
2008 (assessed)	\$ 540,042	2018
2009 (assessed)	2,000,388	2019
2010 (assessed)	1,516,250	2020
2011 (assessed)	1,213,320	2021
2012 (assessed)	360,651	2022
2014 (estimated)	565,301	2024
	\$ 6,307,059	

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

ii. Recognized Deferred Tax Assets :

Changes in the amount of deferred tax assets and liabilities for 2014 and 2013 were as follows:

	Others
Deferred tax liabilities:	
Balance, at January 1, 2014	\$ 4,431
Current tax expense	6,901
Effect of movements in exchange rates	(224)
Offsetting of current deferred tax assets of overseas Group	(8,880)
Balance, at December 31, 2014	\$ 2,228
Balance, at January 1, 2013	\$ 2,228
Current tax expense	2,282
Effect of movements in exchange rates	(79)
Balance, at December 31, 2013	\$ 4,431
Deferred tax assets:	
Balance, at January 1, 2014	\$ 4,994
Current tax expense	9,119
Effect of movements in exchange rates	(215)
Offsetting of current deferred tax assets of overseas Group	(8,880)
Balance, at December 31, 2014	\$ 5,018
Balance, at January 1, 2013	\$ 4,994
Current tax expense	-
Balance, at December 31, 2013	\$ 4,994

(e) The Company and subsidiaries income tax returns for the years up to 2012 have been assessed by the tax authorities.

(f) Integrated income tax information was as follows:

	2014.12.31	2013.12.31
Unappropriated earnings generated after 1998	\$ 1,471,194	2,304,363
Balance of CHC's imputation credit account (ICA)	\$ 240,137	108,699

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	2014(Estimated)	2013(Actual)
Tax creditable ratio for the R.O.C. resident shareholders	8.33%	8.04%

The above Integrated income tax information was based on Decree No. 10204562810 announced on October 17, 2013 by the Ministry of Finance of the Republic of China.

(18) Capital and reserves

As of December 31, 2014 and 2013, the total value of nominal authorized ordinary shares amounted to \$10,000,000 thousand. Face value of each share is \$10, which means in total there were 1,000,000 thousand ordinary shares, of which 883,216 thousand shares, and 841,158 thousand shares, respectively were issued. All issued shares were paid up upon issuance.

(a) Ordinary shares

The Company was established on April 8, 2010, and issued shares in exchange for CEC's stock. The total value of ordinary shares amounted to \$8,411,581 thousand and had been registered with the government.

On June 6, 2014, the annual general shareholders' meeting (AGM) resolved to increase the share capital from retained earnings, divided into 50 shares, amounting to \$420,579 thousand. The increasing of the share capital has been approved by FSC and has taken effect on July 4, 2014. The record date was August 22, 2014, and the shares have been distributed on October 1, 2014.

(b) Capital surplus

The components of the capital surplus were as follows:

	2014.12.31	2013.12.31
Premiums from issuance of share capital	\$ 6,864,224	6,864,224
Changes in equity of associates and joint ventures accounted for using equity method	-	764
	\$ 6,864,224	6,864,988

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- i The Company was established on April 8, 2010, and issued shares in exchange for CEC's stock. The net equity of CEC's stock in excess of par value of the Company's stock amounted to \$7,368,919 thousand and was credited to capital surplus. In addition, in 2011, the Company used capital surplus to distribute cash dividends of the year 2010 amounted to \$504,695 thousand.
- ii In accordance with the R.O.C. Company Act amended in January 2012, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

(c) Retained earnings

According to the policies of the Company, current-period earnings should first be used to offset any deficit in the previous years and to pay income tax. Of the remainder, 10 percent will be appropriated as legal reserve, and set aside or reverse a special reserve in accordance with the law or to satisfy the business needs of the Company. The remainder, plus, the unappropriated earnings will be recognized as the appropriated earnings which shall be proposed by the board of directors, and are subject to the approval of the shareholders' meeting based on the following percentages:

- a.0.5% as remuneration of directors and supervisors;
- b.0.5% as employee bonuses;
- c.99% as dividends to shareholders

On each distribution, the amount of cash dividends shall be at least 20% of the total dividends.

i Legal Reverse

In accordance with the Company Act as amended in January 2012, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experiences no loss for the year, the distribution of the statutory legal reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

ii Special Reserve

The Company applied the exemptions at the first-time adoption of IFRSs and increased its retained earnings by \$4,448,666 thousand, which resulted from the fair value of investment property being used as the cost on initial recognitions at the transition date, as well as the amount of \$2,592,640 thousand being appropriated to special reserve according to Permit No. 1010012865, issued by the FSC on April 6, 2012. The aforementioned special reserve may be reversed in proportion with the usage, disposal, or reclassification of the related assets, and then, be distributed afterwards. As of December 31, 2014 and 2013, the Company recognized the special reserve related to all IFRSs adjustments amounting to \$2,493,480 thousand and \$2,592,640 thousand, respectively.

A special reserve equal to the debit balance of unrealized loss on financial instruments in the stockholders' equity is appropriated from the unappropriated retained earnings pursuant to Article No.41 of the Securities and Exchange Act. A special reserve is initially appropriated from current earnings, and any deficiency resulting from it shall be appropriated from the undistributed earnings of prior years. For the second year and the preceding years, the increase or decrease in the balance of unrealized loss on financial instruments in subsequent year, as shown in the statement of changes in stockholders' equity, is either subject to further appropriation for special reserve, or reversed to retained earnings. On June 6, 2014 and May 30, 2013, the Company's AGM resolved to reverse the above special reserve of \$1,003,658 thousand and appropriated earnings of \$288,967 thousand, respectively.

iii Earnings distribution

Because of net loss, there was no estimation on the employee bonuses and the remuneration for directors and supervisors temporarily.

The Company accrued and recognized the employee bonuses and the directors' and supervisors' remuneration both amounting to \$2,124 thousand for the years 2013. These amounts were calculated upon 0.5% of distributable earning as employee bonus and remuneration of the directors and supervisors, respectively, and recognized as operating expenses in the years of 2013.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The 2014 bonuses to employees and remuneration to directors are awaiting a proposal by the Board of Directors and approvals at the AGM. The differences between the accrued and the actual amounts were accounted for profit or loss in 2015.

There was no difference between the actual distribution and the estimation regarding the employees' bonuses and the remuneration for directors and supervisors amounting to \$2,124 thousand in 2012.

In 2013, the differences in the retained earnings distribution between the amount approved in the shareholders' meeting and recognized in the financial statements were as follows:

	2013		
	The amount approved in the shareholders' meeting	The amount recognized in the financial statements (including estimation)	Differences
Employee bonus—cash	\$ 4,248	2,124	2,124
Directors' and supervisors' remuneration	4,248	2,124	2,124
Total	\$ 8,496	4,248	4,248

The differences between the approved amounts of the bonus to employees, and the remuneration to directors and supervisors, and the accrual amounts reflected in the financial statements in 2013 were regarded as changes in estimates and has been adjusted in the profit or loss for 2014.

