

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**CONTINENTAL HOLDINGS CORPORATION  
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2016 and 2015  
(With Independent Auditors' Report Thereon)**

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The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of CONTINENTAL HOLDINGS CORPORATION as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, CONTINENTAL HOLDINGS CORPORATION and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: CONTINENTAL HOLDINGS CORPORATION

Chairman: Nita Ing

Date: March 20, 2017



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## Independent Auditors' Report

To the Board of Directors of CONTINENTAL HOLDINGS CORPORATION:

### Opinion

We have audited the consolidated financial statements of Continental Holdings Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Other Matter

In the Group's consolidated financial statements, we did not audit the financial statements of certain subsidiaries. Those statements audited by other auditors has been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the report of the other auditors. The financial statements of these subsidiaries reflect the total assets constituting 9.70% and 10.11% of the consolidated total assets at December 31, 2016 and 2015, respectively, and the total revenues constituting 3.31% and 5.09% of the consolidated total revenues for the years ended December 31, 2016 and 2015, respectively.

In addition, in the Group's consolidated financial statements, which include certain investee companies accounted for under the equity method, were audited by other auditors, and our opinion, insofar as it relates to the amounts included for those investee companies, is based solely on the report of the other auditors. As of December 31, 2016 and 2015, the financial statements of these investee companies reflect the total assets constituting 5.26% and 5.21% of the Group's investment accounted for using the equity method, and the profit before tax constituting (11.38)% and (36.80)% of the Group's investment profit or loss from the associates and joint ventures accounted for using the equity method.

Continental Holdings Corporation and its subsidiaries have prepared their non-consolidated financial report for the years ended December 31, 2016 and 2015, and we have issued a modified unqualified audit report thereon.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters are as follow:

#### **1. Revenue recognition of construction contracts**

Please refer to Note 4(s) for accounting policy on revenue recognition of construction contracts; Note 5 for recognition of revenue and measurement for the completed percentage of construction contracts; and Note 6(d) for construction contracts.

How the matter was addressed in our audit: As the budgets of construction contracts are highly related to the subjectively judgments of the managements, inaccuracy estimations for construction budgets may lead to significant changes in profit or loss of the financial reports. Therefore, there is a significant risk involved in the revenue recognition of construction contracts.

Our principal audit procedures included: selecting construction contracts that have significant impact on the presentation of the financial report; and for those construction budgets, assessing the managements' budget preparation process, acquired relevant materials in preparing the assumptions within the current period (including construction contract modification, design modification, and other documents with owners), and confirming whether the preparation of construction budget corresponds with the Group's internal authorization. In addition, selecting the valuation materials and checking their accuracy by recalculating the completed percentage of the construction cases, as well as executing the balance sheet cut-off test.

#### **2. Accounts receivable evaluation**

Please refer to Note 4(g) for accounting policy about accounts receivable evaluation, Note 5 for estimation of accounts receivable evaluation, and Note 6(c) for impairment evaluation of notes receivable, accounts receivable and other receivables.

How the matter was addressed in our audit: For construction contracts, postponement or controversy of the construction period may lead to controversy conciliation or a deduction on the contract price from the owners, and the recovery period of other receivables may be delayed; besides, the recoverable amount, which involved the managements' subjective judgment, may lead to significant misstatement in the financial reports.

Our principal audit procedures included: For the allowance of accounts receivable evaluation, assessing its appropriateness and acquiring the related estimation and historical trend of collection from the authorities; for overdue accounts receivable, executing the post payment testing, assessing the reasonableness of the explanation from the managements, and verifying the pricing materials and related documents between the owners to understand whether any controversial matters or accounted receivables rejected by the owners exist.

### 3. Inventory evaluation

Please refer to Note 4(h) for accounting policy about inventory evaluation, Note 5 for estimation of inventory evaluation and Note 4(e) for inventory evaluation.

How the matter was addressed in our audit: The Group's inventories shall be stated at the lower of cost and net realizable value. At present, the real estate industry is affected by tax reformation and economic circumstances. There is a risk that the inventory cost may turn out to be higher than its net realization value.

Our principal audit procedures included: For construction cases in progress and real estate for sale, which is in accordance to the contract price for presale and the selling price of actual registering, assessing the differences between their booked value and fair value, and any possibility of their significant impact on the financial report.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

CONTINENTAL HOLDINGS CORPORATION has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified opinion.

The engagement partners on the audit resulting in this independent auditors' report are Kuo-Yang Tseng and Ti-Nuan Chien.

KPMG

Taipei, Taiwan (Republic of China)  
March 20, 2017

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its 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 such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2016 and 2015**

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015			December 31, 2016		December 31, 2015	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Assets</b>					<b>Liabilities and Equity</b>				
<b>Current assets:</b>					<b>Current liabilities:</b>				
1100 Cash and cash equivalents(Note 6(a))	\$ 2,549,134	4	2,423,182	4	2100 Short-term borrowings(Note 6(k))	\$ 8,681,829	15	8,976,829	16
1125 Current available-for-sale financial assets, net(Note 6(b))	2,946,517	5	1,663,821	3	2110 Short-term notes and bills payable(Note 6(l))	200,000	-	100,000	-
1135 Current derivative financial assets for hedging(Note 6(b))	64,631	-	189,488	-	2170 Accounts and notes payable(Note 7)	5,768,888	10	5,326,603	9
1150 Notes receivable, net(Note 6(c))	383,088	1	212,227	-	2190 Construction contracts payable(Note 6(d))	1,103,970	2	1,353,233	2
1170 Accounts receivable, net(Notes 6(c) and 7)	4,348,501	7	4,139,508	7	2200 Other payables(Note 7)	657,812	1	1,183,507	2
1190 Construction contracts receivable(Note 6(d))	3,097,306	5	2,707,578	5	2230 Current tax liabilities(Note 6(r))	111,613	-	9,923	-
1200 Other receivables, net(Notes 6(c) and 7)	793,988	1	2,047,292	4	2250 Current provisions(Note 6(n))	320,431	1	382,648	1
1220 Current tax assets(Note 6(r))	185,231	-	154,342	-	2310 Advance receipts(Notes 6(d) and (p))	5,243,459	9	5,999,325	10
1320 Inventories (for construction business), net(Notes 6(c) and 8)	21,032,762	36	20,478,593	36	2320 Long-term liabilities, current portion(Note 6(m))	166,216	-	1,267,834	2
1410 Prepayments	1,155,404	2	1,275,254	2	2399 Other current liabilities, others	150,499	-	156,498	-
1470 Other current assets(Note 8)	455,386	1	390,100	1		22,404,717	38	24,756,400	42
	<u>37,011,948</u>	<u>62</u>	<u>35,681,385</u>	<u>62</u>	<b>Non-Current liabilities:</b>				
<b>Non-current assets:</b>					2540 Long-term borrowings(Note 6(m))	13,691,307	23	10,726,323	19
1523 Non-current available-for-sale financial assets, net(Note 6(b))	1,309,885	2	1,166,620	2	2570 Deferred tax liabilities(Note 6(r))	14,596	-	2,228	-
1543 Non-current financial assets at cost, net(Notes 6(b) and (g))	393,700	1	500	-	2640 Net defined benefit liability, non-current(Note 6(g))	297,942	1	337,432	1
1550 Investments accounted for using equity method, net(Note 6(f))	3,124,144	5	3,000,181	5	2645 Guarantee deposits received	113,133	-	114,968	-
1600 Property, plant and equipment(Notes 6(h) and 8)	2,473,568	4	2,777,430	5	<b>Total liabilities</b>	14,116,978	24	11,180,951	20
1760 Investment property, net(Notes 6(f) and 8)	10,449,418	18	10,486,857	18		36,521,695	62	35,937,351	62
1780 Intangible assets(Notes 6(f) and 8)	739,838	1	610,366	1	<b>Equity attributable to owners of parent (Note 6(s)):</b>				
1840 Deferred tax assets(Note 6(r))	5,028	-	5,025	-	Ordinary shares(note)	8,232,160	14	8,532,160	15
1900 Other non-current assets	18,143	-	100,643	-	Capital surplus	6,804,431	11	6,852,400	12
1932 Long-term accounts receivables(Notes 6(c) and 8)	3,817,459	7	3,763,513	7	Retained earnings(Note 6(g))	5,201,941	9	5,092,681	9
	22,331,183	38	21,911,135	38	Other equity interest	1,821,189	3	546,978	1
						22,059,721	37	21,024,219	37
					Non-controlling interests	761,715	1	630,950	1
					<b>Total equity</b>	22,821,436	38	21,655,169	38
<b>Total assets</b>	<u>\$ 59,343,131</u>	<u>100</u>	<u>\$ 57,592,520</u>	<u>100</u>	<b>Total liabilities and equity</b>	<u>\$ 59,343,131</u>	<u>100</u>	<u>\$ 57,592,520</u>	<u>100</u>

See accompanying notes to financial statements.



(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2016		2015	
		Amount	%	Amount	%
4000	<b>Operating Revenues (Notes 6(d), (o), (u) and Note 7):</b>				
4300	Rental revenue	267,838	1	255,894	1
4511	Construction revenue	23,872,359	97	21,180,018	97
4800	Other operating revenue	<u>397,201</u>	<u>2</u>	<u>340,968</u>	<u>2</u>
		24,537,398	100	21,776,880	100
5000	<b>Operating costs (Notes 6(e) and (o)):</b>				
5300	Rental costs	119,489	-	99,969	-
5510	Construction costs	22,732,260	94	20,519,262	94
5800	Other operating costs	<u>91,532</u>	<u>-</u>	<u>92,812</u>	<u>-</u>
5800	<b>Net operating costs</b>	<u>22,943,281</u>	<u>94</u>	<u>20,712,043</u>	<u>94</u>
	<b>Gross profit (loss) from operations</b>	<u>1,594,117</u>	<u>6</u>	<u>1,064,837</u>	<u>6</u>
	<b>Operating expenses (Notes (q), (s), (v) and Note 12):</b>				
6100	Selling expenses	237,593	1	149,036	1
6200	Administrative expenses	<u>1,036,797</u>	<u>4</u>	<u>1,143,299</u>	<u>6</u>
		<u>1,274,390</u>	<u>5</u>	<u>1,292,335</u>	<u>7</u>
	<b>Net operating income (loss)</b>	<u>319,727</u>	<u>1</u>	<u>(227,498)</u>	<u>(1)</u>
	<b>Non-operating income and expenses:</b>				
7010	Other income(Note 7)	463,688	2	1,431,887	7
7020	Other gains and losses	(15,396)	-	(58,982)	-
7050	Finance costs(Note 6(e))	(168,201)	(1)	(206,699)	(1)
7370	Share of losses of associates and joint ventures accounted for using equity method(Note 6(f))	<u>(61,284)</u>	<u>-</u>	<u>(252,522)</u>	<u>(1)</u>
		<u>218,807</u>	<u>1</u>	<u>913,684</u>	<u>5</u>
7900	<b>Income before tax</b>	538,534	2	686,186	4
7950	Less: Tax expense (Note 6(r))	<u>42,352</u>	<u>-</u>	<u>118,062</u>	<u>1</u>
	<b>Net income</b>	<u>496,182</u>	<u>2</u>	<u>568,124</u>	<u>3</u>
8300	<b>Other comprehensive income (loss):</b>				
8310	<b>Items that will not be reclassified to profit and loss</b>				
8311	Remeasurement effects on the defined benefit plans	(3,837)	-	(7,386)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>652</u>	<u>-</u>	<u>1,255</u>	<u>-</u>
		<u>(3,185)</u>	<u>-</u>	<u>(6,131)</u>	<u>-</u>
8360	<b>Items which may be reclassified to profit and loss in subsequent periods</b>				
8361	Exchange differences on translation of foreign financial statements	(73,036)	-	(74,676)	-
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	1,425,961	5	1,925,571	9
8363	Gains (losses) on effective portion of cash flow hedges	(22,025)	-	2,351	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method	(54,868)	-	108,231	-
8399	Income tax relating to components that may be reclassified to profit or loss in subsequent periods	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>1,276,032</u>	<u>5</u>	<u>1,961,477</u>	<u>9</u>
8300	<b>Other comprehensive income, net</b>	<u>1,272,847</u>	<u>5</u>	<u>1,955,346</u>	<u>9</u>
	<b>Comprehensive income</b>	<u>\$ 1,769,029</u>	<u>7</u>	<u>2,523,470</u>	<u>12</u>
	<b>Net income, attributable to:</b>				
	Net income, attributable to owners of parent	\$ 528,938	2	572,794	3
	Net income, attributable to non-controlling interests	<u>(32,756)</u>	<u>-</u>	<u>(4,670)</u>	<u>-</u>
		<u>\$ 496,182</u>	<u>2</u>	<u>568,124</u>	<u>3</u>
	<b>Comprehensive income attributable to:</b>				
	Comprehensive income, attributable to owners of parent	\$ 1,799,964	7	2,532,517	12
	Comprehensive income, attributable to non-controlling interests	<u>(30,935)</u>	<u>-</u>	<u>(9,047)</u>	<u>-</u>
		<u>\$ 1,769,029</u>	<u>7</u>	<u>2,523,470</u>	<u>12</u>
	<b>Basic earnings per share (Note 6(t))</b>				
	Basic earnings per share	<u>\$ 0.64</u>		<u>0.65</u>	
	Diluted earnings per share	<u>\$ 0.64</u>		<u>0.65</u>	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES****Consolidated Statements of Changes in Equity****For the years ended December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent											Total other equity interest				
	Share capital	Retained earnings					Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Total other equity interest	Treasury stock				Total equity attributable to owners of parent	Non-controlling interests
		Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings						Total retained earnings				
<b>Balance at January 1, 2015</b>	<b>\$ 8,832,160</b>	<b>6,864,224</b>	<b>398,285</b>	<b>2,667,683</b>	<b>1,467,359</b>	<b>4,533,327</b>	<b>(174,533)</b>	<b>(1,262,267)</b>	<b>17,924</b>	<b>(1,418,876)</b>	-	<b>18,810,835</b>	<b>639,997</b>	<b>19,450,832</b>		
Net income (loss)	-	-	-	-	572,794	572,794	-	-	-	-	-	572,794	(4,670)	568,124		
Other comprehensive income (loss)	-	-	-	-	(6,131)	(6,131)	38,176	1,925,327	2,351	1,965,854	-	1,959,723	(4,377)	1,955,346		
Comprehensive income	-	-	-	-	566,663	566,663	38,176	1,925,327	2,351	1,965,854	-	2,532,517	(9,047)	2,523,470		
Appropriation and distribution of retained earnings:																
Reversal of special reserve	-	-	-	(174,202)	174,202	-	-	-	-	-	-	-	-	-	-	
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	(7,309)	(7,309)	-	-	-	-	-	(7,309)	-	(7,309)	-	
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	(311,824)	(311,824)	-	(311,824)	-	
Retirement of treasury stock	(300,000)	(11,824)	-	-	-	-	-	-	-	-	311,824	-	-	-	-	
Balance at December 31, 2015	8,532,160	6,852,400	398,285	2,493,481	2,200,915	5,092,681	(136,357)	663,060	20,275	546,978	-	21,024,219	630,950	21,655,169	-	
Net income (loss)	-	-	-	-	528,938	528,938	-	-	-	-	-	528,938	(32,756)	496,182	-	
Other comprehensive income (loss)	-	-	-	-	(3,185)	(3,185)	(129,210)	1,425,446	(22,025)	1,274,211	-	1,271,026	1,821	1,272,847	-	
Comprehensive income	-	-	-	-	525,753	525,753	(129,210)	1,425,446	(22,025)	1,274,211	-	1,799,964	(30,935)	1,769,029	-	
Appropriation and distribution of retained earnings:																
Legal reserve	-	-	57,279	-	(57,279)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(411,608)	(411,608)	-	-	-	-	-	(411,608)	-	(411,608)	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	(4,885)	(4,885)	-	-	-	-	-	(4,885)	-	(4,885)	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	(347,969)	(347,969)	-	(347,969)	-	-
Retirement of treasury stock	(300,000)	(47,969)	-	-	-	-	-	-	-	-	347,969	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	161,700	161,700	-	-
<b>Balance at December 31, 2016</b>	<b>\$ 8,232,160</b>	<b>6,804,431</b>	<b>455,564</b>	<b>2,493,481</b>	<b>2,252,896</b>	<b>5,201,941</b>	<b>(265,567)</b>	<b>2,088,506</b>	<b>(1,750)</b>	<b>1,821,189</b>	<b>-</b>	<b>22,059,721</b>	<b>600,015</b>	<b>22,659,736</b>	<b>-</b>	<b>-</b>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2016 and 2015**  
**(Expressed in Thousands of New Taiwan Dollars)**

