Stock Code:3703

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

CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

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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, 2017 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‘ Consolidated and Separate Financial Statements’ endorsed by the Financial Supervisory Commission, Executive Yuan, R.O.C. (“FSC”). In addition, the information required to be disclosed in the combined financial statements has been 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 29, 2018

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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 statement of consolidated financial position as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the FSC.

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.

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(t) 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 6(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.

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 8.53% and 9.70% of the consolidated total assets at December 31, 2017 and 2016, respectively, and the total revenues constituting 0.49% and 3.31% of the consolidated total revenues for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, using the equity method, the Group's investment in these investee companies constituted 2.35% and 5.26% of the Group' s total asset; the profit and losses resulted from the Group' s investment in the associates and joint ventures represented -148.17% and -11.38% of the Group's net profit before tax.

Continental Holdings Corporation and its subsidiaries have prepared their non-consolidated financial report for the years ended December 31, 2017 and 2016, and we have issued a modified unqualified audit report thereon.

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 FSC, 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.

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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's own financial statements as of and for the years ended December 31, 2017 and 2016, 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.

Kuo-Yang, Tseng

For and on behalf of KPMG, Taiwan

March 29, 2018

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 independent 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 independent 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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

Code	Assets	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current assets:				
1100	Cash and cash equivalents(Note 6(a))	$ 3,428,513	6	2,549,134	4
1125	Current available-for-sale financial assets, net(Note 6(b))	1,541,318	2	2,946,517	5
1135	Current derivative financial assets for hedging(Note 6(b))	479,232	1	64,631	-
1150	Notes receivable, net(Note 6(c))	847,529	1	383,088	1
1170	Accounts receivable, net(Notes 6(c) and 7)	5,109,707	8	4,348,501	7
1190	Construction contracts receivables(Note 6(d))	3,012,801	5	3,097,306	5
1200	Other receivables, net(Notes 6(c) and 7)	809,741	1	793,988	1
1220	Current tax assets(Note 6(t))	231,332	-	185,231	-
1320	Inventories (for construction business), net(Notes 6(e) and 8)	22,865,100	35	21,032,762	36
1410	Prepayments	869,787	1	1,155,404	2
1470	Other current assets(Note 8)	464,908	1	455,386	1
		39,659,968	61	37,011,948	62
	Non-current assets:				
1523	Non-current available-for-sale financial assets, net(Note 6(b))	1,809,970	3	1,309,885	2
1543	Non-current financial assets at cost, net(Notes 6(b) and (g))	393,700	1	393,700	1
1550	Investments accounted for using equity method, net(Note 6(f))	1,525,307	2	3,124,144	5
1600	Property, plant and equipment(Notes 6(i) and 8)	1,998,207	3	2,473,568	4
1760	Investment property, net(Notes 6(j) and 8)	13,593,043	21	10,449,418	18
1780	Intangible assets(Notes 6(k) and 8)	1,011,438	2	739,838	1
1840	Deferred tax assets(Note 6(t))	5,028	-	5,028	-
1900	Other non-current assets	123,048	-	18,143	-
1932	Long-term accounts receivables(Notes 6(c) and 8)	4,669,870	7	3,817,459	7
		25,129,611	39	22,331,183	38
	Total assets	$ 64,789,579	100	59,343,131	100

Code	Liabilities and Equity	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current liabilities:				
2100	Short-term borrowings(Note 6(l))	$ 9,757,733	15	8,681,829	15
2110	Short-term notes and bills payable(Note 6(m))	1,000,000	2	200,000	-
2125	Current derivative financial liabilities for hedging(Note 6(b))	6,954	-	-	-
2170	Accounts and notes payable(Note 7)	7,658,917	12	5,768,888	10
2190	Construction contracts payable(Note 6(d))	1,057,427	2	1,103,970	2
2200	Other payables(Notes 6(s) and 7)	1,226,329	2	657,812	1
2230	Current tax liabilities(Note 6(t))	74,186	-	111,613	-
2250	Current provisions(Note 6(o))	296,184	-	320,431	1
2310	Advance receipts(Notes 6(d) and (q))	4,879,517	8	5,243,459	9
2320	Long-term liabilities, current portion(Note 6(n))	564,097	1	166,216	-
2399	Other current liabilities, others	204,967	-	150,499	-
		26,726,311	42	22,404,717	38
	Non-Current liabilities:				
2540	Long-term borrowings(Note 6(n))	13,656,560	21	13,691,307	23
2570	Deferred tax liabilities(Note 6(t))	31,340	-	14,596	-
2610	Long-term accounts payable(Note 6(r))	364,560	-	-	-
2640	Net defined benefit liability, non-current(Note 6(s))	280,037	-	297,942	1
2645	Guarantee deposits received	130,895	-	113,133	-
		14,463,392	21	14,116,978	24
	Total liabilities	41,189,703	63	36,521,695	62
	Equity attributable to owners of parent (Note 6(u)):				
3100	Ordinary shares	8,232,160	13	8,232,160	14
3200	Capital surplus	6,804,431	11	6,804,431	11
3300	Retained earnings	5,520,686	9	5,201,941	9
3400	Other equity interest	1,567,060	2	1,821,189	3
		22,124,337	35	22,059,721	37
36XX	Non-controlling interests	1,475,539	2	761,715	1
	Total equity	23,599,876	37	22,821,436	38
	Total liabilities and equity	$ 64,789,579	100	59,343,131	100

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, 2017 and 2016

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

		2017		2016	
		Amount	%	Amount	%
4000	**Operating Revenues (Notes 6(d), (p), (w) and Note 7):**				
4300	Rental revenue	$ 258,382	1	267,838	1
4511	Construction revenue	27,531,326	97	23,872,359	97
4800	Other operating revenue	595,035	2	397,201	2
		28,384,743	100	24,537,398	100
5000	**Operating costs (Notes 6((p) and 7):**				
5300	Rental costs	98,567	-	119,489	-
5510	Construction costs	25,721,805	91	22,732,260	94
5800	Other operating costs	215,158	1	91,532	-
5800	**Net operating costs**	26,035,530	92	22,943,281	94
	Gross profit from operations	2,349,213	8	1,594,117	6
	Operating expenses (Notes (s), (u), (x), Note 7 and 12):				
6100	Selling and marketing expenses	188,366	1	237,593	1
6200	Administrative expenses	993,406	3	1,036,797	4
		1,181,772	4	1,274,390	5
	Net operating income	1,167,441	4	319,727	1
	Non-operating income and expenses (Note 6(y)):				
7010	Other income(Note 7)	285,637	1	463,688	2
7020	Other gains and losses	880,573	3	(15,396)	-
7050	Finance costs(Note 6(e))	(173,800)	(1)	(168,201)	(1)
7370	Share of losses of associates and joint ventures accounted for using equity method(Note 6(f))	(1,267,969)	(4)	(61,284)	-
		(275,559)	(1)	218,807	1
7900	**Income before tax**	891,882	3	538,534	2
7950	Less: Tax expense (Note 6(t))	84,314	-	42,352	-
	Net income	807,568	3	496,182	2
8300	**Other comprehensive income (loss):**				
8310	**Items that will not be reclassified to profit and loss**				
8311	Re-measurement effects on the defined benefit plans	(7,887)	-	(3,837)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	1,340	-	652	-
		(6,547)	-	(3,185)	-
8360	**Items which may be reclassified to profit and loss in subsequent periods**				
8361	Exchange differences on translation of foreign financial statements	(90,391)	-	(73,036)	-
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	30,919	-	1,425,961	5
8363	Gains (losses) on effective portion of cash flow hedges	(11,807)	-	(22,025)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method	(183,388)	(1)	(54,868)	-
8399	Income tax relating to components that may be reclassified to profit or loss in subsequent periods	-	-	-	-
		(254,667)	(1)	1,276,032	5
8300	**Other comprehensive income, net**	(261,214)	(1)	1,272,847	5
	Comprehensive income	$ 546,354	2	1,769,029	7
	Net income, attributable to:				
8610	Net income, attributable to owners of parent	$ 787,816	3	528,938	2
8620	Net income, attributable to non-controlling interests	19,752	-	(32,756)	-
		$ 807,568	3	496,182	2
	Comprehensive income attributable to:				
8710	Comprehensive income, attributable to owners of parent	$ 527,140	2	1,799,964	7
8720	Comprehensive income, attributable to non-controlling interests	19,214	-	(30,935)	-
		$ 546,354	2	1,769,029	7
	Basic earnings per share (Note 6(v))				
9750	Basic earnings per share	$	0.96		0.64
9850	Diluted earnings per share	$	0.96		0.64

See accompanying notes to financial statements.

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

CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent													
	Share capital		Retained earnings				Total other equity interest							
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total 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 shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2016	$ 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	-	-	-	-	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 appropriated	-	-	57,279	-	(57,279)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(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 share	-	-	-	-	-	-	-	-	-	-	(347,969)	(347,969)	-	(347,969)
Retirement of treasury share	(300,000)	(47,969)	-	-	-	-	-	-	-	-	347,969	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	161,700	161,700
Balance at December 31, 2016	8,232,160	6,804,431	455,564	2,493,481	2,252,896	5,201,941	(265,567)	2,088,506	(1,750)	1,821,189	-	22,059,721	761,715	22,821,436
Net income (loss)	-	-	-	-	787,816	787,816	-	-	-	-	-	787,816	19,752	807,568
Other comprehensive income (loss)	-	-	-	-	(6,547)	(6,547)	(273,324)	31,002	(11,807)	(254,129)	-	(260,676)	(538)	(261,214)
Comprehensive income	-	-	-	-	781,269	781,269	(273,324)	31,002	(11,807)	(254,129)	-	527,140	19,214	546,354
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	52,894	-	(52,894)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(411,608)	(411,608)	-	-	-	-	-	(411,608)	-	(411,608)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	(10,290)	(10,290)	-	-	-	-	-	(10,290)	-	(10,290)
Changes in ownership interests in subsidiaries	-	-	-	-	(40,626)	(40,626)	-	-	-	-	-	(40,626)	40,626	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	653,984	653,984
Balance at December 31, 2017	$ 8,232,160	6,804,431	508,458	2,493,481	2,518,747	5,520,686	(538,891)	2,119,508	(13,557)	1,567,060	-	22,124,337	1,475,539	23,599,876

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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		2017	2016
Cash flows from operating activities:			
Income before tax	$	891,882	538,534
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation		275,699	616,459
Amortization		31,594	24,998
Provisions for bad debt expense		(40,746)	(36,099)
Interest expense		173,800	168,201
Interest revenue		(39,923)	(25,326)
Dividend income		(140,844)	(179,444)
Share of loss of associates and joint ventures accounted for using equity method		1,267,969	61,284
Gains on disposal of property, plant and equipment		(29,579)	(28,069)
Gains on disposal of property, plant and equipment (written off against construction costs)		(1,528)	(8,910)
Impairment on property plant and equipment		421,351	-
(Reversal of) Provisions		(20,080)	(262,675)
Gains on disposal of investments		(1,329,077)	-
Gains on overdue payables written off		(103)	(218,273)
Total adjustments to reconcile profit (loss)		568,533	112,146
Changes in operating assets and liabilities:			
Notes receivable		(464,686)	(170,861)
Accounts receivable		(1,022,709)	(171,905)
Construction contracts receivable		(342,238)	(389,968)
Other receivables		104,495	(61,941)
Inventories		(1,828,353)	(821,468)
Prepayment		191,755	117,338
Other current assets		(32,003)	(64,957)
Total changes in operating assets		(3,393,739)	(1,563,762)
Accounts and notes payable		2,497,456	431,276
Construction contracts payable		(945,023)	(250,334)
Other payables		(192,468)	(137,234)
Provisions		(4,167)	(17,698)
Advance receipts		41,717	(295,042)
Other current liabilities		54,436	(6,048)
Net defined benefit liabilities		4,079	(2,862)
Total changes in operating liabilities		1,456,030	(277,942)
Total changes in operating assets and liabilities		(1,937,709)	(1,841,704)
Total adjustments		(1,369,176)	(1,729,558)
Cash inflow (outflow) generated from operations		(477,294)	(1,191,024)
Interest received		22,638	21,354
Interest paid		(381,028)	(351,786)
Income taxes refund (paid)		(154,991)	35,123
Net cash flows from (used in) operating activities		(990,675)	(1,486,333)

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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from investing activities:		
Disposal of available-for-sale financial assets	2,232,334	-
Acquisition of financial assets at cost	-	(393,200)
Acquisition of derivative financial assets	(419,454)	(783,390)
Disposal of derivative financial assets	-	886,222
Acquisition of investments accounted for using equity method	(1,077)	(245,000)
Proceeds from disposal of investments accounted for using equity method	56,781	-
Acquisition of property, plant and equipment	(80,472)	(182,092)
Disposal of property, plant and equipment	69,494	48,398
(Increase) decrease in other receivables	(101,566)	1,319,368
Acquisition of intangible assets	(272,945)	(154,470)
Acquisition of investment properties	(293,629)	-
Disposal of investment properties	18,235	-
Other non-current assets	(852,111)	(71,340)
Increase in prepayments for equipment	(127,163)	(37,336)
Dividends received	305,230	179,444
Net cash flows from (used in) investing activities	533,657	566,604
Cash flows from financing activities:		
Increase in short-term borrowings	26,120,876	19,685,300
Decrease in short-term borrowings	(25,579,894)	(19,980,300)
Increase in short-term notes and bills payable	9,185,000	5,578,000
Decrease in short-term notes and bills payable	(8,385,000)	(5,478,000)
Increase in long-term borrowings	5,898,471	10,883,500
Decrease in long-term borrowings	(5,742,216)	(9,014,834)
Increase (decrease) in guarantee deposits received	17,762	(1,835)
Cash dividends paid	(411,608)	(411,608)
Acquisition of treasury stock	-	(347,969)
Change in non-controlling interest	490,752	161,700
Net cash flows from (used in) financing activities	1,594,143	1,073,954
Effect of exchange rate changes on cash and cash equivalents	(257,746)	(28,273)
Net increase in cash and cash equivalents	879,379	125,952
Cash and cash equivalents at beginning of year	2,549,134	2,423,182
Cash and cash equivalents at end of year	$ 3,428,513	2,549,134

See accompanying notes to financial statements.