The earning distribution for 2013 and 2012 has been approved in the Shareholders' meeting on June 6, 2014 and May 30, 2013, respectively. The relevant dividend distributions to shareholders were as follows:

	2013		2012	
	Amount per share	Total Amount	Amount per share	Total Amount
Dividends distributed to common shareholders:				
Cash	\$ 0.50	420,579	0.5	420,579
Share	0.50	420,579	-	-

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Other equity interest

	Other comprehensive income, before tax, exchange differences on translation	Other comprehensive income, before tax, cash flow hedges	Available-for-sale investments
Balance January 1, 2014	\$ (380,464)	(1,192)	(2,385,189)
Exchange differences on transaction of foreign net assets	(16,956)	-	-
Share of other comprehensive income of jointly controlled entities accounted for using equity method, exchange differences on translation	48,365	-	-
Share of other comprehensive income of associate accounted for using equity method, exchange difference on translation	174,522	-	-
Share of net income of jointly controlled entities on cash flow hedges for using equity method	-	425	-
Gains on hedging instruments, fair value hedges	-	18,691	-
Other comprehensive income, before tax, available-for-sale financial assets	-	-	(1,131,225)
Adjustment on reclassification of impairment, available-for-sale financial assets	-	-	2,259,009
Share of net income of subsidiaries for using equity method	-	-	(4,682)
Balance at December 31, 2014	<u>\$ (174,533)</u>	<u>17,924</u>	<u>(1,262,267)</u>
Balance at January 1, 2013	\$ (266,213)	(1,649)	(2,863,646)
Exchange differences on transaction of foreign net assets	(177,797)	-	-
Share of other comprehensive income of jointly controlled entities accounted for using equity method, exchange differences on translation	(1,687)	-	-
Share of other comprehensive income of associate accounted for using equity method, exchange difference on translation	65,233	-	-
Share of net income of jointly controlled entities on cash flow hedges for using equity method	-	(425)	-
Gains on hedging instruments, fair value hedges	-	882	-
Other comprehensive income, before tax, available-for-sale financial assets	-	-	473,213
Share of net income of subsidiaries for using equity method	-	-	5,244
Balance at December 31, 2014	<u>\$ (380,464)</u>	<u>(1,192)</u>	<u>(2,385,189)</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Earnings per share

(a) Basic earnings per share

The basic earnings per share of the Company are calculated based on the profit attributable to the ordinary shareholders of the Company amounted to \$(979,878) thousand, and \$920,401 thousand for the years 2014 and 2013, respectively; they were divided by the weighted-average numbers of 883,216 thousand ordinary shares. The computations of the basic earnings per share were as follows:

i. Profit attributable to ordinary shareholders

	2014	2013
Profit (loss) attributable to ordinary shareholders	\$ (979,878)	920,401

ii. Weighted average number of ordinary shares

	2014	2013
Weighted average number of ordinary shares, at December 31	883,216	883,216

(b) Diluted earnings per share

The diluted earnings per share of the Company were not calculated based on the account of the net loss in 2014.

The diluted earnings per share that are calculated based on the profit attributable to the ordinary shareholders of the Company amounted to \$920,401 thousand for the year 2013; they were divided by the weighted-average numbers of 883,515 thousand shares after the adjustment for the effects of all potentially dilutive ordinary shares for the year 2013. The computations of diluted earnings per share were as follows:

i. Profit attributable to ordinary shareholders (Diluted)

	2013
Profit attributable to ordinary shareholders (Diluted)	\$ 920,401

ii. Weighted average number of ordinary shares (Diluted)

	2013
Weighted average number of ordinary shares (Basic)	883,216
Effect of the employee bonuses	299
Weighted average number of ordinary shares (Diluted)	883,515

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) Operating Revenue

The Group's revenue for the years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Construction revenue	\$ 16,003,087	15,673,845
Real estate revenue	4,735,616	1,821,717
Rental revenue	267,956	268,268
Other operating revenue	220,746	184,414
	<u>\$ 21,227,405</u>	<u>17,948,244</u>

(21) Non-operating income and expenses

(a) Other income

The Group's other income for the years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Interest income		
Cash in banks	\$ 17,929	38,530
Interest of guarantee	14,934	-
Others	20	29
Dividend income	88,196	88,211
Other income	229,012	41,224
	<u>\$ 350,091</u>	<u>167,994</u>

For details of the Preferred Dividend, please refer to Note 6(2).

(b) Other gains and losses

The Group's other gains and losses for the years 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Foreign exchange gains (losses)	\$ 1,756	5,916
Loss on Financial assets and liability at fair value through profit or loss	(55)	(1,637)
Impairment loss on financial assets	(2,259,009)	-
Gain on disposal of property, plant and equipment	15,319	251
Gain on disposal of investment properties	302	-
Gain from reversal of impairment loss on property, plant and equipment	-	19,523
Gains on write-off of accounts payable	-	4,184
Others	(532)	(41,498)
	<u>\$ (2,242,219)</u>	<u>(13,261)</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Financial costs

The Group's financial costs for the years 2014 and 2013 were as follows:

	2014	2013
Interest expenses		
Interest expenses – bank loans	\$ 227,597	327,494

For details of the capitalized interests, please refer to Note 6(5).

(22) Reclassification of the other comprehensive income

The Group's reclassification of the other comprehensive income for the years 2014 and 2013 were as follows:

	2014	2013
Available-for-sale financial assets		
Changes in available-for-sale financial assets at fair value	\$ (1,136,087)	478,457
Gains on reclassification of available-for-sale financial assets at fair value	2,259,009	-
Net changes recognized as other comprehensive income at fair value	\$ 1,122,922	478,457

(23) Financial instruments

(a) Categories of financial instruments

Financial assets

	2014.12.31	2013.12.31
Financial assets at amortized cost	\$ -	55
Current derivative financial assets for hedging	24,303	66,153
Financial assets at cost	-	13,210
Available-for-sale financial assets (including current and non-current)	4,301,573	5,432,798
Loans and receivables:		
Cash and cash equivalents	1,135,015	1,444,219
Notes receivable, accounts receivable and other receivables	3,987,705	4,673,664
Guarantee deposits paid (under other current assets and non-current assets)	121,063	935,226
Subtotal	5,243,783	7,053,109
Total	\$ 9,569,659	12,565,325

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Financial liabilities

	2014.12.31	2013.12.31
Financial liabilities at amortized cost		
Short-term borrowings	\$ 7,356,036	10,797,510
Short-term Notes and Bills Payable	100,000	1,550,000
Accounts payable	3,946,073	3,974,573
Other payables	1,064,368	977,729
Long-term borrowings (including current portion)	12,346,841	11,528,635
Guarantee deposits received	122,745	128,073
Total	\$ 24,936,063	28,956,520

(b) Credit risk

i. Exposure to credit risk

The maximum credit risk exposure of the Group's financial instruments is equal to the carrying amount. As of December 31, 2014 and 2013, the maximum exposure to credit risk was \$9,569,659 thousand, and \$12,565,325 thousand, respectively.

ii. High credit risk

Clients of the Group are concentrated in the construction industry and government entities. To minimize credit risk, the Group reviews the financial positions of the clients periodically and request collateral if necessary. The Group also evaluates the collectability of receivables and provides an allowance for doubtful accounts on a regular basis. The relevant loss on bad debts is generally under the Group's expectation.