	2016	2015
<b>Cash flows from operating activities:</b>		
Income before tax	\$ 538,534	686,186
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	616,459	318,386
Amortization expense	24,998	17,649
Provisions for bad debt expense	(36,099)	(6,411)
Interest expense	168,201	206,699
Interest revenue	(25,326)	(21,075)
Dividend income	(179,444)	(88,199)
Share of loss of associates and joint ventures accounted for using equity method	61,284	252,522
Gains on disposal of property, plant and equipment	(28,069)	(15,333)
Gains on disposal of property, plant and equipment (written off against construction costs)	(8,910)	(1,487)
Gain on disposal of investment properties	-	(8,576)
Compensation income not received in cash	-	(1,312,767)
Estimated provisions for warranty reserve	(262,675)	(375,757)
<b>Total adjustments to reconcile profit (loss)</b>	<b>330,419</b>	<b>(1,034,349)</b>
<b>Changes in operating assets and liabilities:</b>		
Notes receivable	(170,861)	(63,113)
Accounts receivable	(171,905)	(441,457)
Construction contracts receivable	(389,968)	1,066,748
Other receivables	(61,941)	(31,148)
Inventories	(821,468)	(3,384,990)
Prepayment	117,338	(359,743)
Other current assets	(64,957)	(160,065)
<b>Total changes in operating assets</b>	<b>(1,563,762)</b>	<b>(3,373,768)</b>
Accounts and notes payable	431,276	1,122,617
Construction contracts payable	(250,334)	(74,226)
Other payables	(355,507)	(113,551)
Provisions	(17,698)	(16,786)
Advance receipts	(295,042)	794,131
Other current liabilities	(6,048)	(19,452)
Net defined benefit liabilities	(2,862)	(13,682)
<b>Total changes in operating liabilities</b>	<b>(496,215)</b>	<b>1,679,051</b>
<b>Total changes in operating assets and liabilities</b>	<b>(2,059,977)</b>	<b>(1,694,717)</b>
<b>Total adjustments</b>	<b>(1,729,558)</b>	<b>(2,729,066)</b>
Cash inflow (outflow) generated from operations	(1,191,024)	(2,042,880)
Interest received	21,354	16,749
Interest paid	(351,786)	(367,074)
Income taxes refund (paid)	35,123	(165,702)
<b>Net cash flows from (used in) operating activities</b>	<b>(1,486,333)</b>	<b>(2,558,907)</b>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows(CONT'D)**

**For the years ended December 31, 2016 and 2015**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from investing activities:</b>		
Disposal of available-for-sale financial assets	-	14,330
Proceeds from capital reduction of available-for-sale financial assets	-	3,384,315
Acquisition of financial assets at cost	(393,200)	(500)
Acquisition of derivative financial assets	(783,390)	(977,989)
Disposal of derivative financial assets	886,222	815,155
Acquisition of investments accounted for using equity method	(245,000)	-
Acquisition of property, plant and equipment	(182,092)	(204,729)
Disposal of property, plant and equipment	48,398	17,115
Increase (decrease) in other receivables	1,319,368	(49,246)
Acquisition of intangible assets	(154,470)	(179,445)
Disposal of investment properties	-	17,607
Other non-current assets	(71,340)	(235,263)
Increase in prepayments for equipment	(37,336)	(238,818)
Dividends received	179,444	88,199
<b>Net cash flows from (used in) investing activities</b>	<b>566,604</b>	<b>2,450,731</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	19,685,300	23,305,547
Decrease in short-term borrowings	(19,980,300)	(21,684,796)
Increase in short-term notes and bills payable	5,578,000	6,350,000
Decrease in short-term notes and bills payable	(5,478,000)	(6,350,000)
Increase in long-term borrowings	10,883,500	9,396,217
Decrease in long-term borrowings	(9,014,834)	(9,760,834)
Decrease in guarantee deposits received	(1,835)	(9,794)
Cash dividends paid	(411,608)	-
Acquisition of treasury stock	(347,969)	(311,824)
Change in non-controlling interest	161,700	-
<b>Net cash flows from (used in) financing activities</b>	<b>1,073,954</b>	<b>934,516</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(28,273)</b>	<b>15,084</b>
<b>Net increase in cash and cash equivalents</b>	<b>125,952</b>	<b>841,424</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,423,182</b>	<b>1,581,758</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 2,549,134</b>	<b>2,423,182</b>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2016 and 2015**

**(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

**(1) Company history**

CONTINENTAL HOLDINGS CORPORATION (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, 2015 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 consolidated financial statements:**

The Board of Directors approved the consolidated financial statements on March 20, 2017.

**(3) New standards, amendments and interpretations adopted:**

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect.

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

Except for the following items, the Group believes that the adoption of the above IFRSs would not have a material impact on the consolidated financial statements:

1. Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value less costs of disposal:

- 1) The level of the fair value hierarchy within which the fair value measurement is categorized; and
- 2) The valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Group expects the aforementioned amendments will result in a broader disclosure of the recoverable amount for non-financial assets.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Group is still currently determining the potential impact of the standards listed below:

<b>Issuance / Release</b>	<b>Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
	May 28, 2014	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.
	April 12, 2016		
			Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

<b>Issuance / Release</b>		
<b>Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

The Group is evaluating the impact on its financial position and financial performance of the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**(4) Summary of significant accounting policies:**

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

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations” ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC.

**(b) Basis of preparation**

**(i) Basis of measurement**

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Available-for-sale financial assets are measured at fair value;
- 2) Derivative financial instruments for hedging are measured at fair value; and
- 3) The defined benefit asset is recognized as present value of the defined benefit obligation, less, fair value of plan assets.

**(ii) 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.

**(c) Basis of consolidation**

**(i) Principle of preparation of the consolidated financial statements**

The consolidated financial statements incorporate the financial statements of Continental Holdings Corp. and its subsidiaries. The Group has control over an investee if, and only if, it has exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of its returns.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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. Intra-group transactions and balances, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the controlling interests in a subsidiary are allocated to the ownership of the parent company and non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Adjustments for financial statements of the subsidiaries have been made, and their accounting policies are in accordance with the Group's.

Changes in the ownership of a subsidiary that do not result in loss of control are accounted for as equity transactions. The difference between adjustment for the non-controlling interest and the fair value of consideration received or paid is directly recognized in equity attributable to the owner.

When the Group loses control of a subsidiary it derecognizes the assets (including goodwill), liabilities and non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. Any investment retained in the former subsidiary is remeasured at its fair value at the date when control is lost. Gain or loss on disposal is recognized as the difference of:

- 1) the sum of the fair value of consideration received and the investments retained in the former subsidiary at the date when control is lost.
- 2) the sum of carrying amounts of the subsidiary's assets (including goodwill), liabilities and non-controlling interests at the date when control is lost.

All amounts related to the subsidiary is originally recognized in other comprehensive income and accounted for as the same basis as the Group would have directly disposed of its related assets or liabilities.

(ii) 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	
			December 31, 2016	December 31, 2015
The Company	Continental Engineering Corp. (CEC)	Civil engineering, construction	100.00 %	100.00 %
The Company	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 %

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

Investor Company	Subsidiary	Main Business Scope	Percentage of ownership	
			December 31, 2016	December 31, 2015
CEC	CEC International Corp. (India) Pvt. Ltd.(CICI)	Real estate development and Civil engineering, construction	100.00 %	100.00 %
"	CEC International Malaysia Sdn Bhd. (CIMY)	Civil engineering, construction	70.00 %	70.00 %
CDC	CEC Commercial Development Corp.	Real estate development, rental and leasing 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 A)	Tamsui sewage drainage construction in New Taipei City	100.00 %	100.00 %
"	Blue Whale Water Technology Corp. (BWC)(Note B)	Feng-Shan River wastewater reclamation and reuse BTO project in Kaohsiung City	51 %	- %
"	Pu Ding Corp. (PDC) (Note C)	Pu-Ding area sewerage drainage construction in Taoyuan City	100 %	- %

Note A: North Shore Corp. (NSC) was founded as SPC (Special Purpose Company) to perform the contract for the Tamsui sewage treatment plant in New Taipei City. The operating rights of NSC will be transferred to the authority without condition after the legal concession period.

Note B: Blue Whale Water Technology Corp. (BWC) was founded as SPC to perform the contract for the Feng-Shan River wastewater reclamation and reuse, which is a BTO project in Kaohsiung City. BWC will transfer all its operating assets to the authority-in-charge and will operate the wastewater treatment plant after the construction is completed. In addition, the operating rights of BWC will be transferred to the authority without condition after the expiration of operating period.

Note C: Pu Ding Corp. (PDC) was founded as SPC to perform the contract for the Pu-Ding area sewerage system, which is a BOT project in Pu-Ding area, Taoyuan City. The operating rights of PDC will be transferred to the authority without condition after the legal concession period.

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

(d) Foreign currency

(i) 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.

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## CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

#### (ii) 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 planed 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.

#### (e) Classification of current and non-current assets and liabilities

The Group's primary businesses are construction, civil engineering, and real estate sale, rental and leasing. 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:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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

The Group classifies a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) 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.

(f) 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 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.

(g) Financial instruments

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

(i) Financial assets

Financial assets are classified into the following categories: loans and receivables, and available-for-sale financial assets.

1) 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.

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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.

2) 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.

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

3) 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

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.

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.

4) **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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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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.

(ii) Financial liabilities

1) 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.

2) 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.

(iii) 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.

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## CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

#### (h) 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:

- (i) 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.
- (ii) 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.
- (iii) 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.

#### (i) 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.

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## CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

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.

(j) 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. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate, and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in capital surplus in proportion to its ownership.

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.

(k) Joint arrangements

Joint arrangement is the agreement of two or multiple parties with joint controls over a delegated entity. Joint arrangement includes joint operations and joint venture. Its traits are as follows:

- (i) All parties are bound by the arrangement
- (ii) Joint arrangement would suggest that at least two parties possess joint control over the arrangements.

IFRS 11 "Joint arrangement" defines 'Joint control' as "the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties who have sharing control over the joint arrangement."

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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A joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers. A joint venturer shall recognize its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 “Investments in Associates and Joint Ventures”, unless, the entity is exempted from applying the equity method as specified in that standard.

(l) 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.

(m) Property, plant and equipment

(i) 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(ii) 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.

(iii) 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.

(iv) 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.

(n) Leases

(i) 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.

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

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(ii) 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.

(o) Intangible Assets

(i) 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.

(ii) 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    17&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.

(p) Impairment of 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).

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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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.

**(q) 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.

**(i) 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.

**(ii) 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.

**(r) Treasury stock**

Repurchased shares are recognized under treasury stock (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury stock should be recognized under "capital reserve – treasury stock transactions". Losses on disposal of treasury stock should be offset against any existing capital reserves arising from similar types of treasury stock. However, if there are insufficient capital reserves to be offset against with, then such losses should be accounted for under retained earnings. The carrying amount of treasury stock should be calculated using the weighted average of different types of repurchase.

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## CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

During the cancellation of treasury stock, “capital reserve – share premiums” and “share capital” should be debited proportionately. Gains on cancellation of treasury stock should be recognized under existing capital reserves arising from similar types of treasury stock; losses on cancellation of treasury stock should be offset against any existing capital reserves arising from similar types of treasury stock. If there are insufficient capital reserves to be offset against with, then such losses should be accounted for under retained earnings.