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

(1) Company history

CONTINENTAL HOLDINGS CORPORATION ("CHC" or "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 the FSC. The consolidated financial statements as of December 31, 2017 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 29, 2018.

(3) New standards, amendments and interpretations adopted:

(a) The impact of adopting IFRSs that were endorsed by the FSC.

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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 'Presentation of Financial Statements-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 'Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets'	January 1, 2014
Amendments to IAS 39 'Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting'	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 'Levies'	January 1, 2014

(Continued)

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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have a material impact on its consolidated financial statements. The nature and the impact of the significant changes are as follows:

(i) 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 minus 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 will include the required disclosures.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 'Clarifications of Classification and Measurement of Share-based Payment Transactions'	January 1, 2018
Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	January 1, 2018
IFRS 9 'Financial Instruments'	January 1, 2018
IFRS 15 'Revenue from Contracts with Customers'	January 1, 2018
Amendment to IAS 7 'Statement of Cash Flows -Disclosure Initiative'	January 1, 2017
Amendment to IAS 12 'Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses'	January 1, 2017
Amendments to IAS 40 'Transfers of Investment Property'	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	January 1, 2018

Except for the following items, the Group considers that the adoption of the above IFRSs would not have a material impact on its consolidated financial statements. The nature and impact of signification changes are as follows:

(i) IFRS 9 'Financial Instruments'

IFRS 9 will replace IAS 39 'Financial Instruments: Recognition and Measurement' It contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not consider that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. On December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of TWD 1,541,318 thousand and financial assets measured at cost of TWD 393,700 thousand. Upon the initial application of IFRS 9, the Group has designated these investments to be measured at FVTPL. Consequently, all fair value gains and losses will be reported in other gains and losses. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 will result in an increase of TWD 62,840 thousand and TWD 954,837 thousand in financial assets at FVTPL and retained earnings, respectively, as well as a decrease of TWD 891,997 thousand in other equity interest. On the other hand, on December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of TWD 1,809,970 thousand that are held for long-term strategic purposes. Upon the initial application of IFRS 9, the Group has designated these investments to be measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. Due to the fact that changes in fair value of financial assets are still adjusted to other comprehensive income, the Group expects the application of IFRS 9 would only result in different presentation of accounts.

(Continued)

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs resulted from possible default events within the 12 months after the reporting date of a financial instrument; and
- Lifetime ECLs. These are ECLs resulted from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition, and the 12-month ECL measurement applies if such credit risk has not significantly increased. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies to trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group consider that there will be no material impact on financial statements after the application of IFRS 9's impairment model.

3) Hedge accounting

When initially applying IFRS 9, the Group may choose to have its accounting policy to continuously apply the hedge accounting requirements stipulated in IAS 39 instead of the requirements in IFRS 9. In this case, the Group has chosen to apply the new requirements set out in IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assess hedging effectiveness. IFRS 9 also introduces new requirements for rebalancing the hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involve hedging a risk component of a non-financial item, will be likely to qualify for hedge accounting. The Group does not currently undertake hedges of such risk components.

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The Group entered into forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts is recognized immediately in profit or loss. By adopting IFRS 9, the Group has elected to separately account for the forward points as a cost of hedging. Consequently, the changes in forward points will be recognized in OCI and accumulated in a cost of hedging reserve as a separate component within equity and subsequently treat it as the same as gains and losses accumulated in the cash flow hedge reserve.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the expected cash flow hedges affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognized.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

The Group considers the adoption of IFRS 9 will have no material impact on the Company's financial statements.

4) Disclosures

IFRS 9 will require extensive new disclosures, in particular the hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data variances arising from internal processes and the Group plans to change the system and internal controls in order to obtain the data needed.

5) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption which allows it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The new hedge accounting requirements should generally be applied prospectively. However, the Group has decided to apply the accounting for the forward element of forward contracts retrospectively.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

(Continued)

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue' and IAS 11 'Construction Contracts'.

1) Method for measuring progress

Currently, some of the construction contracts for the Group adopt the output method for measuring the progress and recognizing the revenue and cost for the construction. With the adoption of IFRS 15, the objective when measuring progress is to depict an entity's ability of controlling the delivery of goods or services promised to a customer. Using the incurred costs for measuring the progress of the contracted construction is a more appropriate basis for aligning with the new accounting standards. The Group expects that the construction contracts which adopts the output method to measure the progress will have no material impact on the financial statements.

2) Onerous contract

Currently any excess of the total contract costs over the total contract revenues for the construction are immediately recognized as operating costs. After the adoption of IFRS 15, the accounting treatment for the onerous contract will follow IAS 37. A provision and operating costs for the onerous contracts are recognized when the expected benefits to be derived by the Group from a construction contract are lower than the unavoidable cost of meeting its obligations under the construction contract.

The Group expects that the adoption of IFRS 15 will only make a difference in accounting reclassification of accounts. There will be no material impact on the Group's financial statements.

3) Incremental cost of obtaining contracts with customers

The Group's selling and marketing expenses for pre-sale houses are currently recognized when they are incurred. Under IFRS 15, incremental costs of obtaining contracts with customers will be capitalized if the entity expects to recover those costs and amortized on a systematic basis while pre-sale houses are transferred to customers. Therefore, the selling and marketing expenses that meet the requirements to be capitalized are expensed latter than at present– i.e. until revenue of pre-sale houses is recognized.

(Continued)

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

4) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method. Therefore, the comparative information will not be restated. The cumulative effect arising from the initial application of IFRS 15 will be recognized as an adjustment to the opening balance of retained earnings on 1 January 2018. The Group plans to use the practical expedient in paragraph C5(a) of IFRS 15, under which, for contracts that are completed at the date of the initial application (i.e. 1 January 2018) will not be restated.

The Group expects the adoption of IFRS 15 is to result in an increase of $6,834,802 thousand in contract assets, an increase of $7,062,994 thousand in provision for liabilities, an increase of $7,659 thousand in deferred sales commission (recognized as prepayments), a decrease of $4,755,769 thousand in advance receipts, an increase of $4,527,577 thousand in contract liabilities, and an increase of $7,659 thousand in retained earnings on January 1, 2018.

(iii) Amendments to IAS 7 'Disclosure Initiative'

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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 16 'Leases'	January 1, 2019
IFRS 17 'Insurance Contracts'	January 1, 2021
IFRIC 23 'Uncertainty over Income Tax Treatments'	January 1, 2019
Amendments to IFRS 9 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IAS 28 'Long-term interests in associates and joint ventures'	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'	January 1, 2019

Those which may be relevant to The Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 'Leases'	The new standard of accounting for lease is amended as follows: · 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. · A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting treatment is similar to those specified in IAS 17.

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

(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 IFRSs, IASs, IFRIC Interpretations, and the 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 minus 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 for the preparation of the consolidated financial statements

The consolidated financial statements incorporate the financial statements of CHC 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.

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 in order to be in line with the Group's accounting policies.

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 the consideration received or paid is directly recognized in equity that is 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 the 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 the consideration received and the investments retained in the former subsidiary at the date when the control is lost.

2) the sum of the carrying amounts of the subsidiary's assets (including goodwill), liabilities and non-controlling interests at the date when the 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.

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

(ii) Subsidiaries included 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, 2017	Percentage of ownership December 31, 2016
The Company	CEC	Civil engineering, public infrastructure and private sector construction	100.00 %	100.00 %
The Company	Continental Development Corp. ("CDC")	Real estate and development specifically on residential housing and office building	100.00 %	100.00 %
The Company	Hsin Dar Environment Engineering Co., Ltd. ("HEC") (Note A)	Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment	100.00 %	- %
CEC	HEC (Note A)	Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment	- %	100.00 %
CEC	CEC International Corp. ("CIC")	Investment in and control of overseas corporations	100.00 %	100.00 %
CEC	CEC International Corp. (India) Pvt. Ltd.("CICI")	Real estate development and civil engineering, construction	100.00 %	100.00 %
CEC	CEC International Malaysia Sdn. Bhd. ("CIMY") (Note B)	Civil engineering, construction	92.24 %	70.00 %
CDC	CEC Commercial Development Corp.	Real estate development, sales and leasing of building	80.65 %	80.65 %
CDC	MEGA Capital Development Sdn. Bhd ("MEGA")(Note C)	Real estate development for office buildings and hotels	55.00 %	45.00 %
CDC	CDC US Corp. (Note D)	Investment in overseas companies	100.00 %	- %
CDC US Corp.	CDC Investment Management LLC (Note D)	Engineering management	100.00 %	- %
CDC US Corp.	Trimosa Holdings LLC (Note D)	Investment in overseas companies	70.65 %	- %
Trimosa Holdings LLC	950 Investment LLC (Note D)	Investment in overseas companies	76.10 %	- %
950 Investment LLC	950 Property LLC (Note D)	Real estate development for office buildings and hotels	100.00 %	- %
HEC	Fu Da Construction Corp., Ltd. ("SDC")	Construction of underground pipeline and environmental protection project, plumbing	100.00 %	100.00 %
HEC	North Shore Corp.("NSC") (Note E)	Sewer system design and construction in Danshui area, New Taipei City	100.00 %	100.00 %
HEC	Blue Whale Water Technology Corp. ("BWC")(Note F)	Feng Shan River wastewater reclamation and reuse BTO project in Kaohsiung City	51.00 %	51.00 %
HEC	Pu Ding Corp. ("PDC") (Note G)	Pu Ding area sewerage construction in Taoyuan City	100.00 %	100.00 %

(Continued)

Note A: Continental Environment Corporation bought 100% shares of HEC from CEC based on the resolution passed in CEC's board meeting held on July 26, 2017. However, instead of directly paying CEC, Continental Environment Corporation issued new ordinary shares to CEC's parent company, CHC. Continental Environment Corporation was then merged into HEC based on the resolution passed in Continental Environment Corporation's board meeting on September 11, 2017. After the merger, HEC was the surviving company with Continental Environment Corporation being the dissolving company.

Note B: A resolution was passed during the board meeting held on October 13, 2017 to allow CIMY to convert MYR 37,240 thousand of loans and other payables that it owed to CEC, to ordinary shares. After that, CEC holds 92.24% of CIMY's shares at a par value of MYR1 per share.

Note C: CDC obtained 55% of MEGA's shares since 1 May 2017 and thus MEGA became one of the subsidiaries to be included in the consolidated financial statements.

Note D: For expanding businesses overseas, CDC established subsidiaries in the United States in November 2017 based on a resolution passed in the board meeting held on September 22, 2017.

Note E: NSC was founded as a SPC (Special Purpose Company) to build then operate Danshui Area Sewer System BOT project in New Taipei City. The sewer system construction and facility will be transferred to the authority at the end of the concession period without condition.

Note F: BWC was founded as a SPC to perform the contract for Feng Shan River wastewater reclamation and reuse, which is a BTO project in Kaohsiung City. Upon the completion of the wastewater treatment plant, BWC will transfer all the operating assets to the authority and be engaged by the authority to operate the wastewater treatment plant and water recycling plant. BWC will transfer the operating rights to the authority without condition at the end of the operating period.

Note G: PDC was founded as a SPC to build then operate Pu Ding area sewer system, which is a BOT project in Taoyuan City. The Pu Ding area sewer system will be transferred to the authority at the end of the concession period without condition.

(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.

(Continued)

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 Group 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 civil construction, building construction, real estate development, and environmental project development. 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 noncurrent based on the Group's operating cycle, which is usually 3～5 years. The remaining 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.

(Continued)

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 purchase or sale of financial assets under normal commercial practices shall be recognized and derecognized, as applicable, using trade date accounting.

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

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

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.

(Continued)

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.

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 FVTPL, 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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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, minus progress billings and recognized losses. Cost includes all expenditures directly related 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 in the financial statements if costs incurred plus recognized profits exceeded progress billings. If progress billings exceeded the sum of incurred costs and recognized profits, then the difference is presented as construction contract payable in the financial statements.

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When it is probable that the total contract costs will exceed the 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) Service Concession Agreements

(i) Recognition and measurement

The Group (the Operator) is required to comply with IFRIC 12 ' Service Concession Arrangement' upon entering into an agreement with the government (the Grantor), under the conditions of 'public-to-private' arrangement as follows :

1) The Grantor decides and regulates on the price and the kind of services the Operator should render or provide to the users of the infrastructures.

2) The Grantor, through its ownership, acquires all the beneficial entitlements and any interests incurred from the infrastructure at the end of the term of the arrangement.

The Operator provides construction or upgrade services to the Grantor. The payment from the Grantor received or receivable by the Operator incurred from the construction or upgrade services shall be recognized as financial asset or intangible asset. According to IFRIC 12, a financial asset should be recognized to the extent that the Operator has an unconditional present right to receive cash from the Grantor for its construction services. The accounting policy of financial assets please refer to note 4(f) 'Financial instruments'.

The Operator shall recognize an intangible asset to the extent that the Operator receives a right (a license) to charge its users of its public service. A right to charge the users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. For the accounting policy of intangible assets (service concession arrangement), please refer to note 4(j) 'Intangible assets'.