(c) Liquidity risk

The followings are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2-5 years	More than 5 years
2014.12.31							
Non-derivative financial liabilities							
Secured loans	\$ 16,916,515	17,998,428	4,415,635	1,514,480	2,108,591	7,801,436	2,158,286
Unsecured loans	2,786,362	2,873,126	1,121,775	208,305	5,677	1,537,369	-
Short-term bills payable	100,000	100,000	100,000	-	-	-	-
Accounts payable	3,946,073	3,946,073	1,889,933	14,999	206,097	1,441,164	393,880
Other payables	1,064,368	1,064,368	1,000,626	11,124	9,930	41,535	1,153
	\$ 24,813,318	25,981,995	8,527,969	1,748,908	2,330,295	10,821,504	2,553,319

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	Carrying amount	Contractual cash flows	Within 6 months	6~12 months	1~2 years	2-5 years	More than 5 years
<u>2013.12.31</u>							
Non-derivative financial liabilities							
Secured loans	\$ 17,488,424	18,876,380	1,316,473	3,730,301	2,067,364	9,340,347	2,421,895
Unsecured loans	4,837,721	4,901,216	3,316,568	58,206	1,198,524	327,918	-
Short-term bills payable	1,550,000	1,550,000	1,550,000	-	-	-	-
Accounts payable	3,974,573	3,974,573	2,050,711	-	-	1,481,206	442,656
Other payables	977,729	977,729	895,045	41,619	508	40,557	-
	<u>\$ 28,828,447</u>	<u>30,279,898</u>	<u>9,128,797</u>	<u>3,830,126</u>	<u>3,266,396</u>	<u>11,190,028</u>	<u>2,864,551</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(d) Currency risk

i Exposure to currency risk

The Group's significant exposures to foreign currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

	2014.12.31			2013.12.31		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial Assets						
<u>Monetary items</u>						
USD:TWD	\$ 43,507	31.65	1,377,006	96,188	29.8050	2,866,871
HKD:MOP	69,564	1.0300	283,821	-	-	-
USD:INR	926	63.3253	29,299	-	-	-
USD:HKD	206	7.7574	6,525	-	-	-
Financial Liabilities						
<u>Monetary items</u>						
JPY:INR	4,860	0.5294	2,573	191,206	0.5896	54,282
USD:INR	1,173	63.3253	72,624	8,461	31.9003	252,180

ii Sensitivity analysis

The Group's exchange rate risk comes mainly from conversion gains and losses of accounts measured in foreign currencies such as cash and cash equivalents, accounts receivable, other receivables, loans and borrowings, accounts payable, other payables, etc. If the TWD, when compared with foreign currencies, had appreciated or depreciated 1% (with other factors remaining constant on the reporting date), profit would have increased or decreased by \$13,458 thousand and by \$21,251 thousand for the years 2014 and 2013, respectively.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(e) Interest rate analysis

Please refer to the aforementioned liquidity risk management for Group's interest rate exposure to its financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure in interest rates on the derivative and non-derivative financial instruments on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management reports the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases/decreases by 1%, the Group's net income will decrease/increase by \$495,452 thousand and \$238,762 thousand for the years 2014 and 2013, respectively, with all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

(f) Fair value of financial instruments

i. Fair value and carrying amount

The Group considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost as a reasonable approximation of fair value.

ii. The Group uses the following methods in determining the fair value of its financial assets and liabilities:

(i) The fair value of financial assets and liabilities traded in active markets is based on quoted market prices. These include investments in stocks from listed entities.

(ii) The fair value of shares that were not quoted in an active market is estimated using the equity value. The changes in fair value recognized in the consolidated comprehensive income statement were \$(17,717) thousand and \$142,172 thousand for the years 2014 and 2013, respectively. If the equity value is increased or decreased by 10%, assuming other variables remain constant, the increase or decrease in the carrying amount of the shares will be \$132,219 thousand and \$133,991 thousand, respectively on December 31, 2014 and 2013.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

iii. Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2014.12.31				
Available-for-sale financial assets	\$ 2,979,385	-	1,322,188	4,301,573
Derivative financial assets	24,303	-	-	24,303
	<u>\$ 3,003,688</u>	<u>-</u>	<u>1,322,188</u>	<u>4,325,876</u>
2013.12.31				
Available-for-sale financial assets	\$ 4,092,893	-	1,339,905	5,432,798
Financial assets measured at fair value through profit or loss	55	-	-	55
Derivative financial assets	66,153	-	-	66,153
	<u>\$ 4,159,101</u>	<u>-</u>	<u>1,339,905</u>	<u>5,499,006</u>

There is no any transference among the fair value levels in 2014 and 2013.

(24) Financial risk management

(a) Illustrative

The Group is exposed to the following risks due to usage of financial instruments:

- i. Credit risk
- ii. Liquidity risk

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

iii. Market risk

According to the exposed risks stated above, the following notes show the goals, policies and procedures of risk measurement and management of the Group.

(b) Risk management framework

- i. The daily operation of the Group is affected by multiple financial risks, including credit risk, liquidity risk and market risk. The overall risk control policy focuses on unpredictable events in financial market and seeks reduction of potential adverse impact on financial status and financial performance.
- ii. The Group's finance department implements risk management in accordance with the risk management policy approved by the Board of Directors. The Group's financial department works closely with internal operation department to identify, assess and minimize various financial risks. The Board of Directors has developed a risk policy which covers specific risk exposure, such as the use of derivative financial instruments and the investment of excess liquidity.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

i. Accounts receivables and other receivables

Clients of the Group are concentrated in the construction industry and government entities. To minimize credit risk, the Group reviews the financial positions of the clients periodically and request collateral if necessary. The Group also evaluates the collectability of receivables and provides an allowance for doubtful accounts on a regular basis. The relevant loss on bad debts is generally under the Group's expectation.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

ii. Investment

The credit risk exposure in the bank deposits and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transactions are with the banks, financial institutions, corporate organization and government agencies, with good credit ratings, there are no non-compliance issues and therefore no significant credit risk.

iii. Guarantee

As of December 31, 2014 and 2013, the Group's guarantee for construction contract work for other construction companies amounted to approximately \$11,151,487 thousand, \$17,238,999 thousand, respectively.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to manage liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation

The Group's capital and operating funds is adequate to meet demands, and there is no related liquidity risk.

As of December 31, 2014 and 2013, the Group has unused bank facilities for \$20,824,875 thousand, and \$18,216,513 thousand, respectively.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

i. Currency risk

The Group is exposed to currency risk on purchases that is denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (TWD), Hong Kong Dollars (HKD), Macau Pataca (MOP) and India Rupee (INR). The currencies used in these transactions are denominated in TWD, EUR, JPY, USD, HK, MOP and INR.

The Group uses delivery forward exchange contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

The interest is denominated in the currency used in the borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the TWD and the USD.

The Group's investments in other subsidiaries are not hedged.

ii. Interest rate risk

As of December 31, 2014 and 2013, financial liabilities exposed to cash flow interest rate risk amounted to \$12,346,841 thousand, and \$11,528,635 thousand, respectively. Since the Group's long-term loans is floating-rate loans, the effective interest rate of the long-term debt would change if the market rate changed.

iii. Other market price risk

The equity price risk of the Group is derived from its investment in Taiwan High Speed Rail Corporation and from other strategic investments. The changes of fair value of the available-for-sale financial instruments will affect the Group's other comprehensive income.

(25) Capital Management

The Group meets its objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares or sell assets to settle any liabilities.

The Group uses the debt-to-equity ratio to manage capital. This ratio is using the total net debt and divided by the total capital. The net debt from the balance sheet are derived from the total liabilities, less, cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, other equity and non-controlling interest, plus, net debt.

	<u>2014.12.31</u>	<u>2013.12.31</u>
Total liabilities	\$ 34,945,892	37,160,010
Less: Cash and cash equivalents	<u>(1,135,015)</u>	<u>(1,444,219)</u>
Net debt	33,810,877	35,715,791
Total equity	<u>19,454,667</u>	<u>19,654,894</u>
Total capital	<u>\$ 53,265,544</u>	<u>55,370,685</u>
Debt to equity ratio	<u>63.48%</u>	<u>64.50%</u>

As of December 31, 2014, the Group had no changes in capital management.