(s) Revenue

(i) 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 depends on the individual terms of the sales agreements. For sales of timber or real estate, transference usually occurs 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.

(ii) 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) 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 operating income.

(iv) 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.

(t) Employee benefits

(i) 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.

(ii) 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. 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 the present value of economic benefits available in the form of any future refunds from the plans or reductions in future contributions to the plans. 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 related expense portion of the increased benefit arising from the past service by employees is recognized immediately in profit or loss.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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Re-measurement of a net defined benefit liability (asset) (including actuarial gains or losses, the return on plan assets or liabilities, and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

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 changes in the fair value of the plan assets and any changes in the present value of the defined benefit obligation.

(iii) Termination benefits

The Group provides termination benefits as a result of either terminating the employment of an employee or group of employees before the normal retirement date; or encouraging an employee to accept voluntary redundancy. Termination benefits are recognized as expenses when, and only when, the Group is demonstrably committed either to terminate a formal employment plan and is without a realistic possibility of withdrawal, or to encourage its employees to leave voluntarily and employees are likely to accept the offer, and the number of employees accepted can be reliably measured. When termination benefits are due more than 12 months after the year end, it shall be measured at discounted amount.

(iv) 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.

(u) 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:

- (i) 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.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) 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:

- (i) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) The taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - 1) levied by the same taxing authority; or
  - 2) 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.

(v) 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.

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

(w) 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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**(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:**

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC 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 continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

**(a) Classification of joint arrangements**

MEGA Capital Development Sdn. Bhd (MEGA) is structured as a separate vehicle, and the Group has a residual interest in the net assets of MEGA. Accordingly, the Group has classified its interest in MEGA as a joint venture accounted for using equity method. Please refer to Note 6(f).

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

**(a) Impairment of trade receivable**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding possible future credit losses) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. Refer to Note 6(c) for further description of the impairment of trade receivable.

**(b) Valuation of inventories**

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to Note 6(e) for further description of the valuation of inventories.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(c) Revenue recognition

The Group records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience, market and economic conditions, and any other known factors that would significantly affect the allowance. The adequacy of estimations is reviewed periodically. The fierce market competition and evolution of technology could result in significant adjustments to the provision made.

Contract revenue and costs are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Estimated total contract costs of contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Group has established a financial instrument valuation group to conduct independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Group strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date.

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash	\$ 20,045	19,815
Cash in banks	2,491,142	2,113,802
Cash equivalents	37,947	289,565
Cash and cash equivalents	<u><u>\$ 2,549,134</u></u>	<u><u>2,423,182</u></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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- (i) The aforesaid cash and cash equivalents were not pledged as collateral.
- (ii) Please refer to Note 8 for time deposits in pledge reclassified to other current assets.
- (iii) Please refer to Note 6(y) for sensitivity analysis and interest rate risk of financial assets and liabilities of the Company.

(b) Financial assets

- (i) The components of financial assets were as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current:		
Current derivative financial assets for hedging	\$ 64,631	189,488
Available-for-sale financial assets		
Domestic listed stocks	3,826,850	3,826,850
Adjustments of available-for-sale financial assets	1,361,163	78,467
Accumulated impairment, current available-for-sale financial assets	(2,241,496)	(2,241,496)
Subtotal	2,946,517	1,663,821
Total	<b>\$ 3,011,148</b>	<b>1,853,309</b>
Non-current:		
Available for sale financial assets		
Domestic unlisted stocks	\$ 582,163	582,163
Adjustments of available-for-sale financial assets	727,722	584,457
Total	<b>\$ 1,309,885</b>	<b>1,166,620</b>
Non-current financial assets measured at cost		
Stocks of unlisted companies	<b>\$ 393,700</b>	<b>500</b>

- 1) Due to the continuous fall of the market value, the Group recognized an accumulated impairment loss of \$2,241,496 thousand to reflect the declining market value of the domestic listed stocks as of December 31, 2016 and 2015.
- 2) Green Heaven Investments Limited (BVI) and Green River Development Limited entered into a construction joint venture agreement for the construction project of Land No.18, Subsection 4, Xinyi District, Taipei City. According to the agreement, the joint venture included 95% of the land property owned by both parties involved in the said agreement, with the building registered under Green River Development Limited.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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In January 2016, Green River Development Limited, which used to be the Group's joint venture parties, increased its share capital by 450 thousand shares. Since the Group has signed a warrant agreement not to have control or joint control over the future operation activities within the aforesaid project, it did not purchase any new shares. According to the warrant agreement, the Group's ownership in this construction joint venture project needed to be reduced 10%; therefore, the Group changed its measurement method from investment using equity method to financial asset measured at cost.

On March 4, 2016, Green River Development Limited increased its share capital for the second time. The Group purchased \$393,200 thousand of the shares of Green River Development Limited, and maintained its ownership at 10%.

- 3) 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.
- 4) As of December 31, 2016 and 2015, the aforesaid financial assets were not pledged as collateral.

(ii) Derivative financial assets for hedging

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, 2016 and 2015, the items hedged and the hedge instrument the Group held were as follows:

Item Hedged	Hedge instrument	Hedge instrument designated to be hedge and fair value		Expected Cash flow Period	Expected Income Period
		December 31, 2016	December 31, 2015		
Expected Foreign liabilities	Foreign deposits	\$ <u>82,295</u>	<u>169,212</u>	2016~2017	2016~2017
Expected Foreign liabilities	Change in value of Foreign currency	\$ <u>(17,664)</u>	<u>7,957</u>	2016~2017	2016~2017
Expected Foreign liabilities	Change in value of Forward exchange	\$ <u>-</u>	<u>12,319</u>	2016	2016

The transactions of cash flow hedges for the years ended December 31, 2016 and 2015, were all effective.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) 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:

<u>Equity price at reporting date</u>	<u>After-tax other comprehensive income</u>	
	<u>2016</u>	<u>2015</u>
Increase 1%	\$ <u>42,564</u>	<u>28,304</u>
Decrease 1%	\$ <u>(42,564)</u>	<u>(28,304)</u>

(iv) Other

Since May 2013, the Group has filed five lawsuits against Taiwan High Speed Rail Corporation (THSRC) asking for payment on principal, dividend, delay interests and other payables of Preferred A and C shares (Preferred C4, C5 and C8 shares are included in Preferred C shares.), which belong to Shilin District Court, High Court and Supreme Court. THSRC bought back its preferred shares in August 2015, and suggested to be compensated by using its cumulative preferred dividends as payment. The Group agreed with the aforesaid suggestion.

The Group received the payment from THSRC, equivalent to preferred shares of \$3,384,315 thousand on August 7, 2015. The Group also received the compensation on preferred shares of \$1,312,767 thousand on January 20, 2016, and had withdrawn all the lawsuits.

(c) Notes receivable, accounts receivable and other receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes receivable from operating activities	\$ 383,088	212,227
Accounts receivable	8,261,113	8,039,325
Other receivables	793,988	2,047,292
Less: Allowance for bad debts	<u>(95,153)</u>	<u>(136,304)</u>
	<u>\$ 9,343,036</u>	<u>10,162,540</u>
Current	\$ 5,525,577	6,399,027
Non-current	<u>3,817,459</u>	<u>3,763,513</u>
Total	<u>\$ 9,343,036</u>	<u>10,162,540</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Past due less than one year	\$ 23,019	30,983
Past due over one year	<u>33,226</u>	<u>29,295</u>
	<u>\$ 56,245</u>	<u>60,278</u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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Movements of allowance for doubtful receivables for the years ended December 31, 2016 and 2015 were as follows:

	<b>Impairment loss of individual assessment</b>	<b>Impairment loss of integrated assessment</b>
Balance on January 1, 2016	\$ 136,304	-
Reversal of impairment loss	(36,099)	-
Exchange differences on transaction of foreign financial statements	(5,052)	-
Balance on December 31, 2016	<u><u>\$ 95,153</u></u>	<u><u>-</u></u>
Balance on January 1, 2015	\$ 142,715	-
Reversal of impairment loss	(6,411)	-
Balance on December 31, 2015	<u><u>\$ 136,304</u></u>	<u><u>-</u></u>

As of December 31, 2016 and 2015, the Group's parts of receivables were pledged as collateral. Please refer to Note 8.

(d) 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 or the percentage of production carried out). Any expected excess of the total contract costs over the total contract revenue for the contract is immediately recognized as cost.

	<b>2016</b>	<b>2015</b>
Construction revenue recognized in current profit or loss	<u><u>\$ 20,637,046</u></u>	<u><u>16,801,333</u></u>
	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Accumulated costs incurred (including contract costs that relate to future activity on the contract)	\$ 93,297,296	86,759,510
Add: Accumulated losses recognized arising from the construction	(3,785,220)	(3,051,752)
Accumulated costs and profit recognized (less losses recognized)	89,512,076	83,707,758
Less: Progress billings	87,518,740	82,353,413
Amount due from customers for contract work – presented as an asset	<u><u>\$ 1,993,336</u></u>	<u><u>1,354,345</u></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Include:		
Construction contracts receivable	\$ 3,097,306	2,707,578
Construction contracts payable	<u>(1,103,970)</u>	<u>(1,353,233)</u>
	<u>\$ 1,993,336</u>	<u>1,354,345</u>
Accumulated advance received	<u>\$ 2,877,180</u>	<u>3,575,862</u>
Retention receivable from construction contract	<u>\$ 2,333,798</u>	<u>2,211,995</u>
(e) Inventory		
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Construction:		
Material on hand	\$ <u>556,996</u>	<u>691,843</u>
Real estate:		
Real estate held for sale	1,710,071	1,509,422
Land held for development	5,053,613	5,053,613
Building construction in progress	13,781,206	13,293,506
Prepayment for land	<u>32,089</u>	<u>32,089</u>
Subtotal	20,576,979	19,888,630
Less: Allowance for impairment loss	<u>(101,213)</u>	<u>(101,880)</u>
	<u>\$ 21,032,762</u>	<u>20,478,593</u>

For the years ended December 31, 2016 and 2015, the cost of inventory recognized as cost of sales and selling expenses were \$2,067,524 and \$3,013,633 thousand, respectively. The allowance for impairment loss was reversed, and the costs of goods sold decreased by \$667 and \$2,079 thousand due to the selling of the remaining real estates in 2016 and 2015, respectively.

Capitalizing interest costs were as follows:

	<u>2016</u>	<u>2015</u>
Interest costs	\$ <u>358,716</u>	<u>367,925</u>
Capitalized interests	<u>\$ 190,515</u>	<u>161,226</u>
Capitalization interest rate	<u>1.70%</u>	<u>1.86%~1.87%</u>

Please refer to Note 8 for information about inventory collateral.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(f) Investments accounted for using equity method

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Associates	\$ 3,145,695	3,010,276
Joint ventures	(21,551)	(10,095)
	<b><u>\$ 3,124,144</u></b>	<b><u>3,000,181</u></b>

(i) Associates

The Group's related information of significant associates were as follows:

<b>Name of associates</b>	<b>Relationship with the Group</b>	<b>Location</b>	<b>Percentage of ownership or voting power</b>	
			<b>December 31, 2016</b>	<b>December 31, 2015</b>
New Continental Corp.	Holding company, mainly in charge of America's infrastructure	British Virgin Islands	45.47 %	45.47 %
CTCI & HEC Water Business Corp.	SPC, mainly responsible for the BOT project of sewerage system in Chung-Li area, Taoyuan City.	Taiwan	49 %	- %

The following is a summary of financial information on the Group's significant associates. In order to reflect the adjustments for fair value in acquisition of shares and differences in accounting policies, adjustment for the amounts presented on the financial statements of associates in accordance with IFRSs has been made to such financial information.

1) Summary financial information of NCC Company

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current assets	\$ 3,633,801	5,832,613
Non-current assets	4,247,744	3,456,610
Current liabilities	(1,527,167)	(2,336,240)
Non-current liabilities	(9,159)	(181,347)
Net assets	<b><u>\$ 6,345,219</u></b>	<b><u>6,771,636</u></b>
Net assets attributable to non-controlling interests	<b><u>\$ 445,082</u></b>	<b><u>642,472</u></b>
Net assets attributable to investee owners	<b><u>\$ 5,900,137</u></b>	<b><u>6,129,164</u></b>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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	<b>2016</b>	<b>2015</b>
Revenue	\$ <u><b>6,384,491</b></u>	<u><b>6,102,076</b></u>
Net income (loss) for continuing operation	\$ 216,256	(499,876)
Other comprehensive income	<u>(7,711)</u>	<u>(609)</u>
Comprehensive income	<u><b>208,545</b></u>	<u><b>(500,485)</b></u>
Comprehensive income attributable to non-controlling interests	\$ <u><b>318,883</b></u>	<u><b>22,245</b></u>
Comprehensive income attributable to investee owners	\$ <u><b>(110,338)</b></u>	<u><b>(522,730)</b></u>
Net assets attributable to the Group, January 1	\$ 3,010,276	3,146,998
Comprehensive income attributable to the Group	<u>(108,049)</u>	<u>(136,722)</u>
Assets attributable to the Group, December 31	\$ <u><b>2,902,227</b></u>	<u><b>3,010,276</b></u>

2) Summary financial information of CTCI & HEC Water Business Corp.

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Current assets	\$ 499,681	-
Non-current assets	-	-
Current liabilities	(2,807)	-
Non-current liabilities	<u>-</u>	<u>-</u>
Net assets	\$ <u><b>496,874</b></u>	<u>-</u>
Net assets attributable to non-controlling interests	\$ <u><b>253,406</b></u>	<u>-</u>
Net assets attributable to investee owners	\$ <u><b>243,468</b></u>	<u>-</u>
	<b>2016</b>	<b>2015</b>
Revenue	\$ <u>-</u>	<u>-</u>
Net loss from continuing operation	\$ <u>(3,127)</u>	<u>-</u>
Comprehensive income	<u>(3,127)</u>	<u>-</u>
Comprehensive income attributable to non-controlling interests	\$ <u><b>(1,595)</b></u>	<u>-</u>
Comprehensive income attributable to investee owners	\$ <u><b>(1,532)</b></u>	<u>-</u>
Net assets attributable to the Group, January 1	\$ -	-
Comprehensive income attributable to the Group	245,000	-
Assets attributable to the Group, December 31	<u>(1,532)</u>	<u>-</u>
	\$ <u><b>243,468</b></u>	<u>-</u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(ii) Joint ventures

The Group holds 45% of Mega Capital Development Sdn. Bhd. (MEGA), whom the Group acquired in September 2014.