If the Operator received the payment from the Grantor for its construction services (partly by a financial asset and partly by an intangible asset), it is necessary to separately account for each component by using the fair value of the financial asset and intangible asset. The payment received or receivable from the Grantor for both components shall be recognized initially in the allocation amount calculated by using the standalone fair value.

(ii) Construction or upgrade services

The accounting policy of construction services or upgrade services to the Grantor shall be in accordance with IAS 11. Please refer to note 4(i) 'Construction contracts'.

(iii) Operating services

The accounting policy of operation services to the government shall be in accordance with IAS 18. Please refer to note 4(t) 'Revenue'.

(k) Investment in associates

Associates are those entities in which the Group has significant influence, but no 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.

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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, minus any accumulated impairment losses.

The consolidated financial statements 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.

(l) 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 'he 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.

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.

(m) 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 initially measured at cost and subsequently measured using a cost model, with changes being recognized in profit or loss. The calculation of depreciation, including the depreciation method, useful life and residual value can be referred to the policy regarding 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 enable to bring 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.

(n) 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.

(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 on straight-line or systematic 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
Lease improvements	3 years
Other equipment	5 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.

(o) 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.

(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.

(p) Intangible Assets

(i) Service Concession Agreements

The Group shall recognize an intangible asset arising from service concession agreements when the Group a right to charge the public for the use of the infrastructure. The intangible assets resulted from construction or service upgraded in accordance with the service concession agreements are measured at the fair value on initial recognition. Subsequently, intangible assets are measured at cost, including borrowing costs that are eligible for capitalization, minus accumulated amortization and 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 15&35 years

The useful life of intangibles arising from the service concession agreements begins on a day when the Group has a right to charge the public for the use of the infrastructure and ends on the expiry of the service concession agreements. Amortization methods, useful lives, and residual values are reviewed at the end of each financial period, and adjusted if needed.

(q) 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").

The recoverable amount of an individual asset or a CGU is the higher of fair value less costs of disposal and 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.

(r) 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.

(s) 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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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.

(t) 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 IAS 11 'Construction Contracts' or IAS 18 'Revenue'.

IAS 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; IAS 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 of 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.

(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.

(u) 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.

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 off.er, 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.

(v) 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.

(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.

Despite CHC, CEC and CDC adopted a tax consolidated regime, income tax should be calculated in accordance with the abovementioned accounting principles. Based on the consolidated income tax reported by CHC, it needs to adjust the current tax assets or liabilities for CHC.

(w) 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.

(x) 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.

(Continued)

(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 is structured as a separate vehicle. 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).

(b) The adoption of IFRIC 12 'Service concession arrangements' and the classification of receivables or intangible assets

The Group (the Operator) is required to comply with IFRIC 12 'Service Concession Arrangement' when entering into an agreement with the government (the Grantor), under the conditions of 'public-to-private' arrangement as follows：

(i) The Grantor decides and regulates on the price and the kind of services the Operator should render or provide to the users of the infrastructures.

(ii) The Grantor, through its ownership, acquires all the beneficial entitlements and any interests incurred from the infrastructure at the end of the term of the arrangement.

On the adoption of IFRIC 12 'Service concession arrangements', the payment from the Grantor received or receivable by the Operator incurred from the construction or upgrade services shall be recognized in a financial asset or an intangible asset according to the treaties of agreements. Please refer to note 6(c) and 6(k).

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.

(c) Revenue recognition

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; or the completion of a physical proportion of the contract work. 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 the measurement of financial and non-financial assets and liabilities at FVTPL. For the fair value valuation, the Group has established its internal control system, that is, the Group established its financial instrument valuation group to be responsible for reviewing the significant fair value valuation and reporting the results to the Chief Financial Officer. The financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices; in addition, the 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 that the classification of fair value levels is complied with the IFRSs. Any significant valuation issue will be reported to the President of the Group by the valuation group. The valuation of investment properties were either appraised by external qualified appraisers or measured by the Group's Financial Department (in accordance with the measurement methods and parametric hypothesis which announced by the FSC).

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 (i.e. as prices) or indirectly (i.e. 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.

Please refer to notes listed as below for assumptions used in measuring fair value.

(Continued)

(a) Note 6(j) , Investment property

(b) Note 6(aa), Financial instruments

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	$ 20,838	20,045
Cash in banks	3,077,183	2,491,142
Cash equivalents	330,492	37,947
Cash and cash equivalents	$ 3,428,513	2,549,134

(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(aa) for sensitivity analysis and interest rate risk of financial assets and liabilities of the Group.

(b) Financial assets

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

	December 31, 2017	December 31, 2016
Current:		
Current derivative financial assets for hedging	$ 479,232	64,631
Available-for-sale financial assets		
Domestic listed stocks	1,567,381	3,826,850
Adjustments of available-for-sale financial assets	891,997	1,361,163
Accumulated impairment, current available-for-sale financial assets	(918,060)	(2,241,496)
Subtotal	1,541,318	2,946,517
Total	$ 2,020,550	3,011,148
Non-current:		
Available for sale financial assets		
Domestic unlisted stocks	$ 582,163	582,163
Adjustments of available-for-sale financial assets	1,227,807	727,722
Total	$ 1,809,970	1,309,885
Non-current financial assets measured at cost		
Stocks of unlisted companies	$ 393,700	393,700

(Continued)

1) Due to the continuous decline in the market value, the Group recognized an accumulated impairment loss of $918,060 thousand and $2,241,496 thousand to reflect the declining market value of the domestic listed stocks as of December 31, 2017 and 2016. The aforesaid stocks were partly disposed. Please refer to Note 6(y) regarding the gain on disposal of investments.

2) Green Heaven Investments Limited 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.

   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. According to the warrant agreement, the Group' s ownership in this construction joint venture project needed to be reduced by 10%.

   On March 4, 2016, Green River Development Limited increased its share capital for the second time. The Group purchased $393,200 thousand of shares in Green River Development Limited.

3) The aforementioned financial assets measured at cost held by the Group are measured at cost, minus 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, 2017 and 2016, the aforesaid financial assets were not pledged as collateral.

(ii) Derivative financial assets (liabilities) for hedging

The Group is exposed to certain foreign exchange risk arising from the payments made to overseas companies for the purchase of facilities, etc. The foreign exchange risk is estimated to be high, therefore, the Group decided to use derivative financial instruments for hedging purposes.

As of December 31, 2017 and 2016, the items hedged and the hedge instrument held by the Group were as follows:

		Hedge instrument designated to be hedge and fair value			
Item Hedged	**Hedge instrument**	**December 31, 2017**	**December 31, 2016**	**Expected Cash flow Period**	**Expected Income Period**
Expected Foreign assets	Foreign deposits	$ 485,835	66,381	2017~2018	2017~2018
	Change in value of Foreign currency	$ (6,603)	(1,750)	2017~2018	2017~2018

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Item Hedged	Hedge instrument	Hedge instrument designated to be hedge and fair value December 31, 2017	December 31, 2016	Contract amount (in thousand)	Delivery date
Expected Foreign liabilities	Forward exchange	$ (6,954)	-	USD 12,083	2019.04.25~ 2022.06.25

The transactions of cash flow hedges for the years ended December 31, 2017 and 2016, were all effective.

(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:

Equity price at reporting date	After-tax other comprehensive income 2017	2016
Increase1%	$ 33,513	42,564
Decrease1%	$ (33,513)	(42,564)

(iv) Other

Since May 2013, the Group has filed five lawsuits against Taiwan High Speed Rail Corporation ("THSRC") to claim for the payments on principal, dividend, delayed interests and other payables of Preferred A and C shares (Preferred C4, C5 and C8 shares are included in Preferred C shares). The lawsuits were filed with/reached to Shilin District Court, High Court and Supreme Court. THSRC bought back preferred shares in August 2015, and proposed to compensate by using its cumulative preferred dividends as payment. The Group agreed with THSRC's proposal.

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 amounting to $1,312,767 thousand on January 20, 2016, and had withdrawn all the lawsuits.

(c) Notes receivable, accounts receivable and other receivables

	December 31, 2017	December 31, 2016
Notes receivable from operating activities	$ 847,529	383,088
Accounts receivable	9,785,838	8,261,113
Other receivables	809,741	793,988
Less: Allowance for bad debts	(6,261)	(95,153)
	$ 11,436,847	9,343,036
Current	$ 6,766,977	5,525,577
Non-current	4,669,870	3,817,459
Total	$ 11,436,847	9,343,036

(Continued)

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

	December 31, 2017	December 31, 2016
Past due less than one year	$ 67,643	23,019
Past due over one year	9,635	33,226
	$ 77,278	56,245

Movements of allowance for doubtful receivables for the years ended December 31, 2017 and 2016 were as follows:

	Impairment loss of individual assessment	Impairment loss of integrated assessment
Balance on January 1, 2017	$ 95,153	-
Reversal of impairment loss	(40,746)	-
Amount written off due from un-collectability in 2017	(52,737)	-
Exchange differences on transaction of foreign financial statements	4,591	-
Balance on December 31, 2017	$ 6,261	-
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	$ 95,153	-

As of December 31, 2017 and 2016, 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.

	2017	2016
Construction revenue recognized in current profit or loss	$ 22,977,642	20,637,046

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	December 31, 2017	December 31, 2016
Accumulated costs incurred (including contract costs that relate to future activity on the contract)	$ 107,186,974	93,297,296
Add: Accumulated losses recognized arising from the construction	(3,374,662)	(3,785,220)
Accumulated costs and profit recognized (less losses recognized)	103,812,312	89,512,076
Less: Progress billings	101,856,938	87,518,740
Amount due from customers for contract work – presented as an asset	$ 1,955,374	1,993,336

	December 31, 2017	December 31, 2016
Include:		
Construction contracts receivable	$ 3,012,801	3,097,306
Construction contracts payable	(1,057,427)	(1,103,970)
	$ 1,955,374	1,993,336
Accumulated advance received	$ 2,577,929	2,877,180
Retention receivable from construction contract	$ 2,543,235	2,333,798

(e) Inventory

	December 31, 2017	December 31, 2016
Construction:		
Material on hand	$ 31,889	556,996
Real estate:		
Real estate held for sale	5,173,867	1,710,071
Land held for development	2,127,330	5,053,613
Building construction in progress	15,601,138	13,781,206
Prepayment for land	32,089	32,089
Subtotal	22,934,424	20,576,979
Less: Allowance for impairment loss	(101,213)	(101,213)
	$ 22,865,100	21,032,762

For the years ended December 31, 2017 and 2016, the cost of inventory was $3,265,735 and $2,067,524 thousand, respectively. Due to the sales of the remaining real estates in 2017 and 2016, the allowance for impairment loss was reversed, and the costs of goods sold were decreased by $0 and $667 thousand respectively in 2017 and 2016.

Capitalizing interest costs were as follows:

	2017	2016
Interest costs	$ 377,855	358,716
Capitalized interests	$ 204,055	190,515
Capitalization interest rate	1.66%~5%	1.70%

Please refer to Note 8 for information about inventory collateral.

(f) Investments accounted for using equity method

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

	December 31, 2017	December 31, 2016
Associates	$ 1,525,307	3,145,695
Joint ventures	-	(21,551)
	$ 1,525,307	3,124,144

(i) Associates

The Group's significant associates were as follows:

Name of associates	Relationship with the Group	Location	Percentage of ownership or voting power December 31, 2017	Percentage of ownership or voting power December 31, 2016
New Continental Corp. ("NCC")	Holding company of parties involved in American infrastructure project contracts	British Virgin Islands	45.47 %	45.47 %
CTCI & HEC Water Business Corp.	SPC, mainly responsible for the sewerage system BOT project in Chung-Li area, Taoyuan City.	Taiwan	49 %	49 %

The financial figures of the Group's significant associates are summarized in the following tables. In order to reflect the adjustments made to the fair value upon share acquisition and the differences in accounting policies, adjustments for the amounts presented on the financial statements of associates in accordance with IFRSs has been made to such financial figures.

(Continued)

1) Summary of NCC's financial figures

	December 31, 2017	December 31, 2016
Current assets	$ 2,982,190	3,633,801
Non-current assets	2,264,795	4,247,744
Current liabilities	(1,845,239)	(1,527,167)
Non-current liabilities	(694,717)	(9,159)
Net assets	$ 2,707,029	6,345,219
Net assets attributable to non-controlling interests	$ 325,307	445,082
Net assets attributable to investee owners	$ 2,381,718	5,900,137

	2017	2016
Revenue	$ 5,393,253	6,384,491
Comprehensive income	(2,820,726)	208,545
Comprehensive income attributable to non-controlling interests	$ (67,406)	318,883
Comprehensive income attributable to investee owners	$ (2,753,320)	(110,338)
Net assets attributable to the Group, January 1	$ 2,902,227	3,010,276
Comprehensive income attributable to the Group	(1,254,541)	(50,171)
Changes in equity of associates accounted for using equity method	(197,842)	(57,878)
Dividends from associates	(164,386)	-
Assets attributable to the Group, December 31	$ 1,285,458	2,902,227

The investee of the associates incurred investment loss due to the reversal of its budget on the total construction revenue and cost of certain construction projects because of the economic environment and the construction progress.