(26) Non-cash transactions and investing activities

The non-cash transactions and investing activities of the Group in the years 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Prepayments for business facilities transfer to property, plant and equipment	\$ (154,182)	(27,833)
Prepaid expenses transfer to property, plant and equipment	(7,391)	-
Investment properties transfer to inventory	(458,629)	-
Investment properties transfer to properties, plant and equipment	(170,959)	-
	<u>\$ (791,159)</u>	<u>(27,833)</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. RELATED-PARTY TRANSACTIONS

(1) Parent Group and Ultimate Controlling Party

The Group is the ultimate controlling party of the Group and its subsidiaries.

(2) Other related party transactions:

i. Construction

The information related to associate constructions is as follow:

	Total Contact Amount (Before tax)	Current Amount (Including estimation)	Accumulated Amount
2014			
Other related party	<u>\$ 58,490</u>	<u>58,269</u>	<u>58,490</u>
2013			
Other related party	<u>\$ 63,619</u>	<u>221</u>	<u>221</u>

According to associate construction regulations, the associate construction amounts are based on the budget of each construction, plus, reasonable revenue from the administrative expenses. The amounts are approved by the managerial level.

ii. Other outstanding balance

The amounts of outstanding balances between the Group and related parties were as follows:

	Receivables from related parties	
	2014.12.31	2013.12.31
Other related party	<u>\$ 6,141</u>	<u>-</u>
	Other receivables to related parties	
	2014.12.31	2013.12.31
Joint ventures	<u>\$ 8,348</u>	<u>-</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

iii. Rental

(a) Rental revenue

	2014	2013
Other related party	\$ 4,243	4,248

The Group leases the 3rd floor office of Min-sheng commercial building to other related party. The rent is based on the nearby market value of rental, and will be paid monthly.

iv. Loan to related parties

	2014.12.31	2013.12.31
Joint ventures	\$ 219,857	-

The interest rate is based on average rate of the short-term borrowings from financial institutions during this year. The borrowings are all unsecured. After assessment, no provisions for bad debts expenses were accrued.

v. Transactions of properties

The Group purchases transportation equipment from key management amounting to \$3,280 thousand in 2014. As of 2014, the payment has been made.

The details about properties, plant and equipment please refer to Note 6(7).

vi. Endorsements and Guarantees

	Subject of guarantee	2014.12.31	2013.12.31
Associates	Project contract guarantee (Note)	\$ -	6,087,512

Note: According to the contract with FIC Corp. and other Surety Companies for American Bridge Group, the guarantee amount of the Group is limited to USD450,000 thousand, while FIC Corp. and other Surety Companies had provided a guarantee of USD zero, and USD204,245 thousand as of December 31, 2014 and 2013, respectively. In addition, the subsidiary had sold parts of its shares during 2012 and lost its controlling power over American Bridge Group. The purchaser had also promised to guarantee an amount up to the limit mentioned above.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

vii. Other

(a) Interest revenue

	2014	2013
Joint ventures	\$ 2,621	-

(b) On May 14, 2014, the Group entered into a contract about partial investment properties with other related party amounting to \$568,469 thousand (after tax) and the gains on disposal were estimated at \$90,817 thousand. As of December 31, 2014, the ownership of properties has not yet been transferred, but was reclassified to inventory. Partial payment amounting to \$341,082 thousand has already been made, and was recognized as advance receipts.

(c) The Group purchased farming and grazing lands, amounting 400 thousand in 2013. As of December 31, 2013, the payment had been made and the ownerships had been transferred as well.

(3) Key Management Personnel Transaction

Key Management Personnel Compensation

	2014	2013
Short-term employee benefits	\$ 110,668	123,010

The Group provides seventeen vehicles for key management personnel at a cost of \$15,441 thousand.

8. PLEDGED ASSETS

The carrying values of pledged assets are as follow:

Asset	Purpose of pledge	2014.12.31	2013.12.31
Restricted deposits (other current assets)	Construction warranty, guarantees for contract performance, advance payment, payback reserve and hedge	\$ 173,244	23,813
Long-term receivables	Loan collateral	3,521,614	3,344,165
Intangible assets	Loan collateral	448,570	387,487
Inventory	Loan collateral	14,372,657	14,691,853
Property, plant and equipment	Loan collateral and construction warranty	687,350	870,060
Investment Property, net	Loan collateral and construction warranty	10,052,263	10,556,085
		\$ 29,255,698	29,873,463

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. MAJOR COMMITMENTS AND CONTINGENCIES

(1) Commitments and contingencies were as follows:

(a) As of December 31, 2014 and 2013, the details of realty advance sales and total sales of completed realty, and the advance receipts from these sales were listed as below:

	2014.12.31	2013.12.31
Realty advance sales and total sales of completed realty	\$ 10,582,510	13,376,379
Advance receipts	\$ 4,343,688	4,073,954

(b) As of December 31, 2014 and 2013, the Group signed a contract of purchasing the land for \$2,351,810 thousand, and \$268,369 thousand, respectively, and \$455,926 thousand, and \$211,316 thousand have been paid in accordance with the contract, respectively.

(c) As of December 31, 2014 and 2013, the total price of construction contract entered by the Group and the total amount which has been collected or billed according to the contract is listed as below:

		2014.12.31	2013.12.31
Total contract amount	TWD	95,293,073	76,997,480
	INR	31,734,032	29,497,344
	HKD	631,562	767,228
	MOP	119,666	121,558
	MYR	289,090	-
Accumulated billing amount		72,802,191	56,116,942

(d) As of December 31, 2014 and 2013, the Group provides the guarantees for contract performance and construction warranties for other construction companies, including jointly liable contracts amounting to \$11,151,487 thousand, and \$17,238,999 thousand, respectively.

(e) As of December, 31, 2014 and 2013, the Group had provided a \$2,680,000 thousand guarantee deposits paid regarding borrowing.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Service Concession agreements

The Group entered into a contract with New Taipei City regarding the “Sewerage Construction Outsourcing Plan in Tamshui Area”. The primary terms of the contract are summarized as follows:

(1) Construction and operating period:

The construction period is five years from the day following the signing of the contract. The project will start to operate when the units are relatively completed and the related licenses of operation have already been obtained. Besides, there was also a need for documental permission. The total construction and operating period is thirty five years.

(2) Authority and scope

The operational scope comprises the construction of the affiliate facilities and the sewerage construction business in Tamshui area, as well as the management of sewerage treatment.

(3) Construction progress

A. Sewerage treatment plant

In the first phase, the plant shall have the numbers of the unit of 28,000 CMD at the average of the day. After that, the number of units of the plant should be no less than 55,000 CMD at the average of the day when the operational assets are transferred to other party. The sewerage treatment plant has to operate in the five years of construction period.

B. Sewerage system and units of pipes:

The laying of main and minor drainpipes as well as pipelines shall be completed in fifteen years. Furthermore, the pipelines shall be completed with the numbers of 8,400 units, 25,900 units and 31,500 units, within 5, 8 and 12 years, respectively, from the day following the signing of the contract.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Operation:

- A. The sewerage plant needs to have the approval of the International Organization for Standardization of sewerage plant within two years after the initial operation day, and has to be maintained within the operating period.
- B. When the pipelines have reached 50% of the first phase or 8,000 units, the Group will have the right to charge the amortized sewage treatment expense. If the construction progress is delayed and is not able to conform with the said requirements within two years from the day of the initial operation, the penalty will be \$100 thousand per day. Besides, the amortized maintenance expenses of the pipelines shall be charged at a contractual rate from the beginning date of the operation.

