

**CONTINENTAL HOLDINGS CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**With Independent Auditors' Report  
For the Years Ended December 31, 2019 and 2018**

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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.

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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, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, CONTINENTAL HOLDINGS CORPORATION and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: CONTINENTAL HOLDINGS CORPORATION

Chairman: Nita Ing

Date: March 20, 2020





安侯建業聯合會計師事務所

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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, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, 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 developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements 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.

#### 1. Revenue recognition of construction contracts

Please refer to Note 4(r) for revenue from contracts with customers; Note 5 for recognition of revenue and measurement for the completed percentage of construction contracts; and Note 6(z) 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. Inventory evaluation

Please refer to Note 4(h) for accounting policy about inventory evaluation, Note 5 for estimation of inventory evaluation and Note 6(g) for inventory.

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 11.70% and 13.48% of the consolidated total assets at December 31, 2019 and 2018, respectively, and the total revenues constituting 0.78% and 1.07% of the consolidated total revenues for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, using the equity method, the Group's investment in these investee companies constituted 0.95% and 1.27% of the Group's total asset; the profit or losses resulted from the Group's investment in the associates and joint ventures represented (124.35)% and (35.33)% of the Group's net profit before tax.

Continental Holdings Corporation has prepared its non-consolidated financial report for the years ended December 31, 2019 and 2018, and we have issued an unqualified opinion with other matter 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, IFRC, SIC endorsed and issued into effect 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 (including the Audit Committee) are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

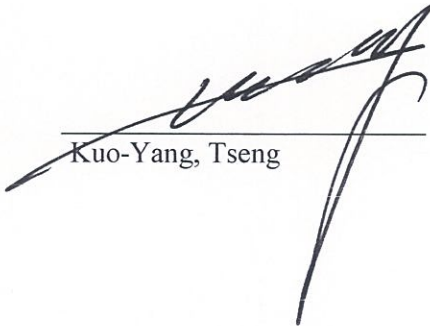
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