2) Summary of CTCI & HEC Water Business Corp.'s financial figures

	December 31, 2017	December 31, 2016
Current assets	$ 463,109	499,681
Non-current assets	31,858	-
Current liabilities	(5,479)	(2,807)
Non-current liabilities	-	-
Net assets	$ 489,488	496,874
Net assets attributable to non-controlling interests	$ 249,639	253,406
Net assets attributable to investee owners	$ 239,849	243,468

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	2017	2016
Revenue	$ 31,538	-
Net loss from continuing operation/Comprehensive income	$ (7,385)	(3,127)
Comprehensive income attributable to non-controlling interests	$ (3,766)	(1,595)
Comprehensive income attributable to investee owners	$ (3,619)	(1,532)
Net assets attributable to the Group, January 1	$ 243,468	-
Increase in capital attributable to the Group	-	245,000
Comprehensive income attributable to the Group	(3,619)	(1,532)
Assets attributable to the Group, December 31	$ 239,849	243,468

(ii) Joint ventures

The Group acquired 45% of MEGA's shares in September 2014. The Group further acquired another 10% of MEGA' s share with an amount of MYR150 thousand (equivalent to TWD1,077 thousand) in March 2017. Relevant legal procedures have been completed on May 1, 2017 and since then, the Group had a total of 55% shareholding in MEGA which it gained the control over MEGA and included MEGA as one of the subsidiaries in the consolidated financial statements.

The joint venture which the Group accounted for using equity method was assessed to be individually insignificant. The financial figures are summarized as follows. Such financial figures are included in the amounts presented on the consolidated financial statements.

	December 31, 2017	December 31, 2016
Carrying amount of interest in individually insignificant associates, December 31	$ -	(47,894)

	2017	2016
Attributable to the Group:		
Net income (loss) for the year	$ 1,026	(13,020)
Other comprehensive income	-	1,564
Comprehensive income	$ 1,026	(11,456)

(iii) Guarantee

As of December 31, 2017 and 2016, the investments accounted for using equity method were not pledged as collateral.

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(g) The Group has material non-controlling interest in the following subsidiaries:

Subsidiaries	Country of registration	Equity ownership of non-controlling interest December 31, 2017	Equity ownership of non-controlling interest December 31, 2016
CDC US Corp. and subsidiaries	The United States	29.35 %	- %

The following information of the aforementioned subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Adjustments were made to reflect the fair value adjustment made during the acquisition and relevant difference in accounting principles between the Company and its subsidiaries as at the acquisition date. Intra-group transactions were not eliminated.

	December 31, 2017	December 31, 2016
Current assets	$ 1,907,003	-
Non-current assets	656,452	-
Current liabilities	(743,840)	-
Non-current liabilities	(735,072)	-
Net assets	$ 1,084,543	-
Non-controlling interest	$ 487,701	-
	2017	**2016**
Operating revenue	$ -	-
Net loss for the year	$ (6,479)	-
Other comprehensive income	-	-
Comprehensive income	$ (6,479)	-
Net income attribute to non-controlling interest	$ (2,072)	-
Comprehensive income attribute to non-controlling interest	$ (2,072)	-
Cash flows from operating activities	$ (271,241)	-
Cash flows from investing activities	(175,631)	-
Cash flows from financing activities	947,594	-
Net decrease in cash and cash equivalents	$ 500,722	-

(h) Acquisition of subsidiaries

Please refer to Note 6(f) for information about acquisition of subsidiaries.

The fair value of major category of consideration, the recognized amounts of assets acquired, liabilities assumed, and goodwill at the acquisition date were shown below:

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(i) The fair value of major category of consideration at the acquisition date was as follows:

The major category of consideration:

Cash	$	**1,077**

(ii) Acquisition of identifiable assets and assumption of liabilities

Information on fair value of identifiable assets acquired and liabilities assumed at the acquisition date:

Cash and cash equivalents	$	56,781
Prepayments		64
Other current assets		472
Investment property		476,490
Property, plant and equipment		1,784
Other payables		(344,083)
Long-term borrowings		(235,735)
Fair value of identifiable net assets	$	**(44,227)**

(iii) Goodwill

Goodwill arising from the acquisition has been recognized as follows:

Consideration	$	1,077
Add: Non-controlling interest in the acquiree (proportionate share of the fair value of the identifiable net assets)		(19,902)
Add: Fair value of pre-existing interest in the acquiree		4,847
Less: Fair value of identifiable net assets		(44,227)
Goodwill	$	**30,249**

The Group remeasured the fair value of its existing equity interest in MEGA (45%) before the acquisition date, and the resulting gain $32,777 thousand was recognized as gain on disposal of investment on the statement of comprehensive income.

(Continued)

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(i) Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of the Group for the years 2017 and 2016, were as follows:

	Land	Buildings	Machinery and equipment	Transportation equipment	Computer equipment	Furniture and office equipment	Total
Cost or deemed cost:							
Balance, at January 1, 2017	$ 1,264,952	539,217	2,479,287	228,895	100,326	199,299	4,811,976
Increase due to acquiring subsidiaries	-	2,255	-	-	53	639	2,947
Additions	-	-	56,827	10,937	8,146	4,562	80,472
Reclassification	-	-	171,360	109	29	394	171,892
Disposals	-	-	(375,517)	(27,438)	(8,296)	(13,236)	(424,487)
Effect of exchange rate changes	-	119	(37,906)	(2,672)	(898)	(2,323)	(43,680)
Balance, at December 31, 2017	$ 1,264,952	541,591	2,294,051	209,831	99,360	189,335	4,599,120
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 exchange rate changes	-	-	(74,080)	(1,490)	(1,452)	(2,818)	(79,840)
Balance, at December 31, 2016	$ 1,264,952	539,217	2,479,287	228,895	100,326	199,299	4,811,976
Depreciation and impairment loss:							
Balance, at January 1, 2017	$ -	168,581	1,751,665	176,312	78,783	163,067	2,338,408
Increase due to acquiring subsidiaries	-	890	-	-	18	255	1,163
Depreciation	-	12,988	185,894	18,475	10,472	10,432	238,261
Impairment loss	-	-	421,351	-	-	-	421,351
Disposals	-	-	(326,255)	(20,357)	(8,276)	(12,977)	(367,865)
Effect of exchange rate changes	-	64	(26,872)	(1,057)	(788)	(1,752)	(30,405)
Balance, at December 31, 2017	$ -	182,523	2,005,783	173,373	80,209	159,025	2,600,913
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 exchange rates changes	-	-	(45,311)	(920)	(1,196)	(1,955)	(49,382)
Balance, at December 31, 2016	$ -	168,581	1,751,665	176,312	78,783	163,067	2,338,408
Carrying amount							
Balance, at December 31, 2017	$ 1,264,952	359,068	288,268	36,458	19,151	30,310	1,998,207
Balance, at December 31, 2016	$ 1,264,952	370,636	727,622	52,583	21,543	36,232	2,473,568

As of December 31, 2017 the Group recognizes impairment loss amounted to $421,351 thousand which is assessed based on the fair value of the machinery over the disposal cost. The fair value of the machinery is the recoverable amount estimated by the management based on the historical sales records. The estimated value was determined based on significantly unobservable inputs, the level of the fair value is classified as Level 3.

As of December 31, 2017 and 2016, the properties were pledged as collateral, please refer to Note 8.

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

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(j) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance, at January 1, 2017	$ 9,452,208	2,004,697	11,456,905
Increase due to acquiring subsidiaries	401,243	75,247	476,490
Addition	290,612	498,652	789,264
Reclassification	1,847,265	53,407	1,900,672
Effect of exchange rate change	15,710	(1,073)	14,637
Balance, at December 31, 2017	$ 12,007,038	2,630,930	14,637,968
Balance, at January 1, 2016	$ 9,452,208	2,004,697	11,456,905
Balance, at December 31, 2016	$ 9,452,208	2,004,697	11,456,905
Depreciation and impairment losses：			
Balance, at January 1, 2017	$ 501,205	506,282	1,007,487
Depreciation	-	37,438	37,438
Balance, at December 31, 2017	$ 501,205	543,720	1,044,925
Balance, at January 1, 2016	$ 501,205	468,843	970,048
Depreciation	-	37,439	37,439
Balance, at December 31, 2016	$ 501,205	506,282	1,007,487
Carrying amounts:			
Balance, at December 31, 2017	$ 11,505,833	2,087,210	13,593,043
Balance at, December 31, 2016	$ 8,951,003	1,498,415	10,449,418
Fair value:			
Balance, at December 31, 2017			$ 17,217,831
Balance, at December 31, 2016			$ 15,255,834

The Group sets out standards in identifying the investment property. Investment property is a kind of property held for the purpose of earning rentals or capital appreciation, or for both. One factor to be considered is if the main cash flow generated by a property can be independent to other assets held by the Group. Properties of the Group are partly held for earning rentals or capital appreciation, and partly are held for management purposes, for the portions that can be sold separately, they are accounted for separately. For the portions that can not be sold separately, only in the event that the portions used for management purpose are 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(p) for detail information (include rental revenue and other direct operating expenses).

The fair value of investment property is based on a valuation by an independent evaluator who has certified professional qualification and related valuation experience in locations/types of the valuated investment property. The investment property that was measured at fair value based on the valuation techniques will be classified as Level 3 inputs.

As of December 31, 2017 and 2016, the aforesaid investment properties were pledged as collateral; please refer to Note 8.

(k) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2017 and 2016, were as follows:

	Goodwill	Service Concession Agreements	Total
Cost or deemed cost:			
Balance, at January 1, 2017	$ -	843,534	843,534
Additions	30,249	272,945	303,194
Balance, at December 31, 2017	$ 30,249	1,116,479	1,146,728
Balance, at January 1, 2016	$ -	689,064	689,064
Additions	-	154,470	154,470
Balance, at December 31, 2016	$ -	843,534	843,534
Amortization and impairment loss:			
Balance, at January 1, 2017	$ -	103,696	103,696
Amortization	-	31,594	31,594
Balance, at December 31, 2017	$ -	135,290	135,290
Balance, at January 1, 2016	$ -	78,698	78,698
Amortization	-	24,998	24,998
Balance, at December 31, 2016	$ -	103,696	103,696
Carrying amount:			
Balance, at December 31, 2017	$ 30,249	981,189	1,011,438
Balance, at December 31, 2016	$ -	739,838	739,838

For the years ended December 31, 2017 and 2016, there were no significant disposals, addition or reversal of impairment.

As of December 31, 2017 and 2016, the intangible assets were pledged as collateral, please refer to Note 8.

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(l) Short-term borrowings

	December 31, 2017	December 31, 2016
Unsecured loans	$ 1,826,488	965,000
Secured loans	7,931,245	7,716,829
	$ 9,757,733	8,681,829
Unused credit limit	$ 16,745,881	18,778,261
Annual interest rate	1%~5%	1.05%~1.6913%

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

(m) Short-term notes and bills payable

	December 31, 2017		
	Guarantee or Acceptance Agency	Interest Rate Range	Amount
Bills payable	Financial institutions	1.079%~1.131%	$ 1,000,000

	December 31, 2016		
	Guarantee or Acceptance Agency	Interest Rate Range	Amount
Bills payable	Financial institutions	1.328%~1.358%	$ 200,000

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

(n) Long-term borrowings

	December 31, 2017			
	Currency	Interest Rate Range	Matured Period	Amount
Unsecured loans	TWD	1.3068%~2.056%	2018.03~2025.02	$ 3,319,800
	USD	2.9321%	2020.05	297,600
Secured loans	TWD	1.3028%~1.9133%	2018.01~2025.07	10,375,453
	USD	4.8143%	2021.06	231,329
				14,224,182
Less: current portion				(564,097)
Less: fees				(3,525)
Total				$ 13,656,560
Unused credit limit				$ 3,411,000

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	December 31, 2016			
	Currency	Interest Rate Range	Matured Period	Amount
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	10,318,998
				13,861,498
Less: current portion				(166,216)
Less: fees				(3,975)
Total				$ 13,691,307
Unused credit limit				$ 1,300,000

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

(ii) The loan agreement requires CEC 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, 2017 and 2016, CEC did not violate any terms in the loan agreement.

(iii) The loan agreement requires HEC to maintain certain financial ratios: As of December 31, 2017 and 2016, debt ratio≦150%, and net worth>$1.8 billion. As of December 31, 2017 and 2016, HEC did not violate any terms in the loan agreement.

(iv) The loan agreement requires NSC to maintain certain financial ratios:

Financial ratio	2010～2016	2017～2023
Debt ratio≦	230%	150%

Financial ratio	2012～2023
Liquidity ratio≧	1

As of December 31, 2017 and 2016, NSC did not violate any terms in the loan agreement.

(o) Provision

	Warranties	After-sales service	Others	Total
Balance, at January 1, 2017	$ 213,107	107,324	-	320,431
Provision made during the year	37,348	11,500	35,000	83,848
Provision used during the year	(1,870)	(2,297)	-	(4,167)
Provision reversed during the year	(103,928)	-	-	(103,928)
Balance, at December 31, 2017	$ 144,657	116,527	35,000	296,184

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	Warranties	After-sales service	Others	Total
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	(36,075)	(148,632)	-	(184,707)
Balance, at December 31, 2016	$ 213,107	107,324	-	320,431

The provision for warranties and after-sales service relates mainly to construction contracts and sales premises for the years ended December 31, 2017 and 2016. 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.

(p) Operating leases

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

	December 31, 2017	December 31, 2016
Less than one year	$ 251,526	264,324
Between one and five years	367,236	554,215
	$ 618,762	818,539

For the years ended December 31, 2017 and 2016, the rental revenue of investment property was $258,382 thousand and $267,838 thousand, respectively.

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

	2017	2016
Expenses that generated rental revenue	$ 8,819	17,575
Expenses unrelated to the derivation of rental revenue	131	124
	$ 8,950	17,699

(q) Advanced Receipts

	December 31, 2017	December 31, 2016
Advance receipts from construction contracts	$ 2,577,929	2,877,180
Advance receipts from real estate	2,168,819	2,320,466
Others	132,769	45,813
Total	$ 4,879,517	5,243,459

(Continued)

Please refer to Note 9 for the total contracts price associated with the above mentioned advanced receipts.

(r) Long-term accounts payable

The Group established subsidiaries in the United States in 2017.