(5) Supervisal

- A. During the construction period, the Group's subsidiaries shall keep more than 50% of its ownership, and the transfer of ownership is not allowed without permission.
- B. Within the thirty-five years, the subsidiaries shall keep holding at least 25% of the capital they owned.
- C. To carry out the plan and maintain the quality, the Group should afford to pay project management expenses of no more than \$175,000 thousand over the thirty- five years. Hence, the Group has to make the payment of \$10,000 thousand each year from the day signing of the contract commerce to the 3rd year of the operation, as well as the three years prior to the transferring period. The payments for the remaining years will be reduced to \$5,000 thousand.

(6) Performance guarantees

- A. Before entering into the contract, the Group provided the amount of \$100,000 thousand for performance guarantees. On March 3, 2007, the former performance guarantees provided were replaced by the bank. On November 16, 2011, time deposits pledged as collateral amounting to \$13,800 thousand had increased in guarantees.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Discharge performance guarantees:

Both the New Taipei City and the Group agreed that if there is no any delinquency on the terms as well as the completion of the laying of the pipelines of 19,000 and 31,500 units, the Group will recover 25% of the guarantees for each of the aforesaid requirement. Also, in the event of the due year, the Group will recover 50% of the guarantees when the assets are fully transferred to other parties and the Group has to offer the warranty provision. As of April 26, 2012 and July 9, 2014, the Water Resources Agency (New Taipei City) consented to discharging each 25% guarantee and returning it to the Group.

(7) Operating assets transferor

A. At the event of due year

- (a) The Group should propose a plan on the transferring of its assets free of charge three years before the due year. It should also enter into a transfer agreement with the New Taipei City two years before the due year.
- (b) The underlying transferred assets mean that all assets and affiliated enterprises can be used as going concern at the event of the due year.
- (c) The Group will be responsible for warranty within three years after the transferring of the aforesaid assets, and the performance guarantees at the 3rd phase will be kept as warrant guarantees.

B. Before the due year

- (a) If the contract is terminated during the construction and operating period, the appraiser groups chosen by both sides will appraise the assets and make a report on it.
- (b) The transferred prices will be at the lower appraisal prices and the total cost, less, received amortized sewage treatment expenses at the day of the termination.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(g) The Group's issued but unused letter credit

	2014.12.31	2013.12.31
Issued but unused L/C	\$ 171,845	19,620

(2) Contingent liability:

- (a) As of December 31, 2014 and 2013, the Group provided promissory notes for contract performance, issuance of commercial paper, and construction warranty amounting to \$24,224,289 thousand, and \$24,061,718 thousand, respectively.
- (b) As of December 31, 2014 and 2013, the Group was provided guarantee deposits and performance guarantees amounting to \$11,222 thousand and \$53,200 thousand, respectively, by subcontractors for the Tamshui sewerage construction system.

(3) Other

- (a) As of December 31, 2014 and 2013, the Group paid guarantee deposits for the joint construction contracts with several landowners amounting to \$43,268 thousand, and \$819,520 thousand, respectively. (Recognized as other current assets)
- (b) The controversies over the Wu-jia to Shang- liao construction project of Kao- Nan region construction office for the east-west expressway between the Group and Directorate General of Highways, MOTC are the extension of the construction period and the expense of the changing for construction. The Group has filed a lawsuit in April 2005, and made the claim of \$444,579 thousand against Kao- Nan region construction office for the east-west expressway. In February, 2014, Taiwan high court (Kaohsiung branch) ruled that the construction office shall pay the amount of \$243,206 thousand as compensation, which includes interests. The Group and the construction office did not agree with the verdict of the High court and made an appeal to the Supreme Court. In June, 2014, the Supreme Court turned down the second verdict and handed the case back to Taiwan high court (Kaohsiung branch). Based on the opinion of the external lawyer, the compensation in the third verdict will turn out to be higher than the second verdict. However, the Group is still waiting for the final verdict.

10. LOSS DUE TO MAJOR DISASTERS: None

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. SIGNIFICANT SUBSEQUENT EVENTS: None

12. OTHER

Employee, depreciation, depletion and amortization expenses summarized as follow:

	2014			2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee expenses						
Salary expenses	\$ 1,035,541	545,715	1,581,256	886,102	471,641	1,357,743
Labor and health						
Insurance expenses	62,411	31,356	93,767	66,522	23,488	90,010
Pension expenses	49,132	31,225	80,357	40,539	31,324	71,863
Other employee expenses	213,875	76,996	290,871	176,095	11,171	187,266
Depreciation expenses	317,961	23,558	341,519	351,716	34,040	385,756
Depletion expenses	-	-	-	-	-	-
Amortization expenses	14,668	-	14,668	25,694	-	25,694

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. DISCLOSURES REQUIRED

(1) Information on significant transactions

(a) Schedule 1: Loans to others:

(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Account	Related Parties (Y/N)	Highest amount	December 31, 2013	Amount occurred during the period	Interest rate	Nature (Note 3)	Amount of commercial dealings	Financing purpose	Allowance for bad debt amount	Pledges		Maximum amount to individual	Maximum total financing amount
													Item	Value		
1	Continental Engineering Corp.	CEC INTERNATIONAL MALAYSIA SDN BHD.	Other receivables	Y	379,800	379,800	284,850 (Note 2)	2.58	2	-	Operation requirements	-	-	3,184,059	3,184,059	
2	Continental Development Corp.	MEGA CAPITAL DEVELOPMENT SDN. BHD	Other receivables	Y	297,326	297,326	219,857	7.58	2	-	Land purchasing and operation requirements	-	-	4,356,934	4,356,934	

Note 1: The amount of total loans to others is limited to 40% of net equity value. The amount of loans to a single business enterprise is limited to 40% of net equity value. Calculation is as follows:

(1) Continental Engineering Corp.:

Maximum loans are limited to 40% of net equity value: \$7,960,147 thousand $\times 40\% = 3,184,059$ thousand

Loans to a single business enterprise are limited to 40% of net equity value: \$7,960,147 thousand $\times 40\% = 3,184,059$ thousand

(2) Continental Development Corp.:

Maximum loans are limited to 40% of net equity value: \$10,892,336 thousand $\times 40\% = 4,356,934$ thousand

Loans to a single business enterprise are limited to 40% of net equity value: \$10,892,336 thousand $\times 40\% = 4,356,934$ thousand

Note 2: The above transactions were eliminated when preparing the consolidated financial statements.