KPMG

Taipei, Taiwan (Republic of China)  
March 20, 2020



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Kuo-Yang, Tseng



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Ti-Nuan, Chien

**Notes to Readers**

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

The independent auditors' audit 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' audit 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 SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018		
	Amount	%	Amount	%	Amount	%	Amount	%	
<b>Assets</b>									
<b>Current assets:</b>									
1100 Cash and cash equivalents(Note 6(a))	\$ 4,423,239	7	4,547,174	7	2100 Short-term loans(Note 6(o))	\$ 8,085,510	13	11,019,633	17
1110 Current financial assets at fair value through profit or loss(Note 6(b))	-	-	2,003,713	3	2110 Short-term notes and bills payable(Note 6(p))	1,100,000	2	790,000	1
1139 Current financial assets for hedging(Notes 6(d))	538,361	1	253,391	-	2130 Current contract liabilities(Notes 6(z))	6,555,197	10	5,641,630	8
1140 Current contract assets(Notes 6(z))	4,962,956	8	5,917,560	9	2170 Accounts and notes payable(Note 7)	5,907,669	9	7,030,182	10
1150 Notes receivable, net(Notes 6(e) and (z))	342,904	2	419,775	1	Other payables(Note 7)	1,931,572	3	1,507,765	2
1170 Account receivable, net(Notes 6(e) and (z) and 7)	2,140,165	3	1,882,715	3	Current tax liabilities	335,192	1	36,196	-
1200 Other receivables, net(Notes 6(f) and 8)	819,484	1	713,068	1	Current provisions(Notes 6(s) and 7)	541,379	1	536,795	1
1220 Current tax assets(Note 6(x))	140,080	-	241,933	-	Current lease liabilities(Note 6(r))	106,982	-	-	-
130X Inventories(Note 6(g) and 8)	26,368,637	41	24,012,811	36	Advance receipts	33,884	-	60,002	-
1410 Prepayments	817,159	1	713,800	1	Long-term liabilities, current portion(Note 6(q))	1,886,230	3	884,930	1
1470 Other current assets(Notes 6(a) and 8)	1,887,962	3	1,971,713	3	Other current liabilities, others	134,046	-	119,859	-
1480 Current incremental cost from contract	181,305	-	141,093	-		26,617,661	42	27,626,992	40
	42,622,252	67	42,820,746	64	<b>Non-Current liabilities:</b>				
<b>Non-current assets:</b>					2540 Long-term loans(Note 6(q))	10,553,179	16	12,725,621	19
1510 Non-current financial assets at fair value through profit or loss(Note 6(b))	606,305	1	1,018,257	1	2570 Deferred tax liabilities	115,093	-	76,054	1
1517 Non-current financial assets at fair value through other comprehensive income(Note 6(c))	1,572,476	2	1,828,762	3	2580 Non-current lease liabilities(Note 6(r))	73,542	-	-	-
1550 Investments accounted for using equity method(Notes 6(h))	601,867	1	850,164	1	2610 Long-term notes and accounts payable(Note 6(u))	337,275	1	360,901	1
1600 Property, plant and equipment(Note 6(k))	2,286,634	4	1,836,333	3	2640 Net defined benefit liability, non-current(Note 6(v))	216,695	-	261,342	-
1755 Right-of-use assets(Note 6(l))	176,165	-	-	-	2645 Guarantee deposits received	137,278	-	130,277	-
1760 Investment property, net(Notes 6(m) and 8)	9,835,073	16	13,083,099	20		11,233,062	17	13,554,195	21
1780 Intangible assets(Notes 6(n) and 8)	1,149,653	2	1,157,023	2		37,850,723	59	41,181,187	61
1840 Deferred tax assets	50,813	-	10,522	-	<b>Total liabilities</b>	8,232,160	13	8,232,160	13
1900 Other non-current assets(Note 6(f))	98,735	-	155,260	-	<b>Equity attributable to owners of parent (Note 6(x)):</b>	6,804,435	11	6,804,435	10
1932 Long-term accounts receivables(Notes 6(e) , (z) and 8)	4,548,058	7	4,245,668	6	Ordinary shares	7,491,023	12	8,153,880	12
	20,925,779	33	24,185,088	36	3100 Capital surplus	82,334	-	462,360	1
					3200 Retained earnings	-	-	23,652,835	36
					3300 Other equity interest	-	-	2,171,812	3
					3400 Non-controlling interests	-	-	25,824,647	39
					36XX Total equity	3,087,356	5	2,171,812	3
<b>Total assets</b>	\$ 63,548,031	100	67,005,834	100		25,697,308	41	25,824,647	39
						63,548,031	100	67,005,834	100

See accompanying notes to financial statements.