Due to the agreements entered into by the Group with its prior shareholders, the Group will have to pay them an amount of $364,560 thousand after the completion of the construction projects of its subsidiaries.

(s) Employee benefits

(i) Defined benefit plan

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$ 539,135	529,855
Fair value of plan assets	(230,988)	(173,306)
Net defined benefit liabilities	$ **308,147**	**356,549**

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.

At the end of the reporting period, the Group's labor pension reserve account in Bank of Taiwan had a balance of $230,988 thousand. 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.

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2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years 2017 and 2016 were as follows:

	2017	2016
Defined benefit obligation, January 1	$ 529,855	534,782
Current service costs and interest	12,830	20,576
Re-measurements of the net defined benefit liabilities (assets)		
—Actuarial gains (losses) arose from changes in financial assumption	5,604	6,306
—Experience adjustments	76	(4,177)
Benefits paid by the plan	(9,230)	(27,632)
Defined benefit obligation, December 31	$ 539,135	529,855

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years 2017 and 2016 were as follows:

	2017	2016
Fair value of plan assets, January 1	$ 173,306	140,237
Interest revenue	2,841	2,252
Re-measurements of the net defined benefit liabilities (assets)		
—Expected return on plan assets (excluding interest)	(867)	(1,055)
Contributions made	63,427	56,642
Benefits paid by the plan	(7,719)	(24,770)
Fair value of plan assets, December 31	$ 230,988	173,306

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years 2017 and 2016 were as follows:

	2017	2016
Current service costs	$ 5,587	12,173
Interest on net defined benefit obligations (assets)	4,402	6,151
	$ 9,989	18,324
Administrative expenses	$ 9,989	18,324

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 2017 and 2016 were as follows:

	2017	2016
Cumulative amount, January 1	$ 44,327	41,142
Recognized during the period	6,547	3,185
Cumulative amount, December 31	$ 50,874	44,327

6) Actuarial assumptions

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

	2017.12.31	2016.12.31
Discount rate	1.0%~1.45%	1.0%~1.45%
Long-term average adjustment rate of salary	2.5%~3.0%	2.5%~3.0%

The Group expects to pay defined contribution benefit plans amounted to $31,429 thousand within one year, after December 31, 2017.

The weighted-average duration of the defined benefit plan is three to twenty 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, 2017 and 2016, the changes in the principal actuarial assumptions will have impact on the present value of the defined benefit obligation as follows:

	Impact on the defined benefit obligations	
	Increase	Decrease
December 31, 2017		
Discount (change by 0.25%)	(0.54)~(3.34)	0.10~3.48
Future salary increase (change by 1.00%)	0.56~38.48	(0.56)~(33.57)
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	(0.73)~(34.45)

(Continued)

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 based on the same method and assumptions similar to those adopted in last 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 $45,401 thousand and $41,365 thousand for the years 2017 and 2016, respectively. Payment was made to the Bureau of Labor Insurance.

(iii) Shore-term employee benefits

The Group's short-term employee benefit plan includes the compensated absences liabilities. As of December 31, 2017 and 2016, the compensated absences liabilities were $37,829 thousand and $36,170 thousand, respectively.

(t) Income Tax

(i) Income tax expense recognized in profit or loss

	2017	2016
Current income tax expense		
Current period	$ 82,095	32,785
Prior-years-adjustment on current income tax	(83,699)	(174,290)
Additional 10% surtax on unappropriated earnings	109	91,293
Current land value increment tax	69,065	80,199
	67,570	29,987
Deferred income tax expense		
Reversal of temporary difference	16,744	12,365
Income tax expense	$ 84,314	42,352

(ii) Income tax recognized in other comprehensive income (expense) benefit of the year ended December 31, 2017 and 2016 were as follows:

	2017	2016
Items that will not be reclassified to profit and loss		
Actuarial gains (losses) of defined benefit plan	$ 1,340	652

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

		2017	2016
Income before tax	$	**891,882**	**538,534**
Income tax expense at domestic statutory tax rate	$	151,620	91,551
Effect of difference tax rates on foreign countries		(5,558)	7,954
Decrease of income tax rate		-	(236)
Tax-exempt income		(387,800)	(133,454)
Investment loss accounted for using equity method		215,555	10,418
Current tax loss from unrecognized deferred tax assets		88,340	55,282
Adjustment for prior periods		(83,699)	(174,290)
Additional 10% surtax on unappropriated earnings		109	91,293
Current land value increment tax		69,065	80,199
Basic income tax		45,311	-
Others		(8,629)	13,635
Total	$	**84,314**	**42,352**

(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets:

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

		December 31, 2017	December 31, 2016
Deductible temporary difference	$	213,761	216,109
Net losses		1,264,839	1,240,805
	$	**1,478,600**	**1,456,914**

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, 2017 was as follows:

Years of losses	Unused amount	Year of expiry
2008 (assessed)	$ 540,042	2018
2009 (assessed)	1,526,614	2019
2010 (assessed)	1,002,043	2020
2011 (assessed)	1,213,320	2021
2012 (assessed)	360,651	2022
2014 (assessed)	563,024	2024
2015 (assessed)	1,660,202	2025
2016 (declared)	523,940	2026
2017 (declared)	50,396	2027
	$ 7,440,232	

2) Recognized deferred tax assets and liabilities:

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

Deferred tax liabilities:

	Others
Balance, at January 1, 2017	$ 14,596
Current tax expense	16,884
Effect of exchange rates changes	(76)
Offsetting of current deferred tax assets of overseas subsidiaries	(64)
Balance, at December 31, 2017	**$ 31,340**
Balance, at January 1, 2016	$ 2,228
Current tax expense	11,849
Effect of tax rates changes	(236)
Effect of exchange rates changes	(260)
Offsetting of current deferred tax assets of overseas subsidiaries	1,015
Balance, at December 31, 2016	**$ 14,596**

Deferred tax assets:

	Others
Balance, at January 1, 2017	$ 5,028
Current tax expense	140
Effect of exchange rates changes	(76)
Offsetting of current deferred tax liabilities of overseas subsidiaries	(64)
Balance, at December 31, 2017	**$ 5,028**

(Continued)

		Others
Balance, at January 1, 2016	$	5,025
Current tax expense		(516)
Effect of tax rates changes		(236)
Effect of exchange rates changes		(260)
Offsetting of current deferred tax liabilities of overseas subsidiaries		1,015
Balance, at December 31, 2016	$	5,028

(v) The Company and subsidiaries' income tax returns for the years up to 2016 and 2015 have been assessed by the tax authorities.

(vi) Integrated income tax information was as follows:

	December 31, 2017	December 31, 2016
Unappropriated earnings generated after 1998	Note	$ 2,252,896
Balance of CHC's imputation credit account ("ICA")	Note	$ 237,122

	2017(Est.)	2016(Actual)
Tax deduction ratio for earnings distribution to ROC residents	Note	6.97 %

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

Note: According to the amendments to the Income Tax Act on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(u) Capital and reserves

As of December 31, 2017 and 2016, 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, were issued. All issued shares were paid upon issuance.

(i) Ordinary shares

The Company was established on April 8, 2010, it became the holding company of CEC via a one-to-one share swap. The total value of the ordinary shares was $$8,411,581 thousand, this has been registered with the government.

	Ordinary shares	
	2017	**2016**
Balance, at January 1	8,232,160	8,532,160
Retirement of treasury stock	-	(300,000)
Balance, at December 31	8,232,160	8,232,160

$30,000 thousand of treasury shares that the Company bought back in order to maintain its credit and shareholders' interests were nullified on December 31, 2016.

(ii) Capital surplus

The components of the capital surplus were as follows:

	December 31, 2017	December 31, 2016
Premiums from issuance of share capital	$ 6,397,913	6,397,913
Treasury stock transactions	406,518	406,518
	$ 6,804,431	6,804,431

1) The Company was established on April 8, 2010, it became the holding company of CEC via a share swap. The net equity of CEC's stock in excess of par value of the Company's stock was $7,368,919 thousand, this amount was credited to capital surplus. In 2011, the Company used capital surplus to distribute Year 2010 cash dividends for an amount of $504,695 thousand.

2) In accordance with the ROC Company Act, the realized capital surplus needs to be used to make up losses before it can be reclassified as share capital or distributed as cash dividends. The aforementioned capital surplus includes share premiums and gratuitous income. 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.

(iii) Retained earnings

In accordance with the Company's articles of incorporation, net income of the current period should firstly be offset against losses in the previous years and income tax, then with 10 percent of which be appropriated as legal reserve. The remaining net income plus the undistributed earnings in previous years will be recognized as the retained earnings subjecting to shareholders' resolution.

For dividend distribution, the amount of cash dividends shall be at least 20% of the total dividends.

(Continued)

1) Legal Reserve

In accordance with the Company Act, 10 percent of net income after tax should be set aside as legal reserve until the aggregate of the legal reserve reaches the share capital. When there is no loss for the year, the distribution of the legal reserve can either be executed by new shares or by cash, such distribution shall be decided at the shareholders' meeting with the distribution amount being limited to the portion of the 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 were 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, 2017 and 2016, 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 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.

3) Earnings distribution

The earning distribution for 2016 and 2015 has been approved in the general shareholders' meeting on June 7, 2017 and June 14, 2016, respectively. The relevant dividend distributions to shareholders were as follows:

	2016		2015	
	Amount per share	Total Amount	Amount per share	Total Amount
Dividends distributed to common shareholders:				
Cash	$ 0.50	411,608	0.50	411,608

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(iv) Treasury stock

For the year ended December 31, 2016, the Company repurchased treasury stock of 30,000 thousand shares in order to maintain the Company's credit and shareholders' interests, and has nullified the treasury stock 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 the 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, 2015 were 85,321 thousand shares, equivalent to an amount of $9,190,065 thousand.

(v) Other equity interest

	Exchange differences on translation of foreign financial statements	Cash flow hedges	Available-for-sale investments
Balance, January 1, 2017	$ (265,567)	(1,750)	2,088,506
Exchange differences on transaction of foreign net assets	(89,853)	-	-
Shares of other comprehensive income of associates accounted for using equity method, exchange difference on translation	(183,471)	-	-
Losses on hedging instruments, fair value hedges	-	(11,807)	-
Unrealized gains (losses) on available-for-sale financial assets	-	-	834,583
Adjustment on reclassification of impairment, available-for-sale financial assets	-	-	(803,664)
Shares of net income of subsidiaries for using equity method, available-for-sale financial assets	-	-	83
Balance, at December 31, 2017	$ (538,891)	(13,557)	2,119,508

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		Exchange differences on translation of foreign financial statements	Cash flow hedges	Available-for-sale investments
Balance, January 1, 2016	$	(136,357)	20,275	663,060
Exchange differences on transaction of foreign net assets		(75,857)	-	-
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	-	-
Losses 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	$	(266,567)	(1,750)	2,088,506

(v) 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 $787,816 thousand, and $528,938 thousand for the years 2017 and 2016, respectively; they were divided by the weighted-average numbers of 823,216 thousand ordinary shares and 828,716 thousand ordinary shares. The computations of the basic earnings per share were as follows:

1) Net income attributable to ordinary shareholders

		2017	2016
Net income attributable to ordinary shareholders	$	787,816	528,938

2) Weighted average number of ordinary shares

	2017	2016
Weighted average number of ordinary shares, at December 31	823,216	828,716

(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 $787,816 thousand and $528,938 thousand for the years ended December 31, 2017 and 2016, respectively; they were divided by the weighted-average numbers of 823,530 thousand ordinary shares and 829,041 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

		2017	2016
Net income attributable to ordinary shareholders	$	787,816	528,938

2) Weighted average number of ordinary shares (Diluted)

	2017	2016
Weighted average number of ordinary shares (Basic)	823,216	828,716
Effect of the employee bonuses	314	325
Weighted average number of ordinary shares (Diluted)	823,530	829,041

(w) Operating Revenue

The Group's revenue for the years 2017 and 2016 were as follows:

		2017	2016
Construction revenue	$	22,977,642	20,637,046
Real estate revenue		4,553,684	3,235,313
Rental revenue, investment property		258,382	267,838
Other operating revenue		595,035	397,201
	$	28,384,743	24,537,398

(x) Remuneration for employees and directors

Based on the Company's articles of incorporation, remuneration for employees and directors is appropriated at the rate of 0.5% and a rate no more than 0.5%, respectively, of the profit before tax. The Company should make up its prior years' accumulated deficit before any appropriation of profits. 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.

For the year ended December 31, 2017 and 2016, the Company estimated its employee remuneration to be $4,209 thousand and $2,779 thousand. The estimated amounts mentioned above are calculated based on a net amount derived from subtracting the remuneration to employees, directors and supervisors of each period, from the net profit before tax, and multiplied it 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 2017 and 2016. Related information would be available at the Market Observation Post System website. The amount of remuneration for employees that determined by the board of directors was the same as the estimated amount stated in the Financial Statement for the years ended December 31, 2017 and 2016.