Note 3: Nature of Financing:

(1) Business dealings: 1

(2) Short-term financing needs: 2

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Schedule 2: Endorsements/guarantees to others:

NO.	Guarantor	Guaranteed party		Limit on guarantees provided to a single business	Maximum balance of endorsements/guarantees for the period	Ending balance of endorsements/guarantees	Amount occurred during the period	Collateral	Cumulative guarantee as percentage of net worth of the most recent financial statements	Maximum amount of endorsements/guarantees	Endorsements/guarantees provided by Parent Company	Endorsements/guarantees provided by A Subsidiary	Endorsements/guarantees provided to Subsidiaries in Mainland China
		Name of the Company	Relationship with the Company (Note 2)										
0	Continental Holdings Corp.	CEC International Corp. (India) Pvt. Ltd.	(3)	150,517,360	635,203	624,950	624,950	-	3.32%	150,517,360	Y	N	N
0	Continental Holdings Corp.	Continental Engineering Corp.	(2)	150,517,360	3,318,314	3,318,314	2,660,247	-	17.64%	150,517,360	Y	N	N
1	Continental Engineering Corp.	Fu Tsu Construction Co., Ltd.	(5)	23,880,441	11,151,487	11,151,487	11,151,487	-	140.09%	47,760,882	N	N	N
1	Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	(2)	15,920,294	520,000	520,000	314,481	-	6.53%	15,920,294	N	N	N
1	Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	(2) and (5)	23,880,141	10,001	10,001	10,001	-	0.13%	47,760,882	N	N	N
1	Continental Engineering Corp.	CEC International Corp. (India) Pvt. Ltd.	(2)	15,920,294	314,850	314,850	61,896	-	3.96%	15,920,294	N	N	N
1	Continental Engineering Corp.	CEC International Corp.	(2)	15,920,294	474,750	474,750	236,362	-	5.96%	15,920,294	N	N	N
1	Continental Engineering Corp.	CEC International Corp. (India) Pvt. Ltd.	(2) and (5)	23,880,441	5,203,574	5,086,746	5,086,746	-	63.9%	47,760,882	N	N	N
1	Continental Engineering Corp.	American Bridge Corp.	(5)	23,880,441	5,634,263	-	-	-	-	47,760,882	N	N	N
1	Continental Engineering Corp.	CEC International Malaysia Sdn Bhd.	(2) and (5)	23,880,441	4,780,904	4,562,117	4,562,117	-	57.31%	47,760,882	N	N	N

(Continued)

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NO.	Guarantor	Guaranteed party		Limit on guarantees provided to a single business	Maximum balance of endorsements/guarantees for the period	Ending balance of endorsements/guarantees	Amount occurred during the period	Collateral	Cumulative guarantee as percentage of net worth of the most recent financial statements	Maximum amount of endorsements/guarantees	Endorsements/guarantees Provided by Parent Company	Endorsements/guarantees Provided by A Subsidiary	Endorsements/guarantees provided to Subsidiaries in Mainland China
		Name of the Company	Relationship with the Company (Note 2)										
2	Continental Development Corp.	CEC Commercial Development Corp.	(2)	21,784,672	750,000	750,000	750,000	-	6.89%	21,784,672	N	N	N
2	Continental Development Corp.	CEC Commercial Development Corp.	(2)	21,784,672	725,000	725,000	690,000	-	6.66%	21,784,672	N	N	N
3	CEC Commercial Development Corp.	Continental Development Corp.	(4)	12,547,900	888,800	888,800	846,000	1,200,000	28.33%	12,547,900	N	N	N
3	CEC Commercial Development Corp.	Continental Development Corp.	(4) and (5)	12,547,900	1,912,000	1,912,000	1,867,788	-	60.95%	12,547,900	N	N	N
4	Hsin-Dar Environment Engineering Co., Ltd.	Continental Engineering Corp.	(4)	547,338	1,071	1,071	1,071	-	0.06%	1,824,459	N	N	N

Note 1: According to Continental Holdings Corp., the amount of total endorsements/guarantees is limited to eight times the net equity value of the Company's most recent financial statements: \$18,814,670 thousand \times 8 = \$150,517,360 thousand
 Endorsements/guarantees to a single business are limited to eight times the net equity value of the Company's most recent financial statements: \$18,814,670 thousand \times 8 = \$150,517,360 thousand

According to Continental Engineering Corp., the amount of total endorsements/guarantees is limited to six times the net equity value of the Company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry: \$7,960,147 thousand \times 6 = \$47,760,882 thousand

Endorsements/guarantees to a single business are limited to three times the net equity value of the Company's most recent financial statements: \$7,960,147 thousand \times 3 = \$23,880,441 thousand

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

According to Continental Engineering Corp., the amount of total endorsements/guarantees is limited to two times the net equity value of the Company's most recent financial statements except in the event of joint liability in joint ventures with other companies in the same industry: \$7,960,147 thousand \times 2 = \$15,920,294 thousand

Endorsements/guarantees to a single business are limited to two times the net equity value of the Company's most recent financial statements: \$7,960,147 thousand \times 2 = \$15,920,294 thousand

According to Continental Development Corp., the amount of total endorsements/guarantees is limited to two times the net equity value of the Company's most recent financial statements: \$10,892,336 thousand \times 2 = \$21,784,672 thousand

Endorsements/guarantees to a single business are limited to two times the net equity value of the Company's most recent financial statements: \$10,892,336 thousand \times 2 = \$21,784,672 thousand

According to CEC Commercial Development Corp., the amount of total endorsements/guarantees is limited to four times the net equity value of the Company's most recent financial statements: \$3,136,975 thousand \times 4 = \$12,547,900 thousand

Endorsements/guarantees to a single business are limited to four times the net equity value of the Company's most recent financial statements: \$3,136,975 thousand \times 4 = \$12,547,900 thousand

According to Hsin-Dar Environment Engineering Co., Ltd., the amount of total endorsements/guarantees is limited to the net equity value of the Company's most recent financial statements: \$1,824,459 thousand \times 1 = \$1,824,459 thousand

Endorsements/guarantees to a single business are limited to 30% the net equity value of the Company's most recent financial statements: \$1,824,459 thousand \times 30% = \$547,338 thousand

Note 2: The relationship between the Company that provided endorsements/guarantees and the guaranteed party is as follows:

- (1) The Company has business with the Company
- (2) Subsidiary Company directly owned over 50% by the Company;
- (3) The investee Company owned over 50% by the Company and its subsidiary;
- (4) Parent Company which directly held the Company over 50%;
- (5) The Company should provide a guarantee to other companies in the same industry based on the necessary of undertaken projects and the contract.
- (6) Because of jointly investing each shareholder held the endorsements based on interest owned.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Schedule 3: Marketable securities held on December 31, 2014 (subsidiaries, associates and joint ventures are excluded):

Holding Company	Type of Marketable Security	Relationship with the Company	Account	December 31, 2014				Maximum Percentage of Ownership for the period	Note
				Shares	Book Value	%	Market Value/Equity (dollars)		
Continental Engineering Corp.	Taiwan High Speed Rail Cor. - common stock	-	Current available-for-sale financial assets	201,735,000	798,871	3.10%	3.96	3.10%	
Continental Engineering Corp.	A1 registered preferred stock)	-	Current available-for-sale financial assets	99,675,000	394,713	3.83%	3.96	3.83%	Note
Continental Engineering Corp.	C4 registered preferred stock)	-	Current available-for-sale financial assets	9,800,000	38,807	27.45%	3.96	27.45%	Note
Continental Engineering Corp.	C5 registered preferred stock)	-	Current available-for-sale financial assets	59,125,000	234,135	23.80%	3.96	23.80%	Note
Continental Engineering Corp.	C8 registered preferred stock)	-	Current available-for-sale financial assets	32,250,000	127,710	15.73%	3.96	15.73%	Note
Continental Engineering Corp.	Evergreen Steel Corp.	-	Non-current available-for-sale financial assets	25,645,907	737,987	6.28%	28.78	6.28%	
Continental Engineering Corp.	Shin Yung Enterprise Corp.	-	Non-current available-for-sale financial assets	12,256,347	581,539	8.45%	47.45	8.45%	
Continental Engineering Corp.	JieBang Consultant Management Co., Ltd.	-	Non-current available-for-sale financial assets	300,000	2,662	6.00%	8.87	6.00%	
Continental Engineering Corp.	Taiwan Motp MacDonald Ltd.	-	Non-current available-for-sale financial assets	380,000	-	19.00%	15.26	19.00%	
Continental Engineering Corp.	International Property & Finance Co., Ltd.	-	Non-current financial assets at cost	26,301	-	1.64%	-	1.64%	
Continental Engineering Corp.	Shin Yu Energy Development Co., Ltd.	-	Non-current financial assets at cost	22,405,297	-	9.00%	-	9.00%	