The joint venture which the Group classified was individually insignificant, and the financial information was summarized as follows. Such financial information included the amounts on the consolidated financial statements.

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Carrying amount of interest in individually insignificant associates, December 31	<b>\$ <u>(47,894)</u></b>	<b><u>(22,435)</u></b>
	<b><u>2016</u></b>	<b><u>2015</u></b>
Attributable to the Group:		
Net income (loss) for the year	\$ (13,020)	(15,098)
Other comprehensive income	<u>1,564</u>	<u>220</u>
Comprehensive income	<b>\$ <u>(11,456)</u></b>	<b><u>(14,878)</u></b>

(iii) Guarantee

As of December 31, 2016 and 2015, the investments accounted for using equity method were not pledged as collateral.

(g) Losing control over subsidiaries

As mentioned in Note 6(b), the Group lost control over Sho-he Development Company on December 30, 2015, and the gain on disposal of \$6,633 thousand was recognized in other income and loss.

As of December 31, 2015, the carrying amount of Sho-he Development Company's assets and liabilities were as follows:

Cash and cash equivalents	\$ 9,257
Prepayments	1,521
Investment property	15,189,506
Short-term and long-term borrowings	(1,553,000)
Accrued expenses	(13,652,954)
Other non-current liabilities	<u>(463)</u>
Previous carrying amount of subsidiaries' net assets	<b>\$ <u>(6,133)</u></b>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(h) Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of the Group for the years 2016 and 2015, were as follows:

	<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>
Cost or deemed cost:							
Balance, at January 1, 2016	\$ 1,264,952	555,094	2,426,549	223,654	96,057	188,513	4,754,819
Additions	-	-	144,479	23,094	7,188	7,331	182,092
Reclassification	-	-	122,528	1,705	1,805	8,905	134,943
Disposals	-	(15,877)	(140,189)	(18,068)	(3,272)	(2,632)	(180,038)
Effect of movements in exchange rates	-	-	(74,080)	(1,490)	(1,452)	(2,818)	(79,840)
Balance, at December 31, 2016	<u>\$ 1,264,952</u>	<u>539,217</u>	<u>2,479,287</u>	<u>228,895</u>	<u>100,326</u>	<u>199,299</u>	<u>4,811,976</u>
Balance, at January 1, 2015	\$ 1,264,952	555,094	2,227,065	215,568	81,008	173,454	4,517,141
Additions	-	-	169,090	18,646	10,904	6,089	204,729
Reclassification	-	-	129,033	684	6,758	13,553	150,028
Disposals	-	-	(45,600)	(9,757)	(1,518)	(3,243)	(60,118)
Effect of movements in exchange rates	-	-	(53,039)	(1,487)	(1,095)	(1,340)	(56,961)
Balance, at December 31, 2015	<u>\$ 1,264,952</u>	<u>555,094</u>	<u>2,426,549</u>	<u>223,654</u>	<u>96,057</u>	<u>188,513</u>	<u>4,754,819</u>
Depreciation and impairment loss:							
Balance, at January 1, 2016	\$ -	170,932	1,417,650	165,315	70,616	152,876	1,977,389
Depreciation	-	13,265	515,285	23,196	12,496	14,778	579,020
Disposals	-	(15,616)	(135,959)	(11,279)	(3,133)	(2,632)	(168,619)
Effect of movements in exchange rates	-	-	(45,311)	(920)	(1,196)	(1,955)	(49,382)
Balance, at December 31, 2016	<u>\$ -</u>	<u>168,581</u>	<u>1,751,665</u>	<u>176,312</u>	<u>78,783</u>	<u>163,067</u>	<u>2,338,408</u>
Balance, at January 1, 2015	\$ -	156,637	1,266,740	150,257	59,210	141,370	1,774,214
Depreciation	-	14,295	213,473	23,664	13,781	15,614	280,827
Disposals	-	-	(41,237)	(8,083)	(1,518)	(3,243)	(54,081)
Effect of movements in exchange rates	-	-	(21,326)	(523)	(857)	(865)	(23,571)
Balance, at December 31, 2015	<u>\$ -</u>	<u>170,932</u>	<u>1,417,650</u>	<u>165,315</u>	<u>70,616</u>	<u>152,876</u>	<u>1,977,389</u>
Carrying amount							
Balance, at December 31, 2016	<u>\$ 1,264,952</u>	<u>370,636</u>	<u>727,622</u>	<u>52,583</u>	<u>21,543</u>	<u>36,232</u>	<u>2,473,568</u>
Balance, at January 1, 2015	<u>\$ 1,264,952</u>	<u>398,457</u>	<u>960,325</u>	<u>65,311</u>	<u>21,798</u>	<u>32,084</u>	<u>2,742,927</u>
Balance, at December 31, 2015	<u>\$ 1,264,952</u>	<u>384,162</u>	<u>1,008,899</u>	<u>58,339</u>	<u>25,441</u>	<u>35,637</u>	<u>2,777,430</u>

As of December 31, 2016 and 2015, the properties which were pledged as collateral are referred to Note 8.

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

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(i) Investment property

	<b>Land and improvements</b>	<b>Buildings</b>	<b>Total</b>
Cost or deemed cost:			
Balance, at January 1, 2016	\$ 9,452,208	2,004,697	11,456,905
Balance, at December 31, 2016	<u>\$ 9,452,208</u>	<u>2,004,697</u>	<u>11,456,905</u>
Balance, at January 1, 2015	\$ 9,458,281	2,012,051	11,470,332
Disposal	(6,073)	(7,354)	(13,427)
Balance, at December 31, 2015	<u>\$ 9,452,208</u>	<u>2,004,697</u>	<u>11,456,905</u>
Depreciation and impairment losses :			
Balance, at January 1, 2016	\$ 501,205	468,843	970,048
Depreciation	-	37,439	37,439
Balance, at December 31, 2016	<u>\$ 501,205</u>	<u>506,282</u>	<u>1,007,487</u>
Balance, at January 1, 2015	\$ 501,205	432,846	934,051
Depreciation	-	37,559	37,559
Disposal	-	(1,562)	(1,562)
Balance, at December 31, 2015	<u>\$ 501,205</u>	<u>468,843</u>	<u>970,048</u>
Carrying amounts:			
Balance, at December 31, 2016	<u>\$ 8,951,003</u>	<u>1,498,415</u>	<u>10,449,418</u>
Balance, at January 1, 2015	<u>\$ 8,957,076</u>	<u>1,579,205</u>	<u>10,536,281</u>
Balance at, December 31, 2015	<u>\$ 8,951,003</u>	<u>1,535,854</u>	<u>10,486,857</u>
Fair value:			
Balance, at December 31, 2016			<u>\$ 15,255,834</u>
Balance, at December 31, 2015			<u>\$ 13,790,552</u>

The Group defines investment property based the classification of assets. Investment property is a kind of property held for the purpose 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 significant, 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(o) 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, 2016 and 2015, the aforesaid investment properties were pledged as collateral; please refer to Note 8.

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(j) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2016 and 2015, were as follows:

	<u>Service Concession Agreements</u>
Cost or deemed cost:	
Balance, at January 1, 2016	\$ 689,064
Additions	<u>154,470</u>
Balance, at December 31, 2016	<u><u>\$ 843,534</u></u>
Balance, at January 1, 2015	509,619
Additions	<u>179,445</u>
Balance, at December 31, 2015	<u><u>\$ 689,064</u></u>
Amortization and impairment loss:	
Balance, at January 1, 2016	\$ 78,698
Amortization	<u>24,998</u>
Balance, at December 31, 2016	<u><u>\$ 103,696</u></u>
Balance, at January 1, 2015	\$ 61,049
Amortization	<u>17,649</u>
Balance, at December 31, 2015	<u><u>\$ 78,698</u></u>
Carrying amount:	
Balance, at December 31, 2016	<u><u>\$ 739,838</u></u>
Balance, at January 1, 2015	<u><u>\$ 448,570</u></u>
Balance, at December 31, 2015	<u><u>\$ 610,366</u></u>

For the years ended December 31, 2016 and 2015, there were no significant disposals, addition or reversal of impairment.

As of December 31, 2016 and 2015, the intangible assets were pledged as collateral, please refer to Note 8.

(k) Short-term borrowings

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unsecured loans	\$ 965,000	960,000
Secured loans	<u>7,716,829</u>	<u>8,016,829</u>
	<u><u>\$ 8,681,829</u></u>	<u><u>8,976,829</u></u>
Unused credit limit	<u><u>\$ 18,778,261</u></u>	<u><u>20,412,185</u></u>
Annual interest rate	<u><u>1.05%~1.6913%</u></u>	<u><u>1.15%~2.28%</u></u>

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

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(l) Short-term notes and bills payable

<b>December 31, 2016</b>			
	<b>Guarantee or Acceptance Agency</b>	<b>Interest Rate Range</b>	<b>Amount</b>
Bills payable	Financial institutions	1.328%~1.358%	<u>\$ 200,000</u>
<b>December 31, 2015</b>			
	<b>Guarantee or Acceptance Agency</b>	<b>Interest Rate Range</b>	<b>Amount</b>
Bills payable	Financial institutions	1.239%~1.262%	<u>\$ 100,000</u>

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

(m) Long-term borrowings

<b>December 31, 2016</b>				
	<b>Currency</b>	<b>Interest Rate Range</b>	<b>Matured Period</b>	<b>Amount</b>
Unsecured loans	TWD	1.3028%~2.056%	2017~2020	\$ 3,220,000
	USD	2.5793%	2020	322,500
Secured loans	TWD	1.2987%~2.0613%	2017~2026	<u>10,318,998</u>
				13,861,498
Less: current portion				(166,216)
Less: fees				<u>(3,975)</u>
Total				<u>\$ 13,691,307</u>
Unused credit limit				<u>\$ 1,300,000</u>
<b>December 31, 2015</b>				
	<b>Currency</b>	<b>Interest Rate Range</b>	<b>Matured Period</b>	<b>Amount</b>
Unsecured loans	TWD	1.4023%~2.27%	2016~2019	\$ 2,050,000
	USD	1.7142%	2020	328,250
Secured loans	TWD	1.3884%~2.1882%	2016~2025	<u>9,620,332</u>
				11,998,582
Less: current portion				(1,267,834)
Less: fees				<u>(4,425)</u>
Total				<u>\$ 10,726,323</u>
Unused credit limit				<u>\$ 450,000</u>

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

(Continued)



**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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- (ii) The loan agreement requires Continental Engineering Corp. to maintain certain financial ratios: 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, 2016 and 2015, 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: As of December 31, 2016, debt ratio  $\leq$  150%, and net worth > \$1.8 billion; as of December 31, 2015, debt ratio  $\leq$  250%, and net worth > \$250 million. As of December 31, 2016 and 2015, 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, 2016 and 2015, North Shore Corp. did not violate any terms in the loan agreement.

(n) Provision

	<u>Warranties</u>	<u>After-sales service</u>	<u>Total</u>
Balance, at January 1, 2016	\$ 127,664	254,984	382,648
Provision made during the year	137,938	2,250	140,188
Provision used during the year	(16,420)	(1,278)	(17,698)
Provision reversed during the year	<u>(36,075)</u>	<u>(148,632)</u>	<u>(184,707)</u>
Balance, at December 31, 2016	<u>\$ 213,107</u>	<u>107,324</u>	<u>320,431</u>
Balance, at January 1, 2015	\$ 143,300	412,598	555,898
Provision made during the year	87,999	219,293	307,292
Provision used during the year	(14,487)	(2,299)	(16,786)
Provision reversed during the year	<u>(89,148)</u>	<u>(374,608)</u>	<u>(463,756)</u>
Balance, at December 31, 2015	<u>\$ 127,664</u>	<u>254,984</u>	<u>382,648</u>

The provision for warranties and after-sales service relates mainly to construction contracts and sales premises for the years ended December 31, 2016 and 2015. 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(o) Operating leases

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Less than one year	\$ 264,324	264,285
Between one and five years	554,215	821,260
	<b><u>\$ 818,539</u></b>	<b><u>1,085,545</u></b>

For the years ended December 31, 2016 and 2015, the rental revenue of investment property was \$267,838 thousand and \$255,894 thousand, respectively.

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

	<b>2016</b>	<b>2015</b>
Expenses that generated rental revenue	\$ 17,575	6,462
Expenses that not generated rental revenue	124	139
	<b><u>\$ 17,699</u></b>	<b><u>6,601</u></b>

(p) Advanced Receipts

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Advance receipts from construction contracts	\$ 2,877,180	3,575,862
Advance receipts from real estate	2,320,466	2,376,481
Others	45,813	46,982
Total	<b><u>\$ 5,243,459</u></b>	<b><u>5,999,325</u></b>

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

(q) Employee benefits

(i) Defined benefit plan

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Present value of defined benefit obligations	\$ 529,855	534,782
Fair value of plan assets	(173,306)	(140,237)
Net defined benefit liabilities	<b><u>\$ 356,549</u></b>	<b><u>394,545</u></b>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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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.