(y) Non-operating income and expenses

(i) Other income

The Group's other income for the years 2017 and 2016 were as follows:

		2017	2016
Interest income			
Cash in banks	$	21,206	11,291
Financing		18,667	12,440
Interest of delaying payment		-	1,538
Others		50	57
Gain on overdue payables written off		103	218,273
Dividend income		140,844	179,444
Other income		104,767	40,645
		285,637	463,688

(ii) Other gains and losses

The Group's other gains and losses for the years 2017 and 2016 were as follows:

		2017	2016
Foreign exchange gain (loss)	$	19,753	(19,033)
Gain on disposal of investment		1,329,077	-
Gain on disposal of property, plant and equipment		29,579	28,069
Impairment losses on property, plant and equipment		(421,351)	-
Others		(76,485)	(24,432)
	$	880,573	(15,396)

(iii) Financial costs

The Group's financial costs for the years 2017 and 2016 were as follows:

		2017	2016
Interest expenses	$	377,855	358,716
Less: capitalized interest		(204,055)	(190,515)
	$	173,800	168,201

(z) Reclassification of the other comprehensive income

The Group's reclassification of the other comprehensive income for the years 2017 and 2016 were as follows:

		2017	2016
Available-for-sale financial assets			
Changes in available-for-sale financial assets at fair value	$	834,583	1,425,961
Changes in available-for-sale financial assets of associates at fair value for using equity method		83	(515)
Net changes reclassified to comprehensive income at fair value		(803,664)	-
Net changes recognized as other comprehensive income at fair value	$	31,002	1,425,446

(aa) 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 mainly government bodies and companies operating in the construction industry. To minimize credit risks, the Group reviews the financial positions of the clients periodically and requests guarantees if necessary. The Group also evaluates the collectability of receivables and provides an allowance for doubtful debts on a regular basis. The relevant losses on bad debts are generally under the Group' s expectation.

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.

		Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Balance, December 31, 2017								
Non-derivative financial liabilities								
Secured loans	$	18,538,027	19,550,740	2,864,337	3,842,328	1,492,930	10,128,339	1,222,806
Unsecured loans		5,443,888	5,668,593	1,242,725	822,854	106,580	2,751,488	744,946
Short-term bills payable		1,000,000	1,000,000	1,000,000	-	-	-	-
Accounts and notes payable		7,658,917	7,658,917	3,878,161	48,249	2,447,141	53,603	1,231,763
Other payables		1,058,656	1,058,656	124,430	1,542	407,697	522,876	2,111
Long-term accounts payable		364,560	364,560	-	-	-	364,560	-
Guarantee deposit received		130,895	130,895	447	1,478	1,825	116,843	10,302
	$	34,194,943	35,432,361	9,110,100	4,716,451	4,456,173	13,937,709	3,211,928
Balance, December 31, 2016								
Non-derivative financial liabilities								
Secured loans	$	18,035,827	19,367,126	2,021,313	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
	$	29,011,395	30,529,956	5,347,502	6,920,553	4,766,364	10,465,071	3,030,466

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, 2017			December 31, 2016		
		Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial Assets							
Monetary items							
USD : TWD	$	61,408	29.7600	1,827,502	44,167	32.2500	1,424,401
HKD : MOP		68,064	1.0300	259,121	68,127	1.0300	283,273
HKD : TWD		17,306	3.8070	65,883	161	4.1580	670
MYR : TWD		29,189	7.3319	214,008	14,884	7.2043	107,226
Financial Liabilities							
Monetary items							
USD : INR		-	-	-	32	67.9520	1,022
USD : MYR		88	4.0590	2,623	629	4.4765	20,281
EUR : INR					15	71.4286	500
HKD : TWD		709	3.8070	2,699	1,767	4.1580	7,347

(Continued)

CONTINENTAL HOLDINGS CORPORATION AND ITS SUBSIDIARIES
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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 \$19,598 thousand and by \$14,827 thousand for the years 2017 and 2016, 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, 2017 and 2016, foreign exchange gain or loss (including realized and unrealized) amounted to \$19,753 thousand and \$19,033 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 \$235,015 thousand and \$228,897 thousand for the years 2017 and 2016, 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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	December 31, 2017				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Derivative financial assets for hedging	$ 479,232	479,232	-	-	479,232
Available-for-sale financial assets					
Domestic emerging stocks	1,541,318	1,541,318	-	-	1,541,318
Domestic non-public issuance of shares	1,809,970	-	-	1,809,970	1,809,970
Subtotal	3,351,288	1,541,318	-	1,809,970	3,351,288
Loans and receivables					
Cash and cash equivalents	3,428,513	-	-	-	-
Notes, accounts receivable and long-term accounts receivable	10,627,106	-	-	-	-
Other receivables	809,741	-	-	-	-
Guarantee deposits paid (including current and non-current)	111,040	-	-	-	-
Subtotal	14,976,400	-	-	-	-
Total	$ 18,806,920	2,020,550	-	1,809,970	3,830,520
Financial liabilities measured at amortized cost					
Bank loans and short-term notes payable	$ 24,978,390	-	-	-	-
Accounts and notes payable	7,658,917	-	-	-	-
Other payables	1,058,656	-	-	-	-
Long-term accounts payable	364,560	-	-	-	-
Guarantee deposit received	130,895	-	-	-	-
Subtotal	34,191,418	-	-	-	-
Total	$ 34,191,418	-	-	-	-

	December 31, 2016				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Derivative financial assets for hedging	$ 64,631	64,631	-	-	64,631
Available-for-sale financial assets					
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
Loans and receivables					
Cash and cash equivalents	2,549,134	-	-	-	-
Notes, accounts receivable and long-term accounts receivable	8,549,048	-	-	-	-
Other receivables	793,988	-	-	-	-
Guarantee deposit paid (including current and non-current)	136,145	-	-	-	-
Subtotal	12,028,315	-	-	-	-
Total	$ 16,349,348	3,011,148	-	1,309,885	4,321,033

(Continued)

	December 31, 2016				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Bank loans and short-term notes payable	$ 22,739,352	-	-	-	-
Accounts and notes payable	5,768,888	-	-	-	-
Other payables	386,047	-	-	-	-
Guarantee deposit received	113,133	-	-	-	-
Subtotal	29,007,420	-	-	-	-
Total	$ 29,007,420	-	-	-	-

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

The ways the Group 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 as Level 1 information. The fair value for 2017 and 2016 has been adjusted to market price. There have been no transfers from each level for the years ended December 31, 2017 and 2016.

4) The movement of Level 3

	Available-for-sale financial assets
	Equity instruments without quoted market price
Balance, January 1, 2017	$ 1,309,885
Total income or loss	
Recognized in other comprehensive income	500,085
Balance, December 31, 2017	$ 1,809,970

	Available-for-sale financial assets
	Equity instruments without quoted market price
Balance, January 1, 2016	$ 1,166,620
Total income or loss	
Recognized in other comprehensive income	143,265
Balance, December 31, 2016	$ 1,309,885

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, 2017 and 2016, were as follows:

	2017	2016
Total income or loss		
Recognized in other comprehensive income (as unrealized gain (loss) on available-for-sale financial assets)	$ 500,085	143,265

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.

The quantified information for significant unobservable inputs is disclosed as follows:

Item	Valuation Technique	Significant unobservable input	Relationship between input and fair value
Available-for-sale financial assets, equity instruments without active market	Market approach	·The multipliers of price-to-earnings ratio (December 31, 2017 and 2016, were 15.03 and 18.62; 14.20 and 16.96, respectively) ·Market illiquidity discount (as of December 31, 2017 and 2016, 80% for both years)	·The higher the multiplier is, the higher the fair value will be ·The higher the market illiquidity discount is, the lower the fair value will be

(Continued)

Item	Valuation Technique	Significant unobservable input	Relationship between input and fair value
Available-for-sale financial assets, equity instruments without active market	Income approach	·Retained earnings (as of December 31, 2017 and 2016, 0% for both years) ·Weighted average cost of capital (as of December 31, 2017 and 2016, 5% for both years)	·The higher the retained earnings is, the higher the fair value will be ·The higher the weighted average cost of capital is, the lower the fair value will be

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:

	Input	Change up or down	Change in fair value reflecting in current income: Favorable change	Change in fair value reflecting in current income: Unfavorable change	Change in fair value reflecting in other comprehensive income: Favorable change	Change in fair value reflecting in other comprehensive income: Unfavorable change
December 31, 2017						
Available-for-sale financial assets						
Equity instruments without an active market	Market liquidity discount	5%	$ -	-	113,058	113,058
Equity instruments without an active market	Weighted average cost of capital	1%	-	-	48	51
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

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.

(ab) 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 mainly government bodies and companies operating in the construction industry. To minimize credit risks, the Group reviews the financial positions of the clients periodically and requests guarantees if necessary. The Group also evaluates the collectability of receivables and provides an allowance for doubtful debts on a regular basis. The relevant losses on bad debts are generally under the Group' s expectation.

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 entered into transactions with banks, financial institutions, corporate organizations and government bodies, with good credit ratings, there are no noncompliance issues and therefore no significant credit risk.

3) Guarantee

As of December 31, 2017 and 2016, the Group' s guarantee for construction contract work for other construction companies amounted to approximately $9,358,000 thousand and $11,151,487 thousand, respectively.

(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, 2017 and 2016, the Group has unused bank facilities for $20,156,881 thousand and $20,078,261 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 are denominated in a currency other than the functional currency of the Group' s respective entity. The purchases are transacted in a number of different currencies, including the New Taiwan Dollars (TWD), EUR, JPY, USD, Hong Kong Dollars (HKD), Macau Pataca (MOP), India Rupee (INR) and Malaysia Ringgit (MYR), etc. Whereas the respective entity has its functional currency denominated in TWD, 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 with the cash flows generated by the underlying operations of the Group, primarily TWD and USD.

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

2) Interest rate risk

As of December 31, 2017 and 2016, financial liabilities exposed to cash flow interest rate risk amounted to $14,224,182 thousand and $13,861,498 thousand, respectively. Given the Group' s long-term loans were entered into based on floating rates, the effective interest rate of the long-term loans would change if the market rates 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 other strategic investments. The changes of fair value of the available-for-sale financial instruments will affect the Group' s other comprehensive income.

(ac) Capital Management

The Group has objectives of 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 calculated based on the total net debt over the total capital. The net debt is derived by subtracting cash and cash equivalents from the total liabilities. Total capital and equity includes the share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

	December 31, 2017	December 31, 2016
Total liabilities	$ 41,189,703	36,521,695
Less: cash and cash equivalents	(3,428,513)	(2,549,134)
Net debt	37,761,190	33,972,561
Total equity	23,599,876	22,821,436
Total capital	$ 61,361,066	56,793,997
Debt to equity ratio	61.54%	59.82%

(ad) Non-cash transactions and investing activities

The non-cash transactions and investing activities of the Group in the years 2017 and 2016 were as follows:

(i) Reclassification of prepayments for business facilities

	2017	2016
Prepayments for business facilities reclassified to property, plant and equipment	$ 21,949	134,943
Inventories reclassified to property, plant and equipment	149,943	-
Inventories reclassified to investment property	1,900,672	-
	$ 2,072,564	134,943

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(ii) Inventories or investment property acquired on credit are recognized as the following accounts：

	2017	2016
Short-term borrowings	$ 535,921	-
Accounts and notes payables	127,433	-
Other payables	424,080	-
Long-term accounts payables	364,560	-
	$ 1,451,994	-

(iii) Non-controlling interest

	2017	2016
Investment by land contributing from the non-controlling interest of CDC US Corp.	$ 163,232	-
The loans and other payables owned by CEC provided to CIMY, converting into shares of CIMY	40,626	-
	$ 203,858	-

(7) **Related-party transactions:**

(a) Names and relationship with related parties

Name of related party	Relationship with the Company
MEGA	Joint ventures (The company became a subsidiary of the Group from May, 2017)
CTCI&HEC Water Business Corp.	Investment for using equity method (Associates)
American Bridge Co. (ABC)	Investment of subsidiary using equity method (Associates)
Hao Ran Foundation	Other related party
HAN-DE Construction CO. LTD	Other related party
CEC Security Corporation	Other related party
Metropolis Property Management Corporation	Other related party
Mid Marked Center LLC	Other related party
FRG US Corp.	Other related party
MM 180 Jones LLC	Other related party
Construction Studios,Inc.	Other related party
Ou Interrsts,Inc.dba Group I	Other related party
TSRC Corporation ("TSRC")	The chairman of CHC is the same as TSRC's vice chairman (Other related party)

Name of related party	Relationship with the Company
Cheng Zong Syue	Chief Administrative Officer (retired on June 1, 2016) (Other related party)

(b) Other related party transactions:

(i) Contracted construction

2017	Total Contract Amount (Before tax)	Current Amount	Accumulated Amount
Associate (CTCI&HEC Water Business Corp.)	$ 6,115,200	2,252	2,252

2016	Total Contract Amount (Before tax)	Current Amount	Accumulated Amount
Other related party	$ 19,346	19,346	19,346

According to contracted construction regulations, the construction contract price is determined based on the budget of each construction, plus reasonable administrative handling fees. The amount shall be approved by the management team.

(ii) Purchases

Purchases from related party were as follows:

	2017	2016
Other related party	$ 71,477	117,137

The price and the payment term concluded with related parties are not significantly different to the price and payment term concluded with external third parties.

(iii) Other outstanding balance

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

	Accounts Receivables	
	December 31, 2017	December 31, 2016
Other related party	$ 1,378	4,323
Associates	675	-
	$ 2,053	4,323

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	Other Receivables	
	December 31, 2017	December 31, 2016
Other related party	$ 56,847	76
Joint ventures	-	21,205
	$ 56,847	21,281

	Accounts Payables	
	December 31, 2017	December 31, 2016
Other related party	$ 130,466	6,191

	Other Payables	
	December 31, 2017	December 31, 2016
Other related party	$ 1,737	591

(iv) Rental

1) Rental income

	2017	2016
Other related party	$ 57	57

The rental is in reference to the nearby rental market value for parking spaces, and is paid on a monthly basis.

(v) Loan to related parties

	December 31, 2017	December 31, 2016
Joint ventures-MEGA	$ -	107,202
Associate-ABC	94,723	-
	$ 94,723	107,202

The interest rate is determined based on the average rate of the short term borrowings entered into with financial institutions during the year. The loans were borrowed without collaterals. After assessment, no provisions for bad debt expenses were accrued.