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Holding Company	Type of Marketable Security	Relationship with the Company	Account	December 31, 2014			Maximum Percentage of Ownership for the period	Note
				Shares	Book Value	%		
Continental Development Corp.	Taiwan High Speed Rail Cor. — common stock	-	Current available-for-sale financial assets	201,735,000	798,871	3.10%	3.96	
Continental Development Corp.	A1 registered preferred stock)	-	Current available-for-sale financial assets	99,675,000	394,713	3.83%	3.96	Note
Continental Development Corp.	C5 registered preferred stock)	-	Current available-for-sale financial assets	48,375,000	191,565	19.47%	3.96	Note

Note: The holding rate of total shares in issue of registered preferred stock of Taiwan High Speed Rail Corp. held by CEC and CDC are 5.00% and 3.68%, respectively.

(d) Schedule 4: Cumulative purchases or sales of the same marketable securities exceeding \$300,000 thousand or 20% of paid-in capital: None.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(e) Schedule 5: Acquisition of real estate exceeding \$300,000 thousand or 20% of paid-in capital:

(In Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transaction Date	Transaction Amount	Payment	Counter-party	Nature of Relationship	Prior Transaction with Related Party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date			
Continental Development Corp.	50% of No. 103, No. 104, and No. 106 at Hui-kuo section, Xitun Dist, Taichung City	October 17, 2014	19,000,000	Land payment of 50,000 thousand as of December 31, 2014 (In accordance with the agreement)	Natural person	-	-	-	-	Market value and the appraisal reports	Real estate development	None

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Schedule 6: Disposal of real estate exceeding \$300,000 thousand or 20% of paid-in capital:

(In Thousands of New Taiwan Dollars)												
Company Name	Property Name	Transaction Date	Acquisition Date	Book Value	Transaction Price	Payment	Gain or loss and disposal	Counter Party	Relationship	Disposal Purpose	Price Reference	Other Term
Continental Development Corp.	A portion of 2& 3F, No.100, Sec.3, Song-Shan Dist, Taipei City	May, 14, 2014	October, 2004	465,393	568,469	Land payment of 341,082 thousand as of December 31, 2014 (In accordance with agreement)	-	Hao-Rao Foundation	The chairman of Hao-Rao Foundation and the director of Continental Development Corp. are the same.	For liquidation and decreasing in interest expense	Appraisal report	None

(g) Schedule 7: Sales to or purchases from related parties exceeding \$100,000 thousand or 20% of paid-in capital:

(In Thousands of New Taiwan Dollars)											
Purchasing (Selling) Party	Counter-Party	Relationship	Transactions with Controlling Company			Uncommon Transactions		Accounts and Notes Receivable (Payable)		Remark	
			Purchases (Sales)	Amount	% of Total Purchases (Sales)	Term	Unit Price	Balance	% of Total Accounts and Notes Receivable (Payable)		
Continental Engineering Corp.	Continental Development Corp.	Related party of the Company	Construction contract	(969,565)	(7)%	The same as those in general transactions	-	-	519,175	16%	Note 1
Continental Development Corp.	Continental Engineering Corp.	Related party of the Company	Construction project	969,565	35%	"	-	-	(519,175)	(60)%	

Note 1: The Company recognized its construction contract income by the percentage-of-completion method and accounted for it under sales.

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note 2: The above transactions were eliminated when preparing the consolidated financial statements.

(h) Schedule 8: Receivables from related parties exceeding \$100,000 thousand or 20% of paid-in capital:

(In Thousands of New Taiwan Dollars)

Company Having Receivable	Counter-Party	Relationship	Balance of Accounts Receivable – Related Parties	Turnover Ratio	Overdue Receivables		Subsequent Received Amount Accounted for under Accounts Receivable – Related Parties	Provision for Bad Debt Allowance
					Amount	Treatment		
Continental Engineering Corp.	Continental Development Corp.	Related party of the Company	Accounts receivable 519,175	1.73	-	-	244,237	-

Note: The above transactions were eliminated when compiling the consolidated financial statements.

(i) Schedule 9: Transactions involving financial derivatives:

As of December 31, 2014, the derivative financial instruments of the Group held not for trading were the Forward contracts amounting to USD\$9,497 thousand.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(j) Intercompany business relationship and significant transactions:

No. (Note 1)	Company Name	Counter-Party	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
				Financial Statement Item	Amount	Terms	
0	Continental Holdings Corp.	Continental Engineering Corp.	1	Rental costs	11,441	The same as those in general transactions	- %
1	Continental Engineering Corp.	Continental Holdings Corp.	2	Rental revenue	11,441	The same as those in general transactions	- %
		Continental Development Corp.	3	Rental revenue	13,942	The same as those in general transactions	- %
		Continental Development Corp.	3	Construction revenue	969,565	The same as those in general transactions	13.07 %
		Continental Development Corp.	3	Construction cost	912,729	The same as those in general transactions	- %
		Continental Development Corp.	3	Accounts receivable	519,175	-	- %
		CIMY	3	Other receivables	285,359	-	- %
2	Continental Development Corp.	Continental Engineering Corp.	3	Construction costs	912,729	The same as those in general transactions	13.07 %
		Continental Engineering Corp.	3	Rental costs	13,942	The same as those in general transactions	- %
		Continental Engineering Corp.	3	Accounts payable	514,409	-	- %
3	Hsin-Dar Environment Engineering Co., Ltd.	North Shore Corp.	3	Operating revenue	29,463	The same as those in general transactions	- %
		North Shore Corp.	3	Service revenue	21,176	The same as those in general transactions	- %
		North Shore Corp.	3	Construction costs	27,181	The same as those in general transactions	- %
		North Shore Corp.	3	Accounts receivable	14,162	-	- %

(Continued)

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

No. (Note 1)	Company Name	Counter-Party	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
				Financial Statement Item	Amount	Terms	
4	North Shore Corp.	Hsin-Dar Environment Engineering Co., Ltd. Fu-Da Construction Corp., Ltd.	3	Accounts payable	4,770	-	- %
5	Fu-Da Construction Corp., Ltd.	North Shore Corp.	3	Accounts payable	36,027	-	- %
				Accounts receivable	36,027	-	- %
				Construction revenue	161,554	The same as those in general transactions	- %
		North Shore Corp.	3	Construction costs	153,825	#	- %

Note 1: For transactions between the Company and its subsidiaries, numbers are assigned as follows:

- a. 0 represents the Company.
- b. serial numbers for the subsidiaries begin from number 1.