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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Amount	%	Amount	%
4000 <b>Operating Revenues (Notes 6(z) and Note 7):</b>				
4300 Rental revenue	\$ 254,313	1	275,793	1
4500 Construction revenue	21,565,328	95	24,176,403	96
4800 Other operating revenue	845,446	4	701,915	3
<b>Net operating revenue</b>	<u>22,665,087</u>	<u>100</u>	<u>25,154,111</u>	<u>100</u>
5000 <b>Operating costs (Notes 6(g), (v) and 7):</b>				
5300 Rental costs	110,654	1	96,602	-
5500 Construction costs	19,506,549	86	21,124,389	84
5800 Other operating costs	315,329	1	208,975	1
5800 <b>Net operating costs</b>	<u>19,932,532</u>	<u>88</u>	<u>21,429,966</u>	<u>85</u>
<b>Gross profit from operations</b>	<u>2,732,555</u>	<u>12</u>	<u>3,724,145</u>	<u>15</u>
<b>Operating expenses (Notes (v), (aa) 7 and 12):</b>				
6100 Selling expenses	266,751	1	283,651	1
6200 Administrative expenses	1,140,861	5	1,090,340	4
	<u>1,407,612</u>	<u>6</u>	<u>1,373,991</u>	<u>5</u>
<b>Net operating income</b>	<u>1,324,943</u>	<u>6</u>	<u>2,350,154</u>	<u>10</u>
<b>Non-operating income and expenses (Note 6(ab) and 7):</b>				
7010 Other income	223,427	1	342,320	1
7020 Other gains and losses	162,231	1	427,441	2
7050 Finance costs(Notes 6(g) and (r))	(245,994)	(1)	(194,463)	(1)
7060 Share of losses of associates and joint ventures accounted for using equity method (Note 6(h))	(774,603)	(3)	(763,659)	(3)
7055 Expected credit loss	(67,072)	-	-	-
	<u>(702,011)</u>	<u>(2)</u>	<u>(188,361)</u>	<u>(1)</u>
7900 <b>Income before tax</b>	622,932	4	2,161,793	9
7950 Less: Income tax expenses (Note 6(w))	470,872	2	143,512	1
<b>Net income</b>	<u>152,060</u>	<u>2</u>	<u>2,018,281</u>	<u>8</u>
8300 <b>Other comprehensive income (loss):</b>				
8310 <b>Item that will not be reclassified to profit or loss</b>				
8311 Remeasurement effects on defined benefit plans	(26,425)	-	(21,989)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(255,516)	(2)	18,793	-
8320 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	61	-	84	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	5,285	-	4,398	-
	<u>(276,595)</u>	<u>(2)</u>	<u>1,286</u>	<u>-</u>
8360 <b>Item that may be reclassified to profit or loss</b>				
8361 Exchange differences on translation of foreign financial statements	(150,195)	(1)	(9,914)	-
8368 Gains (losses) on hedging instrument	(13,861)	-	26,507	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(11,383)	-	43,849	-
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	<u>(175,439)</u>	<u>(1)</u>	<u>60,442</u>	<u>-</u>
8300 <b>Other comprehensive income (loss), net</b>	<u>(452,034)</u>	<u>(3)</u>	<u>61,728</u>	<u>-</u>
<b>Comprehensive income (loss)</b>	<u>\$ (299,974)</u>	<u>(1)</u>	<u>2,080,009</u>	<u>8</u>
<b>Net income, attributable to:</b>				
8610 Net income, attributable to owners of parent	\$ 97,007	2	1,941,677	8
8620 Net income, attributable to non-controlling interests	55,053	-	76,604	-
	<u>\$ 152,060</u>	<u>2</u>	<u>2,018,281</u>	<u>8</u>
<b>Comprehensive income (loss) attributable to:</b>				
8710 Comprehensive income, attributable to owners of parent	\$ (309,336)	(1)	1,979,207	8
8720 Comprehensive income, attributable to non-controlling interests	9,362	-	100,802	-
	<u>\$ (299,974)</u>	<u>(1)</u>	<u>2,080,009</u>	<u>8</u>
<b>Basic earnings per share (Note 6(y))</b>				
9750 Basic earnings per share	\$ 0.12		2.36	
9850 Diluted earnings per share	\$ 0.12		2.36	

See accompanying notes to financial statements.