1) 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 \$173,306 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.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Defined benefit obligation, January 1	\$ 534,782	546,511
Current service costs and interest	20,576	22,317
Re-measurements of the net defined benefit liabilities (assets)		
— Actuarial gains (losses) arose from changes in financial assumption	6,306	3,548
— Experience adjustments	(4,177)	4,077
Benefits paid by the plan	(27,632)	(41,671)
Defined benefit obligation, December 31	<u>\$ 529,855</u>	<u>534,782</u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets, January 1	\$ 140,237	162,960
Interest revenue	2,252	2,726
Re-measurements of the net defined benefit liabilities (assets)		
— Expected return on plan assets (excluding interest)	(1,055)	1,494
Contributions made	56,642	1,046
Benefits paid by the plan	(24,770)	(27,989)
Fair value of plan assets, December 31	<u><u>\$ 173,306</u></u>	<u><u>140,237</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service costs	\$ 12,173	13,202
Interest on net defined benefit obligations (assets)	6,151	6,389
	<u><u>\$ 18,324</u></u>	<u><u>19,591</u></u>
Administrative expenses	<u><u>\$ 18,324</u></u>	<u><u>19,591</u></u>

5) Remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Cumulative amount, January 1	\$ 41,142	35,011
Recognized during the period	3,185	6,131
Cumulative amount, December 31	<u><u>\$ 44,327</u></u>	<u><u>41,142</u></u>

6) Actuarial assumptions

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.0%~1.45%	1.0%~1.7%
Long-term average adjustment rate of salary	2.5%~3.0%	2.5%~3.0%

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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The Group expects to pay defined contribution benefit plans amounted to \$2,596 thousand within one year, after December 31, 2016.

The weighted-average duration of the defined benefit plan is three to twenty-three years.

7) Sensitivity Analysis

When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions, including discount 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, 2016 and 2015, the changes in the principal actuarial assumptions will impact the present value of the defined benefit obligation were as follows:

	<b>Impact on the defined benefit obligations</b>	
	<b>Increase</b>	<b>Decrease</b>
December 31, 2016		
Discount (change by 0.25%)	(0.31)~3.35	0.15~3.48
Future salary increase (change by 1.00%)	0.75~39.58	(2.32)~34.45
December 31, 2015		
Discount (change by 0.25%)	1.00~3.81	(3.64)~1.71
Future salary increase (change by 1.00%)	0.21~43.18	(37.26)~6.62

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of the pension liabilities in the balance sheets.

The analysis was performed on the same basis for the prior year.

(ii) Defined contribution plan

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 \$41,365 thousand and \$39,849 thousand for the years 2016 and 2015, respectively. Payment was made to the Bureau of Labor Insurance.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) Short-term employee benefits

The Group's short-term employee benefit plan includes the compensated absences liabilities. As of December 31, 2016 and 2015, the compensated absences liabilities were \$36,170 thousand and \$19,973 thousand, respectively.

(r) Income Tax

(i) Income tax expense recognized in profit or loss

	<u>2016</u>	<u>2015</u>
Current income tax expense		
Current period	\$ 32,785	25,333
Prior-years-adjustment on current income tax	(174,290)	1,891
Additional 10% surtax on unappropriated earnings	91,293	2
Current land value increment tax	<u>80,199</u>	<u>90,843</u>
	<u>29,987</u>	<u>118,069</u>
Deferred income tax expense		
Reversal of temporary difference	<u>12,365</u>	<u>(7)</u>
Income tax expense	<u><u>\$ 42,352</u></u>	<u><u>118,062</u></u>

(ii) Income tax recognized in other comprehensive income (expense) benefit of the year ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Items that will not be reclassified to profit and loss		
Actuarial gains (losses) of defined benefit plan	<u><u>\$ 652</u></u>	<u><u>1,255</u></u>

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

	<u>2016</u>	<u>2015</u>
Income before tax	<u><u>\$ 538,534</u></u>	<u><u>686,186</u></u>
Income tax expense at domestic statutory tax rate	\$ 91,551	116,652
Effect of difference tax rates on foreign countries	7,954	54,234
Decrease of income tax rate	(236)	-
Tax-exempt income	(133,454)	(152,307)
Investment gain accounted for using equity method	10,418	42,929
Current tax loss from unrecognized deferred tax assets	55,282	310,783
Investment loss	-	(390,338)
Adjustment for prior periods	(174,290)	1,891
Additional 10% surtax on unappropriated earnings	91,293	2
Current land value increment tax	80,199	90,843
Others	<u>13,635</u>	<u>43,373</u>
Total	<u><u>\$ 42,352</u></u>	<u><u>118,062</u></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets:

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Deductible temporary difference	\$ 216,109	232,021
Net losses	<u>1,240,805</u>	<u>1,203,071</u>
	<b><u>\$ 1,456,914</u></b>	<b><u>1,435,092</u></b>

The ROC 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 domestic subsidiaries up to December 31, 2016 was as follows:

<b>Years of losses</b>	<b>Unused amount</b>	<b>Year of expiry</b>
2008 (assessed)	\$ 540,042	2018
2009 (assessed)	1,465,253	2019
2010 (assessed)	1,002,043	2020
2011 (assessed)	1,213,320	2021
2012 (assessed)	360,651	2022
2014 (declared)	563,024	2024
2015 (declared)	1,662,381	2025
2016 (estimated)	<u>492,140</u>	2026
	<b><u>\$ 7,298,854</u></b>	

2) Recognized deferred tax assets and liabilities:

Changes in the amount of deferred tax assets and liabilities for 2016 and 2015 were as follows:

Deferred tax liabilities:

	<b>Others</b>
<b>Balance, at January 1, 2016</b>	\$ 2,228
Current tax expense	11,849
Effect of movements in tax rates	(236)
Effect of movements in exchange rates	(260)
Offsetting of current deferred tax assets of overseas subsidiaries	<u>1,015</u>
<b>Balance, at December 31, 2016</b>	<b><u>\$ 14,596</u></b>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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	<u>Others</u>
<b>Balance, at January 1, 2015</b>	\$ 2,228
Current tax expense	(1,819)
Effect of movements in exchange rates	(1,258)
Offsetting of current deferred tax assets of overseas subsidiaries	<u>3,077</u>
<b>Balance, at December 31, 2015</b>	<b>\$ <u>2,228</u></b>

Deferred tax assets:

	<u>Others</u>
<b>Balance, at January 1, 2016</b>	\$ 5,025
Current tax expense	(516)
Effect of movements in tax rates	(236)
Effect of movements in exchange rates	(260)
Offsetting of current deferred tax liabilities of overseas subsidiaries	<u>1,015</u>
<b>Balance, at December 31, 2016</b>	<b>\$ <u>5,028</u></b>

<b>Balance, at January 1, 2015</b>	\$ 5,018
Current tax expense	(1,812)
Effect of movements in exchange rates	(1,258)
Offsetting of current deferred tax liabilities of overseas subsidiaries	<u>3,077</u>
<b>Balance, at December 31, 2015</b>	<b>\$ <u>5,025</u></b>

(v) The Company and subsidiaries income tax returns for the years up to 2014 and 2013 have been assessed by the tax authorities.

(vi) Integrated income tax information was as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unappropriated earnings generated after 1998	\$ <u>2,252,896</u>	<u>2,200,915</u>
Balance of CHC's imputation credit account (ICA)	\$ <u>237,049</u>	<u>255,473</u>
	<u>2016(Estimated)</u>	<u>2015(Actual)</u>
Tax creditable ratio for the ROC resident shareholders	<u>10.97 %</u>	<u>7.55 %</u>

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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(s) Capital and reserves

As of December 31, 2016 and 2015, 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 823,216 thousand shares and 853,216 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) 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.

	<b>Ordinary shares</b>	
	<b>2016</b>	<b>2015</b>
Balance, at January 1	8,532,160	8,832,160
Retirement of treasury stock	(300,000)	(300,000)
Balance, at December 31	<u><b>8,232,160</b></u>	<u><b>8,532,160</b></u>

In order to maintain the Company's credit and shareholder's interests, the Company has cancelled the treasury stock for \$30,000 thousand shares on December 31, both 2016 and 2015.

(ii) Capital surplus

The components of the capital surplus were as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Premiums from issuance of share capital	\$ 6,397,913	6,631,068
Treasury stock transactions	406,518	221,332
	<u><b>\$ 6,804,431</b></u>	<u><b>6,852,400</b></u>

- 1) 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.
- 2) In accordance with the ROC 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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) Retained earnings

In accordance with the Company's articles of incorporation, 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, in accordance with the ROC Company Act. 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 shareholders' meeting for approval.

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

1) 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.

2) 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, 2015 and 2014, and January 1, 2014, the Company recognized the special reserve related to all IFRSs adjustments amounting to \$2,493,481 thousand.

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 May 22, 2015, the general shareholders' meeting of the Company resolved to reverse the balance of special reserve amounting to \$174,202 thousand, in accordance with the aforementioned Permit. The Company's balance of special reserve amounted to \$2,493,481 thousand on December 31, both 2016 and 2015.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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3) Earnings distribution

The earning distribution for 2015 and 2014 has been approved in the general shareholders' meeting on June 14, 2016 and May 22, 2015, respectively. The relevant dividend distributions to shareholders were as follows:

	<b>2015</b>		<b>2014</b>	
	<u>Amount per share</u>	<u>Total Amount</u>	<u>Amount per share</u>	<u>Total Amount</u>
Dividends distributed to common shareholders:				
Cash	\$ <u><b>0.50</b></u>	<u><b>411,608</b></u>	<u>-</u>	<u>-</u>

(iv) Treasury stocks

For the year ended December 31, 2016 and 2015, the Company repurchased treasury stocks totaling 30,000 thousand shares in order to maintain the Company's creditors' and shareholders' interests, and has cancelled all the treasury stocks according to Section 28(b) of the Securities and Exchange Act.

In accordance with the aforementioned Securities and Exchange Act, the proportion of the shares repurchased by the Company cannot exceed 10% of the Company's total issued shares. The total amount of repurchase cannot exceed the sum of the Company's retained earnings, share premium, and realized capital surplus. The maximum shares that the Company is allowed to repurchase on September 30 and June 30, 2015 were 85,321 thousand shares and 88,321 thousand shares, equivalent to the amount of \$ 9,190,065 thousand and \$9,312,676 thousand.

(v) Other equity interest

	<b>Exchange differences on translation of foreign financial statements</b>	<b>Cash flow hedges</b>	<b>Available-for-sale investments</b>
Balance, January 1, 2016	\$ (136,357)	20,275	663,060
Exchange differences on transaction of foreign net assets	(74,857)	-	-
Shares of other comprehensive income of associates accounted for using equity method, exchange difference on translation	(55,917)	-	-
Shares of other comprehensive income of joint ventures accounted for using equity method, exchange difference on translation	1,564	-	-
Gains on hedging instruments, fair value hedges	-	(22,025)	-
Unrealized gains (losses) on available-for-sale financial assets	-	-	1,425,961
Shares of net income of subsidiaries for using equity method, available-for-sale financial assets	-	-	(515)
Balance, at December 31, 2016	<u><b>\$ (265,567)</b></u>	<u><b>(1,750)</b></u>	<u><b>2,088,506</b></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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	Exchange differences on translation of foreign financial statements	Cash flow hedges	Available- for-sale investments
Balance, January 1, 2015	\$ (174,533)	17,924	(1,262,267)
Exchange differences on transaction of foreign net assets	(70,299)	-	-
Shares of other comprehensive income of associates accounted for using equity method, exchange difference on translation	108,255	-	-
Shares of other comprehensive income of joint ventures accounted for using equity method, exchange difference on translation	220	-	-
Gains on hedging instruments, fair value hedges	-	2,351	-
Unrealized gains (losses) on available-for-sale financial assets	-	-	1,925,571
Shares of net income of subsidiaries for using equity method, available-for-sale financial assets	-	-	(244)
Balance, at December 31, 2015	<u>\$ (136,357)</u>	<u>20,275</u>	<u>663,060</u>

(t) Earnings per share

(i) Basic earnings per share

The basic earnings per share of the Company are calculated based on the net income attributable to the ordinary shareholders of the Company amounted to \$528,938 thousand, and \$572,794 thousand for the years 2016 and 2015, respectively; they were divided by the weighted-average numbers of 828,716 thousand ordinary shares and 876,480 thousand ordinary shares. The computations of the basic earnings per share were as follows:

1) Net income attributable to ordinary shareholders

	2016	2015
Net income attributable to ordinary shareholders	<u>\$ 528,938</u>	<u>572,794</u>

2) Weighted average number of ordinary shares

	2016	2015
Weighted average number of ordinary shares, at December 31	<u>828,716</u>	<u>876,480</u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(ii) Diluted earnings per share

The diluted earnings per share that are calculated based on the net income attributable to the ordinary shareholders of the Company amounted to \$528,938 thousand and \$572,974 thousand for the years ended December 31, 2016 and 2015, respectively; they were divided by the weighted-average numbers of 829,041 thousand ordinary shares and 876,777 thousand ordinary shares after the adjustment for the effects of potentially dilutive ordinary shares. The computations of diluted earnings per share were as follows:

1) Net income attributable to ordinary shareholders

	<u>2016</u>	<u>2015</u>
Net income attributable to ordinary shareholders	\$ <u>528,938</u>	<u>572,974</u>

2) Weighted average number of ordinary shares (Diluted)

	<u>2016</u>	<u>2015</u>
Weighted average number of ordinary shares (Basic)	828,716	876,480
Effect of the employee bonuses	<u>325</u>	<u>297</u>
Weighted average number of ordinary shares (Diluted)	<u>829,041</u>	<u>876,777</u>

(u) Operating Revenue

The Group's revenue for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Construction revenue	\$ 20,637,046	16,801,333
Real estate revenue	3,235,313	4,378,685
Rental revenue, investment property	267,838	255,894
Other operating revenue	<u>397,201</u>	<u>340,968</u>
	<u>\$ 24,537,398</u>	<u>21,776,880</u>

(v) Remuneration for employees and directors

Based on the Company's amended articles of incorporation, which have been approved by the Board of Directors but have not been approved by the general shareholders' meeting, remuneration for employees, and directors is appropriated at the rate of 0.5% and no more than 0.5%, respectively, of the profit before tax. The Company should offset its prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock. 2015

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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For the year ended December 31, 2016 and 2015, the Company estimated its employee remuneration amounting to \$2,779 thousand and \$2,901 thousand, and directors' remuneration amounting to \$0 and \$2,079, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. Related information would be available at the Market Observation Post System website.