(vi) Endorsements and Guarantees

	Subject of guarantee	December 31, 2017	December 31, 2016
Associates (CTCI&HEC Water Business Corp.)	Guarantee not related to construction contracts	$ 98,000	98,000
Joint ventures	Guarantee not related to construction contracts	-	391,838
		$ 98,000	489,838

(vii) Other

1) Interest revenue

	2017	2016
Joint ventures-MEGA	$ 3,330	8,979
Associate	1,587	-
	$ 4,917	8,979

2) Other expenses

	2017	2016
Other related party	$ 17,433	14,111

3) Property transactions

As of December 31, 2016, the Group sold transportation equipment to other related party in an amount of $363 thousand, which gave rise to $46 thousand of gain on disposal of property. The purchase price has been paid, please refer to Note 6(i) for details.

(c) Key Management Personnel Transaction

Key Management Personnel Compensation

	2017	2016
Short-term employee benefits	$ 107,061	107,694

The Group provides thirteen vehicles for key management personnel at a cost of $14,974 thousand and $13,753 thousand in 2017 and 2016, respectively.

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(8) Pledged assets:

The carrying values of pledged assets are as follows:

Asset	Purpose of pledge	December 31, 2017	December 31, 2016
Inventory (development corp.)	Loan collateral	$ 11,950,152	14,490,265
Restricted deposits (other current assets)	Time deposits collateral	325,666	74,398
Property, plant and equipment	Loan collateral and construction guarantee	678,452	680,994
Investment property, net	Loan collateral and construction guarantee	12,588,538	10,662,144
Intangible assets	Loan collateral	803,481	739,838
Long-term accounts receivables	Loan collateral	3,747,026	3,815,481
Total		$ 30,093,315	30,463,120

(9) Commitments and contingencies:

(a) Major commitments were as follows:

(i) As of December 31, 2017 and 2016, details of pre-sales prior to real estate complete, sales of completed real estate, and the advance receipts from these sales were listed below:

	December 31, 2017	December 31, 2016
Pre-sales and total sales of completed real estate	$ 10,861,463	10,365,159
Advance receipts	$ 2,168,819	2,320,466

(ii) As of December 31, 2017 and 2016, the Group purchased land in a contract amount of $2,193,627 thousand and $76,472 thousand, respectively, within which, $1,855,872 thousand and $30,589 thousand has been respectively paid in accordance with the contracts.

(iii) As of December 31, 2017 and 2016, total price of the construction contracts entered into by the Group and the total collected/billed amounts according to the contract are listed below:

	December 31, 2017	December 31, 2016
Total contract amount－TWD	103,972,967	93,291,305
－INR	48,947,723	49,220,492
－HKD	3,893,330	3,789,296
－MOP	895,162	862,615
－MYR	380,403	392,107
Accumulated billing amount	101,856,938	87,518,740

(Continued)

(iv) As of December 31, 2017 and 2016, the Group provided guarantees for contract performance and construction warranties to other construction companies, including jointly liable contracts amounting to $9,358,000 thousand and $11,151,487 thousand, respectively.

(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 contracts are summarized as follows:

1) During the project concession period, in accordance with the government's appointed service form, the Group (i) provides construction, operation and maintenance to the facilities for sewage treatment, and (ii) acquires 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 services during the concession period, and obtains interest based on the price in the construction contract and price index.

3) The government will control and supervise the Group's service scope leveraged from the use of the facilities.

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 agreement.

5) During the concession period, the Group is the nominal registrant entitled to the ownership of the land and sewage treatment facilities. After the concession period, in accordance with the construction and operation agreement, the plants and facilities shall be restored back to their normal operating conditions and reverted to the government without conditions.

6) Three years before the expiration date, the Group is entitled to submit an application for extending the contract; if the Group's operating performance is qualified to apply for a renewal of contract, it is given a preferential right to submit the renewal application to the authority.

7) The Group's construction and operation contracts with the government were as follows:

The subsidiary as an operator	Location	Grantor	Agreement type	Concession period
NSC	Danshui area	New Taipei City	BOT of sewage system	May 2005~ May 2040
PDC	Pu Ding area	Taoyuan City	BOT of sewage system	35 years (after land delivery)
BWC	Kaohsiung area	Kaohsiung City	BTO of wastewater reclamation and reuse	August 2016~August 2033

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

	December 31, 2017	December 31, 2016
Issued but unused L/C	$ 8,187	25,776

(b) Contingent liability:

(i) As of December 31, 2017 and 2016, the Group provided promissory notes for contract performance, issuance of commercial paper, and construction warranty, amounting to $56,715,588 thousand and $47,017,672 thousand, respectively.

(ii) As of December 31, 2017 and 2016, the Group was provided with guarantee deposits and performance guarantees amounting to $11,180,146 thousand and $10,440,610 thousand, respectively, from construction subcontractors.

(c) Other

(i) As of December 31, 2017 and 2016 the Group paid guarantee deposits for the joint construction contracts with several landowners amounting to $6,409 thousand and $16,060 thousand, respectively (recognized as other current assets).

(ii) In April 2005, the Group filed a lawsuit against Kao Nan Region Construction Office for the East West Expressway, Directorate General of Highway, MOTC ("Kao-Nan"), demanding a compensation of $444,579 thousand for the disputes concerning the construction period extension and construction plan change related to the highway between Wujia and Shangliao areas. In February 2014, Taiwan High Court Kaohsiung Branch reached its 2nd verdict which decided Kao-Nan to compensate the Group an amount of $243,206 thousand (including interest). The Group disagreed with the High Court's decision and appealed to the Supreme Court. On the other hand, Kao-Nan also appealed to the Supreme Court stating that the compensation amount decided by the High Court was unreasonable. In June 2014, the Supreme Court overruled the 2nd verdict made by the High Court and handed over this case back to the High Court for another decision. To date this case is still under the High Court's assessment.

(10) Losses Due to Major Disasters: None

(11) Subsequent Events:

According to the amendments to the *Income Tax Act* enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon the filing of the corporate income tax return commencing FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it would have an impact on deferred tax assets and liabilities in the future.

(Continued)

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

(12) Other:

(a) Personnel expenses, depreciation, depletion and amortization are summarized as follows:

	2017			2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee expenses						
Salary expenses	1,338,677	517,415	1,856,092	1,500,410	516,348	2,016,758
Labor and health	65,574	32,132	97,706	62,530	30,155	92,685
Insurance expenses	51,189	32,543	83,732	63,752	41,774	105,526
Other employee expenses	216,603	69,504	286,107	285,048	109,341	394,389
Depreciation	250,168	25,531	275,699	588,716	27,743	616,459
Amortization	31,594	-	31,594	24,998	-	24,998

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(13) Other disclosures:

(a) Information on significant transactions:

The following information on significant transactions are disclosed in accordance with the *Regulations Governing the Preparation of Financial Reports by Securities Issuers*:

(i) Loans provided 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 businesses between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Maximum amount of loans provided to a single enterprise	Maximum amount of loans
													Item	Value		
1	CEC	CIC	Other receivables	Yes	30,420	-	-	-	2	-	Operation requirements	-	-	-	2,122,074	2,122,074
1	CEC	CIMY	Other receivables	Yes	273,780	-	-	-	2	-	Operation requirements	-	-	-	2,122,074	2,122,074
1	CEC	ABC	Other receivables	Yes	96,315	94,723	94,723	4.7300% ~4.7417%	2	-	Operation requirements	-	-	-	2,122,074	2,122,074
2	CDC	MEGA	Other receivables	Yes	447,549	446,653	213,996 (Note 2)	7.65% ~7.85%	2	-	Land purchases and operation requirements	-	-	-	5,826,350	5,826,350
2	CDC	Grand River Development Limited	Other receivables	No	199,400	199,400	194,937	1.90% ~2.5%	2	-	Land purchases and operation requirements	-	-	-	5,826,350	5,826,350

Note 1: The total amount of loans provided 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. Relevant calculation are as follows:

1) CEC:

Maximum amount of loans is limited to 40% of net equity value: \$5,305,184 thousand × 40% = 2,122,074 thousand

Maximum amount of loans provided to a single business enterprise is limited to 40% of net equity value: \$5,305,184 thousand × 40% = 2,122,074 thousand

2) CDC:

Maximum amount of loans is limited to 40% of net equity value: \$14,565,875 thousand × 40% = 5,826,350 thousand

Maximum amount of loans provided to a single business enterprise is limited to 40% of net equity value: \$14,565,875 thousand × 40% = 5,826,350 thousand

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

Note 3: Financing purposes:

1) Business dealings: 1
2) Short-term financing needs: 2

(Continued)

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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		Maximum amount of guarantees and endorsements for a specific enterprise	Highest balance of 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 over net worth in the latest financial statements	Maximum amount of guarantees and endorsements	Parent company's endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary's 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										
0	CHC	CICI	3	88,497,348	589,439	582,061	582,061	-	2.63 %	88,497,348	Y	N	N
0	CHC	CEC	2	88,497,348	3,653,987	3,653,987	2,756,595	-	16.52 %	88,497,348	Y	N	N
1	CEC	PDC	3	10,610,368	32,000	32,000	32,000	-	0.60 %	10,610,368	N	N	N
1	CEC	NSC	3	10,610,368	300,000	300,000	165,000	-	5.65 %	10,610,368	N	N	N
1	CEC	HEC	3	10,610,368	1,620,000	1,360,000	953,800	-	25.64 %	10,610,368	N	N	N
1	CEC	HEC	3 and 5	15,915,552	4,826	4,181	4,181	-	0.08 %	31,831,104	N	N	N
1	CEC	CICI	2 and 5	15,915,552	4,808,200	4,748,021	4,748,021	-	89.50 %	31,831,104	N	N	N
1	CEC	CICI	2	10,610,368	188,070	178,560	29,100	-	3.37 %	10,610,368	N	N	N
1	CEC	CIC	2	10,610,368	470,175	416,640	299,088	-	7.85 %	10,610,368	N	N	N
1	CEC	CIMY	2 and 5	15,915,552	3,702,686	3,607,295	3,607,295	-	68.00 %	31,831,104	N	N	N
1	CEC	Fu Tsu Construction Co., Ltd.	5	15,915,552	9,358,000	9,358,000	9,358,000	-	176.39 %	31,831,104	N	N	N
2	CDC	CEC Commercial Development Corp.	2	29,131,750	1,475,000	1,475,000	1,330,000	-	10.13 %	29,131,750	N	N	N
2	CDC	MEGA	2 and 6	29,131,750	451,737	441,936	441,936	-	3.03 %	29,137,750	N	N	N
2	CDC	950 Property LLC	2	29,131,750	403,855	403,855	294,226	-	2.77 %	29,131,750	N	N	N
3	CEC Commercial Development Corp.	CDC	4 and 5	13,038,200	1,912,000	1,215,000	1,099,663	-	37.28 %	13,038,200	N	N	N
3	CEC Commercial Development Corp.	CDC	4	13,038,200	1,258,200	1,258,200	1,048,500	1,258,200	38.60 %	13,038,200	N	N	N
4	HEC	SDC	2	9,888,664	50,000	50,000	-	-	2.02 %	9,888,664	N	N	N
4	HEC	NSC	2	9,888,664	100,000	100,000	-	-	4.05 %	9,888,664	N	N	N
4	HEC	BWC	2 and 6	9,888,664	800,700	800,700	405,960	-	32.39 %	9,888,664	N	N	N
4	HEC	CTCI & HEC Water Business Corp.	6	9,888,664	98,000	98,000	98,000	-	3.96 %	9,888,664	N	N	N
4	HEC	CEC	3 and 5	9,888,664	3,918,750	3,918,750	3,918,750	-	158.51 %	9,888,664	N	N	N
4	HEC	CEC	3	9,888,664	4,218	-	-	-	- %	9,888,664	N	N	N

Note 1: According to the policy of CHC, the total amount of endorsements/guarantees is limited to four times the net equity value in accordance with the Company's most recent financial statements: \$22,124,337 thousand × 4 = \$88,497,348 thousand

(Continued)

The total amount of endorsements/guarantees provided to a single business is limited to four times the net equity value in accordance with the Company's most recent financial statements: $22,124,337 thousand × 4 = $88,497,348 thousand

According to the policy of CEC, the total amount of endorsements/guarantees is limited to six times the net equity value in accordance with the Company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry: $5,305,184 thousand × 6 = $31,831,104 thousand

The total amount of endorsements/guarantees provided to a single business is limited to three times the net equity value in accordance with the Company's most recent financial statements: $5,305,184 thousand × 3 = $15,915,552 thousand

According to the policy of CEC, the total amount of endorsements/guarantees is limited to two times the net equity value in accordance with the Company's most recent financial statements except in the event of joint liability in joint ventures with other companies in the same industry: $5,305,184 thousand × 2 = $10,610,368 thousand

The total amount of endorsements/guarantees provided to a single business is limited to two times the net equity value in accordance with the Company's most recent financial statements: $5,305,184 thousand × 2 = $10,610,368 thousand

According to the policy of CDC, the total amount of endorsements/guarantees is limited to two times the net equity value in accordance with the Company's most recent financial statements: $14,565,875 thousand × 2 = $29,131,750 thousand

The total amount of endorsements/guarantees provided to a single business is limited to two times the net equity value in accordance with the Company's most recent financial statements: $14,565,875 thousand × 2 = $29,131,750 thousand

According to the policy of CEC Commercial Development Corp., the total amount of endorsements/guarantees is limited to four times the net equity value in accordance with the Company's most recent financial statements: $3,259,550 thousand × 4 = $13,038,200 thousand

The total amount of endorsements/guarantees provided to a single business is limited to four times the net equity value in accordance with the Company's most recent financial statements: $3,259,550 thousand × 4 = $13,038,200 thousand

According to the policy of HEC, the total amount of endorsements/guarantees is limited to four times the net equity value in accordance with the Company's most recent financial statements: $2,472,166 thousand × 4 = $9,888,664 thousand

The total amount of endorsements/guarantees provided to a single business is limited to four times the net equity value in accordance with the Company's most recent financial statements: $2,472,166 thousand × 4 = $9,888,664 thousand

Note 2: The relationship between the giver of an endorsement/guarantee ("guarantor") and the party to whom the endorsement/guarantee is given ("obligee") is as follows:

1) There are business transactions between the guarantor and the obligee;
2) Subsidiary that is directly owned more than 50% by the Company;
3) An investee company that the Company and its subsidiary collectively own more than 50% of its shares;
4) Parent Company which directly or indirectly owns over 50% of the Company;
5) For the purpose of undertaking projects, companies in the same industry of whom the Company shall provide guarantees as per contracts; and
6) A jointly invested company of whom each of its shareholder provides the endorsements/guarantee based on the % of interests owned.