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

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent												
	Share capital	Retained earnings			Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income			Total other equity interest					
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriate retained earnings	Total retained earnings	Exchange difference of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on hedging instruments	Total other equity interest	Total equity attributable to owners of parent	Non-controlling interests	Total equity
<b>Balance at January 1, 2018</b>	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
Effects of retrospective application	-	-	-	-	1,230,320	1,230,320	-	(2,119,508)	13,557	(1,159,821)	70,499	-	70,499
Equity at beginning of period after adjustments	8,232,160	6,804,431	508,458	2,493,481	3,749,067	6,751,006	(538,891)	959,687	(13,557)	407,239	22,194,836	1,475,539	23,670,375
Net income	-	-	-	-	1,941,677	1,941,677	-	-	-	-	1,941,677	-	1,941,677
Other comprehensive income (loss)	-	-	-	-	(17,591)	(17,591)	9,737	18,877	26,507	55,121	37,550	76,604	2,018,281
Total comprehensive income	-	-	-	-	1,924,086	1,924,086	9,737	18,877	26,507	55,121	37,550	76,604	2,018,281
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	78,781	-	(78,781)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(493,930)	(493,930)	-	-	-	-	(493,930)	-	(493,930)
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	(27,282)	(27,282)	-	-	-	-	(27,282)	-	(27,282)
Changes in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	4	(4)	-
Balance at December 31, 2018	8,232,160	6,804,435	587,239	2,493,481	5,073,160	8,153,880	(529,154)	978,564	12,950	462,360	23,652,835	2,171,812	25,824,647
Net income	-	-	-	-	97,007	97,007	-	-	-	-	97,007	-	97,007
Other comprehensive income (loss)	-	-	-	-	(21,140)	(21,140)	(115,887)	(255,455)	(13,861)	(385,203)	(406,343)	(45,053)	152,060
Total comprehensive income	-	-	-	-	75,867	75,867	(115,887)	(255,455)	(13,861)	(385,203)	(309,336)	(45,053)	(452,034)
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	194,168	-	(194,168)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(740,894)	(740,894)	-	-	-	-	(740,894)	-	(740,894)
Reversal of special reserve	-	-	-	(231,248)	231,248	-	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	7,347	7,347	-	-	-	-	7,347	-	7,347
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(5,177)	(5,177)	-	5,177	-	5,177	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	906,182	906,182
<b>Balance at December 31, 2019</b>	<b>8,232,160</b>	<b>6,804,435</b>	<b>781,407</b>	<b>2,262,233</b>	<b>4,447,383</b>	<b>7,491,023</b>	<b>(645,041)</b>	<b>728,286</b>	<b>(911)</b>	<b>82,334</b>	<b>22,609,952</b>	<b>3,087,356</b>	<b>25,697,308</b>

See accompanying notes to financial statements.



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

Consolidated Statements of Cash Flows  
For the years ended December 31, 2019 and 2018  
(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
<b>Cash flows from operating activities:</b>		
Income before tax	\$ 622,932	2,161,793
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	265,780	175,593
Amortization expense	58,117	47,186
Expected credit loss (gain) / Provision (reversal of provision) for bad debt expense	67,072	(6,722)
Interest expense	245,994	194,463
Interest income	(57,576)	(48,853)
Dividend income	(134,008)	(183,117)
Share of loss of associates and joint ventures accounted for using equity method	774,603	763,659
Gain on disposal of property, plant and equipment	(584)	(2,713)
(Gain) loss on property, plant and equipment (under construction costs)	(2,658)	23,024
Gain on disposal of investment properties	(403,650)	-
Loss on lease remeasurement	(6)	-
Gain on reversal of impairment loss of property, plant, and equipment	-	(38,703)
Gain on reversal of impairment loss of property, plant, and equipment (accounted for construction costs)	(114,000)	-
Impairment loss	210,328	-
Gain on revaluation of financial assets	(24,536)	(459,701)
(Reversal of) provisions	26,651	(143,492)
Gain on overdue payables written off	(156)	(738)
<b>Total adjustments to reconcile profit</b>	<u>911,371</u>	<u>319,886</u>
<b>Changes in operating assets and liabilities:</b>		
<b>Changes in operating assets:</b>		
Contract assets	919,611	245,118
Notes receivable	76,870	427,725
Accounts receivable	(628,292)	330,464
Other receivable	(53,295)	(42,630)
Inventories	(2,267,006)	(5,904,291)
Prepayments	(107,530)	18,996
Other current assets	72,346	(1,520,080)
Assets recognised as incremental costs to obtain contract with customers	(40,212)	(2,463)
<b>Total changes in operating assets</b>	<u>(2,027,508)</u>	<u>(6,447,161)</u>
<b>Changes in operating liabilities:</b>		
Contract liabilities	2,967,227	6,161,773
Accounts payable	(1,104,394)	(1,038,977)
Other payable	285,574	504,448
Provisions	(18,138)	(33,812)
Receipts in advance	(26,034)	(22,097)
Other current liabilities	14,247	(84,052)
Net defined benefit liability	(65,786)	(36,285)
<b>Total changes in operating liabilities</b>	<u>2,052,696</u>	<u>5,450,998</u>
<b>Total changes in operating assets and liabilities</b>	<u>25,188</u>	<u>(996,163)</u>
<b>Total adjustments</b>	<u>936,559</u>	<u>(676,277)</u>
Cash inflow (outflow) generated from operations	1,559,491	1,485,516
Interest received	64,646	55,376
Interest paid	(397,442)	(441,224)
Income taxes refund (paid)	(77,564)	(164,959)
<b>Net cash flows from operating activities</b>	<u>1,149,131</u>	<u>934,709</u>