The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2015. As for the differences between the estimated amounts in 2016 and the actual amounts approved by the Board of Directors, if any, shall be included in profit or loss and recognized in 2017. °

(w) Non-operating income and expenses

(i) Other income

The Group's other income for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Interest income		
Cash in banks	\$ 11,291	8,389
Financing	12,440	12,566
Interest of delaying payment	1,538	-
Others	57	120
Dividend income	179,444	88,199
Compensation income	-	1,312,767
Other income	<u>258,918</u>	<u>9,846</u>
	<u><b>463,688</b></u>	<u><b>1,431,887</b></u>

For details of the compensation income from THSRC, please refer to Note 6(b).

(ii) Other gains and losses

The Group's other gains and losses for the years 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Foreign exchange gain (loss)	\$ (19,033)	(65,310)
Gain on disposal of investment	-	8,576
Gain on disposal of property, plant and equipment	28,069	15,333
Others	<u>(24,432)</u>	<u>(17,581)</u>
	<u><b>\$ (15,396)</b></u>	<u><b>(58,982)</b></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(iii) Financial costs

The Group's financial costs for the years 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Interest expenses	\$ 358,716	367,925
Less: capitalized interest	<u>(190,515)</u>	<u>(161,226)</u>
	<b><u>\$ 168,201</u></b>	<b><u>206,699</u></b>

(x) Reclassification of the other comprehensive income

The Group's reclassification of the other comprehensive income for the years 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Available-for-sale financial assets		
Changes in available-for-sale financial assets at fair value	\$ 1,425,446	1,925,327
Net changes recognized as other comprehensive income at fair value	<b><u>\$ 1,425,446</u></b>	<b><u>1,925,327</u></b>

(y) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of the Group's financial instruments represents the maximum credit risk exposure.

2) Credit risk concentrations

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.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(ii) Liquidity risk

The followings are the contractual maturities of financial liabilities, including estimated interest payment.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
Balance, December 31, 2016							
Non-derivative financial liabilities							
Secured loans	\$ 18,035,827	19,366,126	2,020,313	5,226,859	2,467,200	7,391,160	2,260,594
Unsecured loans	4,507,500	4,694,762	1,484,360	204,013	114,199	2,892,190	-
Short-term bills payable	200,000	200,000	200,000	-	-	-	-
Accounts and notes payable	5,768,888	5,768,888	1,351,024	1,462,238	2,179,218	53,295	723,113
Other payables	386,047	386,047	284,578	22,659	4,551	74,246	13
Guarantee deposit received	113,133	113,133	6,227	4,784	1,196	54,180	46,746
	<u>\$ 29,011,395</u>	<u>30,528,956</u>	<u>5,346,502</u>	<u>6,920,553</u>	<u>4,766,364</u>	<u>10,465,071</u>	<u>3,030,466</u>
Balance, December 31, 2015							
Non-derivative financial liabilities							
Secured loans	\$ 17,632,736	18,767,130	5,086,174	1,048,859	5,930,965	4,723,966	1,977,166
Unsecured loans	3,338,250	3,491,928	1,178,045	125,816	515,036	1,673,031	-
Short-term bills payable	100,000	100,000	100,000	-	-	-	-
Accounts and notes payable	5,326,603	5,326,603	1,981,642	228,258	933,497	2,162,360	20,846
Other payables	909,361	909,361	815,607	1,676	19,244	72,731	103
Guarantee deposit received	114,968	114,968	-	-	4,647	62,839	47,482
	<u>\$ 27,421,918</u>	<u>28,709,990</u>	<u>9,161,468</u>	<u>1,404,609</u>	<u>7,403,389</u>	<u>8,694,927</u>	<u>2,045,597</u>

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

(iii) Currency risk

1) 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:

	December 31, 2016			December 31, 2015			
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	
<b><u>Financial Assets</u></b>							
<b><u>Monetary items</u></b>							
USD: TWD	\$	44,167	32.2500	1,424,401	46,750	32.8250	1,534,558
HKD: MOP		68,127	1.0300	283,273	68,356	1.0300	288,460
HKD: TWD		161	4.15800	670	27,698	4.2200	116,885
MYR: TWD		14,884	7.2043	107,226	14,883	7.6479	113,822
<b><u>Financial Liabilities</u></b>							
<b><u>Monetary items</u></b>							
HKD: TWD		1,767	4.1580	7,347	95	4.2200	402
USD: INR		32	67.9520	1,022	1,027	66.8125	33,722
EUR: INR		15	71.4286	500	495	73.0307	17,772
SUD: MYR		629	4.4765	20,281	119	4.2920	3,899

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2) 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 \$14,827 thousand and by \$16,583 thousand for the years 2016 and 2015, respectively.

3) Foreign exchange gains or losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange are summarized as a single amount. For the years ended December 31, 2016 and 2015, foreign exchange gain or loss (including realized and unrealized) amounted to \$19,033 thousand and \$65,310 thousand, respectively.

(iv) 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 \$228,897 thousand and \$211,906 thousand for the years 2016 and 2015, respectively, with all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

(v) Fair value of financial instruments

1) Categories and fair value of financial instruments

The fair value of financial assets and liabilities was as follows (including information on fair value hierarchy, but excluding measurements that have similarities to fair value but are not fair value, financial instruments whose fair value cannot be reliably measured, and financial instruments whose inputs are unobservable in active markets):

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<b>December 31, 2016</b>					
	<b>Book Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Derivative financial assets for hedging</b>	\$ 64,631	64,631	-	-	64,631
<b>Available-for-sale financial assets</b>					
Domestic emerging stocks	2,946,517	2,946,517	-	-	2,946,517
Domestic non-public issuance of shares	1,309,885	-	-	1,309,885	1,309,885
Subtotal	4,256,402	2,946,517	-	1,309,885	4,256,402
<b>Loans and receivables</b>					
Cash and cash equivalents	2,549,134	2,549,134	-	-	2,549,134
Notes and accounts receivable	8,549,048	8,549,048	-	-	8,549,048
Other receivables	793,988	793,988	-	-	793,988
Subtotal	11,892,170	11,892,170	-	-	11,892,170
Total	<u>\$ 16,213,203</u>	<u>14,903,318</u>	<u>-</u>	<u>1,309,885</u>	<u>16,213,203</u>
<b>Financial liabilities measured at amortized cost</b>					
Bank loans	\$ 22,739,352	22,739,352	-	-	22,739,352
Accounts and notes payable	5,768,888	5,768,888	-	-	5,768,888
Other payables	386,047	386,047	-	-	386,047
Guarantee deposit received	113,133	113,133	-	-	113,133
Subtotal	29,007,420	29,007,420	-	-	29,007,420
Total	<u>\$ 29,007,420</u>	<u>29,007,420</u>	<u>-</u>	<u>-</u>	<u>29,007,420</u>
<b>December 31, 2015</b>					
	<b>Book Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Derivative financial assets for hedging</b>	\$ 189,488	189,488	-	-	189,488
<b>Available-for-sale financial assets</b>					
Domestic emerging stocks	1,663,821	1,663,821	-	-	1,663,821
Domestic non-public issuance of shares	1,166,620	-	-	1,166,620	1,166,620
Subtotal	2,830,441	1,663,821	-	1,166,620	2,830,441
<b>Loans and receivables</b>					
Cash and cash equivalents	2,423,182	2,423,182	-	-	2,423,182
Notes and accounts receivable	8,115,248	8,115,248	-	-	8,115,248
Other receivables	2,047,292	2,047,292	-	-	2,047,292
Subtotal	12,585,722	12,585,722	-	-	12,585,722
Total	<u>\$ 15,605,651</u>	<u>14,439,031</u>	<u>-</u>	<u>1,166,620</u>	<u>15,605,651</u>

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	December 31, 2015				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial liabilities measured at amortized cost</b>					
Bank loans	\$ 21,070,986	21,070,986	-	-	21,070,986
Accounts and notes payable	5,326,603	5,326,603	-	-	5,326,603
Other payables	909,361	909,361	-	-	909,361
Guarantee deposit received	<u>114,968</u>	<u>114,968</u>	<u>-</u>	<u>-</u>	<u>114,968</u>
Subtotal	<u>27,421,918</u>	<u>27,421,918</u>	<u>-</u>	<u>-</u>	<u>27,421,918</u>
Total	<u><b>\$ 27,421,918</b></u>	<u><b>27,421,918</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>27,421,918</b></u>

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

The ways the Company determines fair value of financial assets and liabilities are as follows:

- i) If financial instruments are traded in active markets and meet the criteria, their fair value is determined on the basis of market quotation.
- ii) The fair value of other financial assets and liabilities is determined by the quoted price from competitors on the basis of discounted cash flow analysis.

b) Derivative financial instruments

It is based on the valuation model accepted by most market users, such as discount rate and option pricing model. Forward exchange agreement is usually based on the current forward rate.

3) Transfer between level 1 and level 2

Shares with quoted prices in active markets held by the Group are classified to level 1. The fair value for 2016 and 2015 has been adjusted to market price. There have been no transfers from each level for the years ended December 31, 2016 and 2015.

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4) The movement of level 3

	<b>Available-for-sale financial assets</b> <b>Equity instruments without quoted market price</b>
Balance, January 1, 2016	\$ 1,166,620
Total income or loss	
Recognized in other comprehensive income	143,265
Balance, December 31, 2016	<u>\$ 1,309,885</u>
Balance, January 1, 2015	\$ 1,322,188
Total income or loss	
Recognized in other comprehensive income	(155,568)
Balance, December 31, 2015	<u>\$ 1,166,620</u>

The aforesaid total income or loss was recognized in unrealized gain or loss on available-for-sale financial assets. Related assets held for the years ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Total income or loss		
Recognized in other comprehensive income	\$ 143,265	(155,568)
(as unrealized gain (loss) on available-for-sale financial assets)		

5) Quantified information for significant unobservable inputs (Level 3) of the fair value

The fair value measurement was categorized as level 3 in the hierarchy. Only the equity instruments without an active market have several significant unobservable inputs. The significant unobservable inputs of equity instruments without an active market are not related because they are independent from each other.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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The quantified information for significant unobservable inputs is disclosed as follows:

<u>Item</u>	<u>Valuation Technique</u>	<u>Significant unobservable input</u>	<u>Relationship between input and fair value</u>
Available-for-sale financial assets, equity instruments without active market	Market approach	<ul style="list-style-type: none"> <li>• The multiplier of price-to-earnings ratio (14.13 and 15.98)</li> <li>• Lack of market liquidity discount (80%)</li> </ul>	<ul style="list-style-type: none"> <li>• The higher the multiplier, the higher the fair value</li> <li>• The higher the lack of market liquidity discount, the lower the fair value</li> </ul>
Available-for-sale financial assets, equity instruments without active market	Income approach	<ul style="list-style-type: none"> <li>• Long term revenue growth rate (0%)</li> <li>• Weighted average cost of capital (5%)</li> </ul>	<ul style="list-style-type: none"> <li>• The higher weighted average cost of capital, the lower the fair value</li> <li>• The higher long term revenue growth rate, the higher the fair value</li> </ul>

6) Sensitivity analysis of reasonably replaceable assumptions for level 3 financial instruments

The valuation for level 3 financial instruments is reasonable. However, the result may change if applying different evaluation model or parameter. The following are the effects to current income or other comprehensive income if the parameters change:

		Change up or down	Change in fair value reflecting in current income		Change in fair value reflecting in other comprehensive income		
Input			Favorable change	Unfavorable change	Favorable change	Unfavorable change	
December 31, 2016							
Available-for-sale financial assets							
Equity instruments without an active market	Market liquidity discount	5%	\$	-	-	81,779	81,779
Equity instruments without an active market	Weighted average cost of capital	1%		-	-	68	72
December 31, 2015							
Available-for-sale financial assets							
Equity instruments without an active market	Market liquidity discount	5%	\$	-	-	72,773	72,773
Equity instruments without an active market	Weighted average cost of capital	1%		-	-	579	385

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The favorable and unfavorable changes refer to the fluctuation of the fair value, which is measured using the valuation technique depending on the different levels of unobservable inputs. The fair values of financial instruments are affected by various inputs. The above table only discloses the effect caused by a single input change and does not consider the correlation and variance between inputs.

(z) Financial risk management

(i) Illustrative

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

- 1) Credit risk
- 2) Liquidity risk
- 3) 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.

(ii) Risk management framework

- 1) 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 performance.
- 2) 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.

(iii) 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.

1) 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.

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2) 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.

3) Guarantee

As of December 31, 2016, both and 2015, the Group's guarantee for construction contract work for other construction companies amounted to approximately \$11,151,487 thousand.

(iv) 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, 2016 and 2015, the Group has unused bank facilities for \$20,078,261 thousand and \$20,862,185 thousand, respectively.

(v) 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.

1) 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), USA Dollars (USD), Hong Kong Dollars (HKD), Macau Pataca (MOP), India Rupee (INR), and Malaysia Ringgit (MYR). The currencies used in these transactions are denominated in TWD, EUR, JPY, USD, HKD, MOP, INR and MYR.

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.

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

2) Interest rate risk

As of December 31, 2016 and 2015, financial liabilities exposed to cash flow interest rate risk amounted to \$13,861,498 thousand and \$11,998,582 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.

3) 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.

(aa) 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.

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.