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(iii) Securities held as of December 31, 2017 (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 name	Ending balance: Shares/Units (thousands)	Ending balance: Carrying value	Ending balance: Percentage of ownership (%)	Ending balance: Fair value	Highest Percentage of ownership (%)	Note
CEC	Evergreen Steel Corp.	-	Non-current available-for-sale financial assets	25,645,907	1,222,386	6.28 %	47.66	6.28 %	
CEC	Shin Yung Enterprise Corp.	-	Non-current available-for-sale financial assets	12,256,347	586,540	8.45 %	47.86	8.45 %	
CEC	JieBang Consultant Management Co., Ltd.	-	Non-current available-for-sale financial assets	300,000	1,044	6.00 %	3.48	6.00 %	
CEC	Taiwan Motp MacDonald Ltd.	-	Non-current available-for-sale financial assets	380,000	-	19.00 %	-	19.00 %	
CEC	International Property & Finance Co., Ltd.	-	Non-current financial assets at cost	26,301	-	1.64 %	-	1.64 %	
CEC	Shin Yu Energy Development Co., Ltd.	-	Non-current financial assets at cost	22,405,297	-	9.00 %	-	9.00 %	
CDC	Taiwan High Speed Rail Cor. -- common stock	-	Current available-for-sale financial assets	65,588,000	1,541,318	1.17 %	23.50	1.44 %	
CDC	Grand River Development Limited	-	Non-current financial assets at cost	39,370,000	393,700	10.00 %	456,540.00	10.00 %	

Note: Transaction were eliminated when preparing the consolidated financial statements.

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD 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: Shares	Beginning Balance: Amount	Purchases: Shares	Purchases: Amount	Sales: Shares	Sales: Price	Sales: Cost	Sales: Gain (loss) on disposal	Ending Balance: Shares	Ending Balance: Amount
CEC	Taiwan High Speed Rail Cor.	Current available-for-sale financial assets	-	Non-related party	79,442,800	1,461,747	-	-	79,442,800	1,943,376	1,461,747	1,156,892	-	-
CDC	Stock-CDC US Corp.	Investment for using equity method	CDC US Corp.	Subsidiary	-	-	5,000,000	601,152	-	-	-	-	5,000,000	601,152

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(v) Acquisition of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				Factors for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
CDC	Land held for development	May 23, 2017	672,094	672,094	Mr. Liao etc.	Non related party	-	-	-	-	According to market condition and the report from real estate appraiser	Real estate development	-
CDC	Land held for development	June 16,2017	729,679	729,679	Mr. Chang etc.	Non related party	-	-	-	-	According to market condition and the report from real estate appraiser	Real estate development	-
CDC	Land held for development	September 25, 2017	715,381	715,381	New Taipei City Hall	Non related party	-	-	-	-	Pubic bidding	Real estate development	-

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

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

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
CEC	CDC	Related party of the Company	Construction contract	(3,585,087)	(14) %	Same as those in general transactions	-	-	1,363,847	20%	1
CDC	CEC	Related party of the Company	Construction project	3,411,854	79 %	Same as those in general transactions	-	-	(1,363,847)	(81)%	
HEC	BWC	Related party of the Company	Construction contract	(474,596)	(81) %	Same as those in general transactions	-	-	119,372	56%	1
BWC	HEC	Related party of the Company	Construction project	474,596	44 %	Same as those in general transactions	-	-	(119,372)	(50)%	

Note 1: The Company recognized its construction contract income using the percentage-of-completion method.

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 TWD 100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Counter-party	Relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
CEC	CDC	Related party of the Company	Accounts receivable 1,363,847	3.12	-	-	244,314	-
HEC	BWC	Related party of the Company	Accounts receivable 119,372	7.95	-	-	91,523	-

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

(ix) Derivatives transactions: Please refer to notes

As of December 31, 2017, the Group entered into forward exchange agreement with an amount of USD12,083 thousand, and hedging instruments in amounts of USD15,006 thousand, JPY3,604 thousand and EUR891 thousand.

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	CHC	CEC	1	Rental costs	12,041	Same as those in normal transactions	0.04%
1	CEC	CHC	2	Rental revenue	12,041	Same as those in normal transactions	0.04%
		CDC	3	Rental revenue	15,810	Same as those in normal transactions	0.06%
		CDC	3	Construction revenue	3,585,087	Same as those in normal transactions	12.63%
		CDC	3	Accounts Receivable	1,363,847	-	2.11%
2	CDC	CEC	3	Construction costs	3,411,854	Same as those in normal transactions	12.02%
		CEC	3	Rental costs	15,810	Same as those in normal transactions	0.06%
		CEC	3	Accounts payable	1,363,847	-	2.11%
		MEGA	3	Other receivable	248,384	-	0.38%
3	HEC	NSC	3	Operating revenue	91,973	Same as those in normal transactions	0.32%
		NSC	3	Accounts receivable	78,766	-	0.12%
		BWC	3	Operating revenue	474,596	Same as those in normal transactions	1.67%
		BWC	3	Account Receivable	119,372	-	0.18%
		PDC	3	Operating revenue	16,059	Same as those in normal transactions	0.06%
4	NSC	HEC	3	Accounts payable	78,766	-	0.12%
		HEC	3	Operating cost	91,973	Same as those in normal transactions	0.32%
		SDC	3	Accounts payable	35,322	-	0.05%
		SDC	3	Operating cost	26,110	Same as those in normal transactions	0.09%
5	SDC	NSC	3	Accounts receivable	35,322	-	0.05%
		NSC	3	Construction revenue	26,110	Same as those in normal transactions	0.09%

(Continued)

No.	Name of company	Name of counter-party	Relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
6	BWC	HEC	3	Operating cost	474,596	Same as those in normal transactions	1.67%
		HEC	3	Account payable	119,372	-	0.18%
7	PDC	HEC	3	Operating cost	16,059	Same as those in normal transactions	0.06%

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

1) 0 represents the Company.

2) 1~7 represent subsidiaries

Note 2: Relationships are as follows:

1) 1. the Company to subsidiary.

2) 2. subsidiary to the Company.

3) 3. subsidiary to other subsidiary

(b) Information on investees:

The following table provides investees' information as of December 31, 2017 (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		Balance as of December 31, 2017			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value				
CHC	CEC	Taiwan	Comprehensive construction	6,484,584	8,844,949	400,062,071	100.00 %	5,110,266	100.00 %	(339,434)	(349,390)	Note 1
CHC	CDC	Taiwan	Housing and building development and lease	6,620,748	6,620,748	493,302,600	100.00 %	14,565,875	100.00 %	1,165,264	1,165,264	Note 1
CHC	HEC (Note 2)	Taiwan	Construction of underground pipeline	2,360,366	-	136,300,000	100.00 %	2,472,166	100.00 %	259,253	111,800	Note 1
CEC	CICI	India	Construction projects	497,839	497,839	73,981,492	100.00 %	(84,841)	100.00 %	(4,523)	Disclosure not required	-
CEC	CIC	British Virgin Islands	Investment and holding	1,305,504	1,305,504	39,139,940	100.00 %	1,117,724	100.00 %	(1,317,872)	Disclosure not required	-
CEC	CIMY	Malaysia	Construction projects	352,527	85,130	46,340,476	92.24 %	113,831	92.24 %	(83,847)	Disclosure not required	-
CDC	CEC Commercial Development Corp.	Taiwan	Housing and building development and lease	976,539	976,539	35,304,190	80.65 %	2,628,827	80.65 %	44,910	Disclosure not required	-
CDC	MEGA	Malaysia	Real estate development	7,375	6,298	825,000	55.00 %	9,644	55.00 %	10,860	Disclosure not required	-
CDC	CDC US Corp.	The U.S.	Investment and holding	601,152 (Note3)	-	5,000,000	100.00 %	596,842	100.00 %	(4,407)	Disclosure not required	-
CDC US Corp.	CDC Investment Management LLC	The U.S.	Engineering management	7,738 (Note3)	-	-	100.00 %	7,709	100.00 %	(29)	Disclosure not required	-
CDC US Corp.	Trimosa Holdings LLC	The U.S.	Investment and holding	592,938 (Note3)	-	-	70.65 %	589,029	70.65 %	(5,663)	Disclosure not required	-
Trimosa Holdings LLC	950 Investment LLC	The U.S.	Investment and holding	775,337 (Note3)	-	-	76.10 %	774,064	76.10 %	(1,716)	Disclosure not required	-
950 Investment LLC	950 Property LLC	The U.S.	Real estate development	1,018,774 (Note3)	-	-	100.00 %	1,017,125	100.00 %	(1,691)	Disclosure not required	-
CIC	New Continental Corp.	British Virgin Islands	Investment and holding	1,219,149	1,219,149	4,596	45.47 %	1,285,458	45.47 %	(2,782,881)	Disclosure not required	-
HEC	SDC	Taiwan	Construction projects	49,600	49,600	3,000,000	100.00 %	36,561	100.00 %	1,288	Disclosure not required	-
HEC	NSC	Taiwan	Pollution protection and other environmental sanitation	1,112,000	1,112,000	151,300,000	100.00 %	2,620,301	100.00 %	226,720	Disclosure not required	
HEC	BWC	Taiwan	Pollution protection and other environmental sanitation	362,100	168,300	36,210,000	51.00 %	379,270	51.00 %	40,820	Disclosure not required	

(Continued)

(English Translation of Financial Report Originally Issued in Chinese)

CONTINENTAL HOLDINGS CORPORATION

Notes to Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2017			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value				
HEC	PDC	Taiwan	Pollution protection and other environmental sanitation	140,000	60,000	14,000,000	100.00 %	139,410	100.00 %	(54)	Disclosure not required	
HEC	CTCI & HEC Water Business Corp.	Taiwan	Pollution protection and other environmental sanitation	245,000	245,000	24,500,000	49.00 %	239,849	49.00 %	(7,385)	Disclosure not required	

Note 1: The information on investment income/loss for the years ended December 31, 2017 was derived from the investees' financial statements audited by the auditors for the same period.

Note 2: Continental Environment Corporation bought 100% shares of HEC from CEC based on the resolution passed in CEC's board meeting held on July 26, 2017. However, instead of directly paying CEC, Continental Environment Corporation issued new ordinary shares to CEC's parent company, CHC. Continental Environment Corporation was then merged into HEC based on the resolution passed in Continental Environment Corporation's board meeting on September 11, 2017. After the merger, HEC was the surviving company with Continental Environment Corporation being the dissolving company.

Note 3: The original investing amount in USD is translated into TWD at the exchange rate 29.76 on the reporting date of financial statement.

(c) Information on investment in mainland China: None

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

(14) Segment information:

For the years ended December 31, 2017 and 2016, 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 normal expenses and interest unrelated to a segment.

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

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

(a) Disclosure of the information on industrial departments

The reconciliation statements of all operating departments:

	2017					
		Construction	Real estate	Investment	Adjustment and write-off	Total
Revenue:						
Segment revenues from external customers	$	23,549,178	4,835,565	-	-	28,384,743
Intersegment revenues		4,244,932	-	927,674	(5,172,606)	-
Total revenues	$	27,794,110	4,835,565	927,674	(5,172,606)	28,384,743
Reportable segment profit or loss	$	(1,179,928)	1,211,303	837,659	22,848	891,882
Assets:						
Investments accounted for using equity method	$	5,932,404	3,235,313	22,148,307	(29,790,717)	1,525,307
Capital expenditure		3,613,117	11,978,133	-	-	15,591,250
Reportable segment total assets	$	32,236,488	42,404,064	22,225,670	(32,076,643)	64,789,579
Reportable segment total liabilities	$	19,762,909	23,531,560	101,333	(2,206,099)	41,189,703

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

	2016				
	Construction	Real estate	Investment	Adjustment and write-off	Total
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	$ 24,058,434	3,501,933	644,179	(3,667,148)	24,537,398
Reportable segment profit or loss	$ (239,895)	1,131,518	553,025	(906,114)	538,534
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	$ 35,890,491	35,325,190	22,126,884	(33,999,434)	59,343,131
Reportable segment total liabilities	$ 19,905,688	18,341,688	67,162	(1,792,843)	36,521,695

(b) Geographic information

The revenues from external customers are categorized by the geographical location of customers and the non-current assets are categorized based on the region of where the assets are located:

Area	2017	2016
Revenue from external customers:		
Taiwan	$ 27,992,583	15,321,435
Others	392,160	9,215,963
	$ 28,384,743	24,537,398
Non-current assets		
Taiwan	$ 19,678,849	16,786,768
The United Sates	656,289	-
Others	1,060,468	711,658
Total	$ 21,395,606	17,498,426

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

	2017	2016
Construction corporations	$ 11,781,879	5,031,337
Governments	15,266,217	15,831,271
Others	1,336,647	3,674,790
Total	$ 28,384,743	24,537,398