Note 2: Relationships are as follows:

- a. the Company to subsidiary.
- b. subsidiary to the Company.
- c. subsidiary to other subsidiary

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Information on investee companies

Names and addresses of, and relevant information on, investee companies for the year ended December 31, 2014:

(In Thousands of New Taiwan Dollars)

Investor	Name of investee Company	Location	Main business	Investment amount		Balance as of December 31, 2014			Maximum Percentage of Ownership for the period	Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2014	December 31, 2013	Shares	Percentage of Ownership	Carrying Value				
Continental Holdings Corp.	Continental Engineering Corp.	Taiwan	Comprehensive construction	8,844,949	8,844,949	460,062,071	100.00%	7,943,295	(1,382,078)	(1,314,975)	Note 1	
Continental Holdings Corp.	Continental Development Corp.	Taiwan	Housing and building development and lease	6,620,748	6,620,748	479,400,000	100.00%	10,892,336	460,669	460,669	Note 1	
Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	Taiwan	Plumbing	1,010,000	1,010,000	101,000,000	100.00%	1,824,459	151,055	Unnecessary to disclose based on the R.O.C. law	-	
Continental Engineering Corp.	CEC International Corp. (India) Pvt. Ltd	India	Construction projects	497,839	497,839	73,981,492	100.00%	139,498	(12,021)	"	-	
Continental Engineering Corp.	CEC International Corp.	British Virgin Islands	Investment and holding	1,305,504	1,305,504	39,139,940	100.00%	2,910,613	233,634	"	-	
Continental Engineering Corp.	CEC International Malaysia Sdn Bhd.	Malaysia	Construction projects	85,130	20,051	9,100,000	70.00%	76,982	(16,122)	"	-	

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Name of investee Company	Location	Main business	Investment amount		Balance as of December 31, 2013			Maximum Percentage of Ownership for the period	Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2014	December 31, 2013	Shares	Percentage of Ownership	Carrying Value				
Continental Development Corp.	CEC Commercial Development Corp.	Taiwan	Housing and building development and lease	976,539	976,539	26,395,978	80.65%	2,529,970	80.65%	43,895	Unnecessary to disclose based on the R.O.C. law	-
Continental Development Corp.	Mega Capital Development Sdn. Bhd.	Malaysia	Real estate development	6,298	-	675,000	45.00%	4,783	45.00%	(2,883)	"	-
CEC International Corp.	New Continental Corp.	British Virgin Islands	Investment and holding	1,219,149	1,219,149	4,596	45.47%	3,146,998	45.47%	526,710	"	-
New Continental Corp.	Granite Investments(UK) Limited	United Kingdom	Investment and holding	Note 2	Note 2	2	100.00%	6,448,164	100.00%	527,608	"	-
Hsin-Dar Environment Engineering Co., Ltd.	Fu-Da Construction Corp., Ltd.	Taiwan	Construction projects	79,600	79,600	6,000,000	100.00%	76,681	100.00%	14,144	"	-
Hsin-Dar Environment Engineering Co., Ltd.	North Shore Corp.	Taiwan	Pollution protection and other environmental sanitation	1,112,000	1,112,000	121,000,000	100.00%	2,028,522	100.00%	168,299	"	-

Note 1: The investment income/loss for the years ended December 31, 2014 was leased on the investees' financial statements audited by the auditors for the same period.

Note 2: The original investing amount is GBP 2.

(3) Information on investment in Mainland China: None.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

14. Segment information

For the years ended December 31, 2014 and 2013, operating segments required to be disclosed are categorized as Construction Business, Real Estate Business, and Investment Business. The main operating activities of Construction Business are civil and architectural engineering and construction. The main operating activities of Real Estate Business are selling, renting and investing in construction of the residential, commercial buildings and large-scale residential communities. The main function of Investment Business is to integrate operating strategy, supervising and monitoring each operating segments' operation, and control and allocate each operating segments' operating resources. The Consolidation Group assessed performance of the segments based on the segments' net income before taxes, which is in line with the financial information used to prepare the consolidated financial statements.

The Group and its subsidiaries engage primarily in the business of construction and real estate. Segment income referred to above represents operating income from external sources, excluding other income of the Group that is unrelated to any segment, and gain/loss on investments recognized under the equity method.

Segment income or loss is the balance after subtracting segment costs and expenses from revenue. Segment costs and expenses refer to those related to the revenue-generating process of a segment. If operating costs and expenses are not directly attributable, the number of employees will be used to allocate them to each segment. Cost of the technology service segment is allocated by the percentage of segment operating income, but segment costs and expenses do not include general expenses and interest unrelated to a segment.

Identifiable assets comprise tangible and intangible assets directly attributable to each segment. If more than two segments use an asset, costs will be allocated by the number of employees. However, assets identifiable by segments do not include the following items:

- (1) Assets not attributable to the operations of any specific segment.
- (2) Long-term equity investments under the equity method and the cost method.

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) Disclosure the information of industrial departments

The reconciliation statements of all operating departments:

	2014				
	<u>Construction</u>	<u>Real estate</u>	<u>Investment</u>	<u>Adjustment and write-off</u>	<u>Total</u>
Revenue:					
Segment revenues from external customers	\$ 16,265,306	4,962,099	-	-	21,227,405
Intersegment revenues	1,447,452	-	(851,087)	(596,365)	-
Total revenues	\$ 17,712,758	4,962,099	(851,087)	(596,365)	21,227,405
Reportable segment profit or loss	<u>\$ (947,891)</u>	<u>636,244</u>	<u>(978,829)</u>	<u>465,268</u>	<u>(825,208)</u>
Assets:					
Investments accounted for using equity method	\$ 10,685,678	2,534,753	18,835,630	(28,759,095)	3,296,966
Capital expenditure	\$ 4,362,733	8,907,239	2,586	-	13,272,558
Reportable segment total assets	\$ 32,163,874	33,036,638	18,869,675	(29,669,628)	54,400,559
Reportable segment total liabilities	<u>\$ 17,334,079</u>	<u>19,007,326</u>	<u>55,005</u>	<u>(1,450,518)</u>	<u>34,945,892</u>
2013					
	<u>Construction</u>	<u>Real estate</u>	<u>Investment</u>	<u>Adjustment and write-off</u>	<u>Total</u>
Revenue:					
Segment revenues from external customers	\$ 15,902,994	2,045,250	-	-	17,982,464
Intersegment revenues	388,249	-	1,082,771	(1,471,020)	-
Total revenues	\$ 16,291,243	2,045,250	1,082,771	(1,471,020)	17,982,464
Reportable segment profit or loss	<u>\$ 149,389</u>	<u>1,135,246</u>	<u>952,696</u>	<u>(1,112,343)</u>	<u>1,124,988</u>
Assets:					
Investments accounted for using equity method	\$ 2,795,272	-	18,947,715	(18,947,715)	2,795,272
Capital expenditure	\$ 3,987,180	9,399,640	2,913	-	13,389,733
Reportable segment total assets	\$ 23,279,044	33,914,647	18,980,849	(19,359,636)	56,814,904
Reportable segment total liabilities	<u>\$ 14,335,177</u>	<u>22,847,368</u>	<u>90,016</u>	<u>(112,551)</u>	<u>37,160,010</u>

CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) The entity information:

i. Geographic information

The revenues from external customers are categorized by the geographical location of customers and the noncurrent assets are categorized by the area the assets located:

<u>Area</u>	<u>2014</u>	<u>2013</u>
Revenue from external customers:		
Taiwan	\$ 17,495,624	15,186,135
Others	3,731,781	2,807,279
	<u>\$ 21,227,405</u>	<u>17,948,244</u>
Non-current assets		
Taiwan	\$ 16,277,110	16,566,220
Others	978,321	593,177
Total	<u>\$ 17,255,431</u>	<u>17,159,397</u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other assets, but excluding financial instruments, deferred tax assets, assets of pension benefit, and assets arising from insurance contracts as well.

ii. Information on major customers

	<u>2014</u>	<u>2013</u>
Construction corporations	\$ 8,751,800	5,222,213
Governments	6,838,436	9,272,769
Others	5,637,169	3,453,262
Total	<u>\$ 21,227,405</u>	<u>17,948,244</u>