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total liabilities	\$ 36,521,695	35,937,351
Less: cash and cash equivalents	<u>(2,549,134)</u>	<u>(2,423,182)</u>
Net debt	33,972,561	33,514,169
Total equity	<u>22,821,436</u>	<u>21,655,169</u>
Total capital	<u><b>\$ 56,793,997</b></u>	<u><b>55,169,338</b></u>
Debt to equity ratio	<u><b>59.82 %</b></u>	<u><b>60.75 %</b></u>

(ab) Non-cash transactions and investing activities

The non-cash transactions and investing activities of the Group in the years 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Prepayments for business facilities transferred to property, plant and equipment	<u><b>\$ 134,943</b></u>	<u><b>143,250</b></u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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**(7) Related-party transactions:**

(a) Parent Group and Ultimate Controlling Party

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

(b) Other related party transactions:

(i) Construction

The information related to associate constructions is as follow:

<u>2016</u>	<u>Total Contact Amount (Before tax)</u>	<u>Current Amount</u>	<u>Accumulated Amount</u>
Other related party	\$ <u>19,346</u>	<u>19,346</u>	<u>19,346</u>

According to associate construction regulations, the associate construction contract 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) Income from sales of real estate

The information of the Group selling land and property to related party was as follows:

	<u>2016</u>	<u>2015</u>
Other related party	\$ <u>-</u>	<u>564,110</u>

On May 14, 2014, the Group signed an agreement with other related party to sell a part of its investment property, the total price (including tax) amounted to \$568,469 thousand, and the estimated gain on disposal amounted to \$90,817 thousand. On December 31, 2014, such assets were reclassified to inventories because the registration has yet to be completed. The Group has already received the payment of \$142,118 thousand (recognized as advance receipts), the transfer of property right had been completed in January 2015, and all income were received.

The price which the Group sold to other related party was based on the market quotation and appraisal report from the property appraiser. The price and the credit term have no significant difference from the common customers.

(iii) Purchases

Purchases from other related party amounted to \$117,137 thousand and \$30,752 thousand for the year ended December 31, 2016 and 2015, respectively. The price and the payment term have no significant difference from other common vendors.

(Continued)

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(iv) Other outstanding balance

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

		<b>Receivables from related party</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Other related party		\$ <u>4,323</u>	<u>-</u>
		<b>Other receivables from related party</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Joint ventures		\$ 21,205	209
Other related party		<u>76</u>	<u>-</u>
		\$ <u>21,281</u>	<u>209</u>
		<b>Payables from related party</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Other related party		\$ <u>6,191</u>	<u>-</u>
		<b>Other payables from related party</b>	
		<b>December 31, 2016</b>	<b>December 31, 2015</b>
Other related party		\$ <u>591</u>	<u>-</u>

(v) Rental

1) Rental revenue		<b>2016</b>	<b>2015</b>
Other related party		\$ <u>57</u>	<u>199</u>

The rent is based on the nearby rental market value of parking space, and will be paid monthly.

(vi) Loan to related parties

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Joint ventures	\$ 107,202	113,803
Associates (Note)	<u>-</u>	<u>155,300</u>
	\$ <u>107,202</u>	<u>269,103</u>

Note: Starting December 31, 2016, the Group no longer has significant influence over the investee. Therefore the investee will not longer be one of the Group's associates.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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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.

(vii) Property transactions

As of December 31, 2016, the Group sold transportation equipment to other related party amounting to \$363 thousand of total price and \$46 thousand of gain on disposal of property, the payment has been made. Refer to Note 6(h) for details.

(viii) Endorsements and Guarantees

	<u>Subject of guarantee</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Associates	Non project contract guarantee	\$ 98,000	-
Joint ventures	Non project contract guarantee	391,838	398,824
		<u>\$ 489,838</u>	<u>398,824</u>

(ix) Other

1) Interest revenue

	<u>2016</u>	<u>2015</u>
Associates	\$ -	464
Joint ventures	8,979	12,102
	<u>\$ 8,979</u>	<u>12,566</u>

2) Other expenses

	<u>2016</u>	<u>2015</u>
Other related party	\$ 14,111	-

(c) Key Management Personnel Transaction

Key Management Personnel Compensation

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 107,694	104,217

The Group provides thirteen vehicles for key management personnel at a cost of \$13,753 thousand.

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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**(8) Pledged assets:**

The carrying values of pledged assets are as follow:

<b>Asset</b>	<b>Purpose of pledge</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Inventory (development corp.)	Loan collateral	\$ 14,490,265	15,627,757
Restricted deposits (other current assets)	Time deposits collateral	74,398	69,062
Property, plant and equipment	Loan collateral and construction guarantee	680,994	684,057
Investment property, net	Loan collateral and construction guarantee	10,662,144	10,016,817
Intangible assets	Loan collateral	739,838	610,366
Long-term receivables	Loan collateral	<u>3,815,481</u>	<u>3,763,513</u>
Total		<u><u>\$ 30,463,120</u></u>	<u><u>30,771,572</u></u>

**(9) Commitments and contingencies:**

(a) Major commitments were as follows:

- (i) As of December 31, 2016 and 2015, the details of realty advance sales and total sales of completed realty, and the advance receipts from these sales were listed as below:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Realty advance sales and total sales of completed realty	<u>\$ 10,365,159</u>	<u>8,800,620</u>
Advance receipts	<u>\$ 2,320,466</u>	<u>2,376,481</u>

- (ii) As of December 31, 2016 and 2015, the Group signed a contract for purchasing the land were \$76,472 thousand, and \$30,589 thousand have been paid in accordance with the contract.

- (iii) As of December 31, 2016 and 2015, 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:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total contracts amount — TWD	93,291,305	103,861,223
— INR	49,220,492	44,222,144
— HKD	3,789,296	3,620,070
— MOP	862,615	831,619
— MYR	392,107	393,391
Accumulated billing amount	87,518,740	82,353,413

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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- (iv) As of December 31, 2016 and 2015, the Group provides the guarantees for contract performance and construction warranties to other construction companies, including jointly liable contracts amounting to \$11,151,487 thousand.

- (v) Service Concession agreements

The Group has entered into a service concession plan on sewage treatment with the government in the form of either a BOT project (Build–operate–transfer) or a wastewater reclamation and reuse BTO project (Build–transfer–operate). The primary terms of the contract are summarized as follows:

- 1) During the project concession period, in accordance to the government's appointed service form, the Group (i) provide construction, operation and maintenance to the facilities for sewage treatment, and (ii) acquire the construction and operation right of the wastewater reclamation and reuse facilities as well as the sewage treatment facilities.
- 2) The Group has the right to use the aforesaid facilities and land to provide related sewage treatment service in the concession period, and obtain interest that depends on the firm price in the construction contract and price adjustment index of economy market.
- 3) While using the facilities to provide service, the government will be able to control and supervise the Group's service scope.
- 4) When there is significant violation to the clause in the service concession agreement, both the Group and the government will be able to terminate the regarding agreement.
- 5) During the concession period, the Group is the registrant for the related surface right of land and ownership of the sewage treatment facilities. After the concession period, in accordance to the construction and operation agreement, the appointed plants and facilities shall be recovered to their normal operating requirement and transferred without condition.
- 6) Three years before the expiration date, the Group should be able to submit its application for preferential right to extend the contract; if the Group's operating performance is qualified to apply for a renewal of contract, it can submit its application to the authorities preferentially.
- 7) The Group's construction and operation contract with government were as follows:

<u>The subsidiary as an operator</u>	<u>Location</u>	<u>Grantor</u>	<u>Agreement type</u>	<u>Concession period</u>
North Shore Corp.	Tamsui area	New Taipei City	BOT of sewage system	May 2005~ May 2040
Pu Ding Corp.	Pu Ding area	Taoyuan City	BOT of sewage system	35 years (after land delivery)
Blue Whale Water Technology Corp.	Kaohsiung area	Kaohsiung City	BTO of wastewater reclamation and reuse	August 2016~August 2033

- (vi) The Group's issued but unused letter credit

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Issued but unused L/C	<u>\$ 25,776</u>	<u>196,678</u>

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**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
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(b) Contingent liability:

- (i) As of December 31, 2016 and 2015, the Group provided promissory notes for contract performance, issuance of commercial paper, and construction warranty, amounting to \$47,017,672 thousand and \$45,905,890 thousand, respectively.
- (ii) As of December 31, 2016 and 2015, the Group was provided guarantee deposits and performance guarantees amounting to \$10,440,610 thousand and \$9,587,134 thousand, respectively, by subcontractors for the Tamshui sewerage construction system.

(c) Other

- (i) As of December 31, 2016 and 2015 the Group paid guarantee deposits for the joint construction contracts with several landowners amounting to \$16,060 thousand and \$20,749 thousand, respectively. (Recognized as other current assets)
- (ii) 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) Losses Due to Major Disasters: None**

**(11) Subsequent Events: None**

**(12) Other:**

- (a) Employee, depreciation, depletion and amortization expenses summarized as follow:

	2016			2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee expenses						
Salary expenses	1,500,410	516,348	2,016,758	1,380,151	585,061	1,965,212
Labor and health	62,530	30,155	92,685	63,353	34,240	97,593
Insurance expenses	63,752	41,774	105,526	78,228	38,633	116,861
Other employee expenses	285,048	109,341	394,389	237,373	78,138	315,511
Depreciation expenses	588,716	27,743	616,459	291,440	26,946	318,386
Amortization expenses	24,998	-	24,998	17,649	-	17,649

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**Notes to Consolidated Financial Statements**

**(13) Other disclosures:**

**(a) Information on significant transactions:**

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

**(i) Loans to other parties:**

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing requirements	Collateral			Maximum limit of fund financing
												Item	Value	Individual funding loan limits	
1	Continental Engineering Corp.	CEC INTERNATIONAL MALAYSIA SDN BHD.	Other receivables	Yes	267,600	238,000	238,000 (Note 2)	3.4983 3.5482	2	-	Operation requirements	-	-	3,399,664	3,399,664
2	Continental Development Corp.	MEGA Capital Development Sdn. Bhd	Other receivables	Yes	271,772	236,751	107,202	7.85	2	-	Land purchasing and operation requirements	-	-	5,507,545	5,507,545
2	Continental Development Corp.	Sho-he Development Company	Other receivables	No	199,400	199,400	194,937	1.90	2	-	Construction payment	-	-	5,507,545	5,507,545

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:  $\$8,499,159 \text{ thousand} \times 40\% = 3,399,664 \text{ thousand}$

Loans to a single business enterprise are limited to 40% of net equity value:  $\$8,499,159 \text{ thousand} \times 40\% = 3,399,664 \text{ thousand}$

2) Continental Development Corp.:

Maximum loans are limited to 40% of net equity value:  $\$13,768,862 \text{ thousand} \times 40\% = 5,507,545 \text{ thousand}$

Loans to a single business enterprise are limited to 40% of net equity value:  $\$13,768,862 \text{ thousand} \times 40\% = 5,507,545 \text{ thousand}$

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

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## (ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company								Y	N	
0	Continental Holdings Corp.	CEC International Corp. (India) Pvt. Ltd.	3	88,238,884	616,197	593,440	593,440	-	2.69 %	88,238,884	Y	N	N
0	Continental Holdings Corp.	Continental Engineering Corp.	2	88,238,884	3,349,420	3,563,138	2,813,925	-	16.15 %	88,238,884	Y	N	N
1	Continental Engineering Corp.	North Shore Corp.	2	16,998,318	200,000	200,000	195,000	-	2.35 %	16,998,318	N	N	N
1	Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	2	16,998,318	1,420,000	1,420,000	920,000	-	16.71 %	16,998,318	N	N	N
1	Continental Engineering Corp.	CEC International Corp.	2	16,998,318	200,700	193,500	31,535	-	2.28 %	16,998,318	N	N	N
1	Continental Engineering Corp.	CEC International Corp. (India) Pvt. Ltd.	2	16,998,318	501,750	483,750	322,500	-	5.69 %	16,998,318	N	N	N
1	Continental Engineering Corp.	Pu Ding Corp.	3	16,998,318	32,000	32,000	32,000	-	0.38 %	16,998,318	N	N	N
1	Continental Engineering Corp.	CEC International Corp. (India) Pvt. Ltd.	2 and 5	25,497,477	5,008,232	4,839,183	4,839,183	-	56.94 %	50,994,954	N	N	N
1	Continental Engineering Corp.	CEC International Malaysia Sdn Bhd.	2 and 5	25,497,477	4,250,565	3,702,823	3,702,823	-	43.57 %	50,994,954	N	N	N
1	Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	2 and 5	25,497,477	4,851	4,826	4,826	-	0.06 %	50,994,954	N	N	N
1	Continental Engineering Corp.	Fu Tsu Construction Co., Ltd.	5	25,497,477	11,151,487	11,151,487	11,151,487	-	131.21 %	50,994,954	N	N	N
2	Continental Development Corp.	CEC Commercial Development Corp.	2	27,537,724	725,000	725,000	620,000	-	5.27 %	27,537,724	N	N	N
2	Continental Development Corp.	CEC Commercial Development Corp.	2	27,537,724	750,000	750,000	750,000	-	5.45 %	27,537,724	N	N	N
2	Continental Development Corp.	MEGA Capital Development Sdn. Bhd.	6	27,537,724	406,418	391,838	391,838	-	2.85 %	27,537,724	N	N	N
3	CEC Commercial Development Corp.	Continental Development Corp.	4	12,858,560	1,258,200	1,258,200	1,048,500	1,258,200	39.14 %	12,858,560	N	N	N
3	CEC Commercial Development Corp.	Continental Development Corp.	4 and 5	12,858,560	1,912,000	1,912,000	718,713	-	59.48 %	12,858,560	N	N	N
4	Hsin-Dar Environment Engineering Co., Ltd.	Blue Whale Water Technology Corp.	2 and 6	8,851,652	800,700	800,700	137,700	-	36.18 %	8,851,652	N	N	N
4	Hsin-Dar Environment Engineering Co., Ltd.	CTCI & HEC Water Business Corporation	6	8,851,652	98,000	98,000	98,000	-	4.43 %	8,851,652	N	N	N
4	Hsin-Dar Environment Engineering Co., Ltd.	Continental Engineering Corp.	4 and 5	8,851,652	3,651,000	3,651,000	3,651,000	-	164.99 %	8,851,652	N	N	N

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No.	Name of guarantor Hsin-Dar Environment/Continental Engineering Co., Ltd.	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
4			4	8,851,652	4,218	4,218	-	-	0.19 %	8,851,652	N	N	N

Note 1: According to the policy of Continental Holdings Corp., the amount of total endorsements/guarantees is limited to four times the net equity value of the Company's most recent financial statements: \$22,059,721 thousand  $\times$  4 = \$88,238,884 thousand

Endorsements/guarantees to a single business are limited to four times the net equity value of the Company's most recent financial statements: \$22,059,721 thousand  $\times$  4 = \$88,238,884 thousand

According to the policy of 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: \$8,499,159 thousand  $\times$  6 = \$50,994,954 thousand

Endorsements/guarantees to a single business are limited to three times the net equity value of the Company's most recent financial statements: \$8,499,159 thousand  $\times$  3 = \$25,497,477 thousand

According to the policy of 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: \$8,499,159 thousand  $\times$  2 = \$16,998,318 thousand

Endorsements/guarantees to a single business are limited to two times the net equity value of the Company's most recent financial statements: \$8,499,159 thousand  $\times$  2 = \$16,998,318 thousand

According to the policy of 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: \$13,768,862 thousand  $\times$  2 = \$27,537,724 thousand

Endorsements/guarantees to a single business are limited to two times the net equity value of the Company's most recent financial statements: \$13,768,862 thousand  $\times$  2 = \$27,537,724 thousand

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According to the policy of 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: \$3,214,640 thousand  $\times 4 = \$12,858,560$  thousand

Endorsements/guarantees to a single business are limited to four times the net equity value of the Company's most recent financial statements: \$3,214,640 thousand  $\times 4 = \$12,858,560$  thousand

According to the policy of Hsin-Dar Environment Engineering Co., Ltd., the amount of total endorsements/guarantees is limited to four times the net equity value of the Company's most recent financial statements: \$2,212,913 thousand  $\times 4 = \$8,851,652$  thousand

Endorsements/guarantees to a single business are limited to four times the net equity value of the Company's most recent financial statements: \$2,212,913 thousand  $\times 4 = \$8,851,652$  thousand

Note 2: The relationship between the guarantor 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.

(iii) Securities held as of December 31, 2016 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance		Highest Percentage of ownership (%)	Note
				Carrying value	Fair value		
Continental Engineering Corp.	Taiwan High Speed Rail Cor. – common stock	-	Current available-for-sale financial assets	79,442,800	1,461,747	1.42 %	18.40
Continental Engineering Corp.	Evergreen Steel Corp.	-	Non-current available-for-sale financial assets	25,645,907	751,528	6.28 %	29.30
Continental Engineering Corp.	Shin Yung Enterprise Corp.	-	Non-current available-for-sale financial assets	12,256,347	556,928	8.45 %	45.44
Continental Engineering Corp.	JieBang Consultant Management Co., Ltd.	-	Non-current available-for-sale financial assets	300,000	1,429	6.00 %	4.76

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Name of holder	Category and name of security	Relationship with company	Account title	Ending balance			Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)		
Continental Engineering Corp.	Taiwan Mop MacDonald Ltd.	-	Non-current available-for-sale financial assets	380,000	-	19.00 %	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 %	
Continental Development Corp.	Taiwan High Speed Rail Cor. – common stock	-	Current available-for-sale financial assets	80,694,000	1,484,770	1.44 %	1.44 %	
Continental Development Corp.	Sho-he Development Company	-	Non-current financial assets at cost	39,370,000	393,700	10.00 %	10.00 %	

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Amount
Continental Development Corp.	Sho-he Development Company	Non-current financial assets at cost	Sho-he Development Company	-	50,000	500	39,320,000	393,200	-	-	-	-	393,700

(v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others				Notes/Accounts receivable (payable)	
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	Note	
Continental Engineering Corp.	Continental Development Corp.	Related party of the Company	Construction contract	(2,738,772)	(12) %	The same as those in general transactions	-	-	933,770	20%	1	
Continental Development Corp.	Continental Engineering Corp.	Related party of the Company	Construction project	2,609,700	84 %	"	-	-	(933,770)	(89)%		

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

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

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(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Counter-party	Nature of relationship	Related party of the Company	Ending balance	Turnover rate	(In Thousands of New Taiwan Dollars)		
						Amount	Overdue	Amounts received in subsequent period
Continental Engineering Corp.	Continental Development Corp.			Accounts receivable	933,770	-	-	232,368
					3.51			
								Allowance for bad debts
								-

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

(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions				Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms		
0	Continental Holdings Corp.	Continental Engineering Corp.	1	Rental costs	11,784	The same as those in general transactions		0.05%
1	Continental Engineering Corp.	Continental Holdings Corp.	2	Rental revenue	11,784	The same as those in general transactions		0.05%
		Continental Development Corp.	3	Rental revenue	15,350	The same as those in general transactions		0.06%
		Continental Development Corp.	3	Construction revenue	2,738,772	The same as those in general transactions		11.17%
		Continental Development Corp.	3	Accounts receivable	933,770	-		1.57%
		CIMY	3	Other receivables	233,941	-		0.39%
2	Continental Development Corp.	Continental Engineering Corp.	3	Construction costs	2,609,700	The same as those in general transactions		10.64%
		Continental Engineering Corp.	3	Rental costs	15,350	The same as those in general transactions		0.06%
		Continental Engineering Corp.	3	Accounts payable	933,770	-		1.57%
3	Hsin-Dar Environment Engineering Co., Ltd.	North Shore Corp.	3	Operating revenue	127,068	The same as those in general transactions		0.52%
		North Shore Corp.	3	Accounts receivable	151,531	-		0.26%
4	North Shore Corp.	Hsin-Dar Environment Engineering Co., Ltd.	3	Accounts payable	151,531	-		0.26%
		Hsin-Dar Environment Engineering Co., Ltd.	3	Construction cost	127,068	The same as those in general transactions		0.52%
		Fu-Da Construction Corp., Ltd.	3	Accounts payable	71,340	-		0.12%
		Fu-Da Construction Corp., Ltd.	3	Construction cost	94,808	The same as those in general transactions		0.39%
5	Fu-Da Construction Corp., Ltd.	North Shore Corp.	3	Accounts receivable	71,340	-		0.12%
		North Shore Corp.	3	Construction revenue	94,808	The same as those in general transactions		0.39%

(Continued)

## (English Translation of Financial Report Originally Issued in Chinese)

## CONTINENTAL HOLDINGS CORPORATION

## Notes to Consolidated Financial Statements

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

- 1) 0 represents the Company.
- 2) serial numbers for the subsidiaries begin from number 1.

Note 2: Relationships are as follows:

- 1) 1. the Company to subsidiary.
- 2) 2. subsidiary to the Company.
- 3) 3. subsidiary to other subsidiary

Note 3: The above transactions were eliminated when compiling the consolidated financial statements.

## (b) Information on investees:

The following is the information on investees for the years ended December 31, 2016 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Shares (thousands)	Balance as of December 31, 2016		Carrying value	Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2016	December 31, 2015		Percentage of ownership	Percentage of ownership					
Continental Holdings Corp.	Continental Engineering Corp.	Taiwan	Comprehensive construction	8,844,949	8,844,949	460,062,071	100.00 %	100.00 %	8,314,197	100.00 %	(370,108)	(462,235)	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 %	100.00 %	13,768,862	100.00 %	1,106,414	1,106,414	Note 1
Continental Engineering Corp.	Hsin-Dar Environment Engineering Co., Ltd.	Taiwan	Plumbing	1,010,000	1,010,000	121,200,000	100.00 %	100.00 %	2,212,913	100.00 %	168,570	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 %	100.00 %	(81,906)	100.00 %	(29,404)	"	-
Continental Engineering Corp.	CEC International Corp.	British Virgin Islands	Investment and holding	1,305,504	1,305,504	39,139,940	100.00 %	100.00 %	2,601,885	100.00 %	(86,176)	"	-
Continental Engineering Corp.	CEC International Malaysia Sdn Bhd.	Malaysia	Construction projects	85,130	85,130	9,100,000	70.00 %	70.00 %	(43,198)	70.00 %	(125,056)	"	-
Continental Development Corp.	CEC Commercial Development Corp.	Taiwan	Housing and building development and lease	976,539	976,539	32,211,852	80.65 %	80.65 %	2,592,607	80.65 %	42,715	"	-
Continental Development Corp.	Mega Capital Development Sdn. Bhd.	Malaysia	Real estate development	6,298	6,298	675,000	45.00 %	45.00 %	(21,551)	45.00 %	(28,933)	"	-
CEC International Corp.	New Continental Corp.	British Virgin Islands	Investment and holding	1,219,149	1,219,149	4,596	45.47 %	45.47 %	2,902,229	45.47 %	(102,774)	"	-
New Continental Corp.	Granite Investments(UK) Limited	United Kingdom	Investment and holding	Note 2	Note 2	2	100.00 %	100.00 %	5,902,712	100.00 %	(101,861)	"	-

(Continued)

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## CONTINENTAL HOLDINGS CORPORATION

## Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main business and products	Original investment amount		Balance as of December 31, 2016		Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee based on the R.O.C. law	Note
				December 31, 2016	December 31, 2015	Shares (thousands)	Percentage of ownership				
Hsin-Dar Environment Engineering Co., Ltd.	Pu-Da Construction Corp., Ltd.	Taiwan	Construction projects	49,600	49,600	3,000,000	100.00 %	100.00 %	3,779	Unnecessary to disclose based on the R.O.C. law	-
Hsin-Dar Environment Engineering Co., Ltd.	North Shore Corp.	Taiwan	Pollution protection and other environmental sanitation	1,112,000	1,112,000	136,000,000	100.00 %	100.00 %	170,313	"	-
Hsin-Dar Environment Engineering Co., Ltd.	Blue Whale Water Technology Corp.	Taiwan	Pollution protection and other environmental sanitation	168,300	-	16,830,000	51.00 %	51.00 %	(7,152)	"	-
Hsin-Dar Environment Engineering Co., Ltd.	Pu Ding Corp.	Taiwan	Pollution protection and other environmental sanitation	60,000	-	6,000,000	100.00 %	100.00 %	(536)	"	-
Hsin-Dar Environment Engineering Co., Ltd.	CTCI & HEC Water Business Corporation	Taiwan	Pollution protection and other environmental sanitation	245,000	-	24,500,000	49.00 %	49.00 %	(3,127)	"	-

Note 1: The investment income/loss for the year ended December 31, 2016 was leased on the investees' financial statements audited by the auditors for the same period.

Note 2: The original investing amount is GBP 1.57.

(c) Information on investment in mainland China: None

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**(14) Segment information:**

For the years ended December 31, 2016 and 2015, 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:

- (i) Assets not attributable to the operations of any specific segment.
- (ii) Long-term equity investments under the equity method and the cost method.
- (a) Disclosure the information of industrial departments

The reconciliation statements of all operating departments:

	<b>2016</b>				
	<b>Construction</b>	<b>Real estate</b>	<b>Investment</b>	<b>Adjustment and write-off</b>	<b>Total</b>
Revenue:					
Segment revenues from external customers	\$ 21,035,465	3,501,933	-	-	24,537,398
Intersegment revenues	3,022,969	-	644,179	(3,667,148)	-
Total revenues	<u>\$ 24,058,434</u>	<u>3,501,933</u>	<u>644,179</u>	<u>(3,667,148)</u>	<u>24,537,398</u>
Reportable segment profit or loss	<u>\$ (239,895)</u>	<u>1,131,518</u>	<u>553,025</u>	<u>(906,114)</u>	<u>538,534</u>
Assets:					
Investments accounted for using equity method	\$ 10,616,764	2,571,055	22,083,058	(32,146,733)	3,124,144
Capital expenditure	4,092,939	8,828,739	1,308	-	12,922,986
Reportable segment total assets	<u>\$ 35,890,491</u>	<u>35,325,190</u>	<u>22,126,884</u>	<u>(33,999,434)</u>	<u>59,343,131</u>
Reportable segment total liabilities	<u>\$ 19,905,688</u>	<u>18,341,688</u>	<u>67,162</u>	<u>(1,792,843)</u>	<u>36,521,695</u>

**CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

	<b>2015</b>				
	<b>Construction</b>	<b>Real estate</b>	<b>Investment</b>	<b>Adjustment and write-off</b>	<b>Total</b>
Revenue:					
Segment revenues from external customers	\$ 17,181,693	4,595,187	-	-	21,776,880
Intersegment revenues	2,078,767	-	683,616	(2,762,383)	-
Total revenues	<u>\$ 19,260,460</u>	<u>4,595,187</u>	<u>683,616</u>	<u>(2,762,383)</u>	<u>21,776,880</u>
Reportable segment profit or loss	<u>\$ (809,248)</u>	<u>1,651,282</u>	<u>575,187</u>	<u>(731,035)</u>	<u>686,186</u>
Assets:					
Investments accounted for using equity method	\$ 10,102,914	2,548,062	21,085,265	(30,736,060)	3,000,181
Capital expenditure	4,402,230	8,861,341	716	-	13,264,287
Reportable segment total assets	<u>\$ 34,443,437</u>	<u>33,972,202</u>	<u>21,090,574</u>	<u>(31,913,693)</u>	<u>57,592,520</u>
Reportable segment total liabilities	<u>\$ 19,145,275</u>	<u>17,865,216</u>	<u>66,355</u>	<u>(1,139,495)</u>	<u>35,937,351</u>

(b) 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:

<b>Area</b>	<b>2016</b>	<b>2015</b>
Revenue from external customers:		
Taiwan	\$ 15,321,435	16,716,851
Others	9,215,963	5,060,029
	<u>\$ 24,537,398</u>	<u>21,776,880</u>
Non-current assets		
Taiwan	\$ 16,786,768	16,670,284
Others	711,658	1,068,525
Total	<u>\$ 17,498,426</u>	<u>17,738,809</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.

(c) Information on major customers

	<b>2016</b>	<b>2015</b>
Construction corporations	\$ 5,031,337	5,294,720
Governments	15,831,271	11,814,696
Others	3,674,790	4,667,464
Total	<u>\$ 24,537,398</u>	<u>21,776,880</u>