See accompanying notes to financial statements.

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

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

**For the years ended December 31, 2019 and 2018**

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

	<u>2019</u>	<u>2018</u>
<b>Cash flows from investing activities:</b>		
Disposal of financial assets at fair value through other comprehensive income	620	-
Acquisition of financial assets at fair value through profit or loss	(100,116)	(564,411)
Disposal of financial assets at fair value through profit or loss	2,540,316	-
Acquisition of financial assets for hedging	(1,655,408)	-
Disposal of financial assets for hedging	1,358,577	243,394
Price of associates acquisition	(740,609)	(71,865)
Effect from disposal of subsidiaries	-	(8,972)
Acquisition of property, plant and equipment	(141,618)	(39,391)
Disposal of property, plant and equipment	70,873	59,585
Other receivables	(63,258)	95,218
Acquisition of intangible assets	(50,747)	(223,774)
Acquisition of investment properties	(316,887)	(160,168)
Disposal of investment properties	1,466,075	-
Other non-current assets	67,369	-
Prepayments for business facilities	(10,647)	(27)
Dividends received	100,455	149,598
Long-term payments	(15,456)	(15,075)
<b>Net cash flows from (used in) investing activities</b>	<u>2,509,539</u>	<u>(535,888)</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	20,866,513	33,910,600
Decrease in short-term borrowings	(23,788,657)	(32,660,765)
Increase in short-term notes and bills payable	6,250,000	8,550,000
Decrease in short-term notes and bills payable	(5,940,000)	(8,760,000)
Increase in long-term borrowings	5,767,868	4,645,150
Decrease in long-term borrowings	(7,126,130)	(5,272,101)
Decrease in guarantee deposits received	7,004	(632)
Payment of lease liabilities	(67,331)	-
Cash dividends paid	(804,349)	(495,540)
Other payables	118,630	140,702
Change in non-controlling interests	969,638	597,084
<b>Net cash flows from (used in) financing activities</b>	<u>(3,746,814)</u>	<u>654,498</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(35,791)	65,342
<b>Net increase (decrease) in cash and cash equivalents</b>	(123,935)	1,118,661
<b>Cash and cash equivalents at beginning of period</b>	4,547,174	3,428,513
<b>Cash and cash equivalents at end of period</b>	<u>\$ 4,423,239</u>	<u>4,547,174</u>

See accompanying notes to financial statements.



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

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2019 and 2018**

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

**(1) Company history**

CONTINENTAL HOLDINGS CORPORATION ( “ the Company” ) was established through shares exchange with Continental Engineering Corp. (“CEC”) on April 8, 2010 and CEC became 100% - owned by the Company. On the same day, the Company was approved to be a listed Company by the FSC. The consolidated financial statements as of December 31, 2019 consist of the Company and all of its subsidiaries (“the Group”), and the interests in a jointly controlled entities and associates. Please refer to Note 14 for the Group’s main businesses.

**(2) Approval date and procedures of the consolidated financial statements:**

The Board of Directors approved the consolidated financial statements on March 20, 2020.

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

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

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, 2019.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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

(i) IFRS 16“Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(Continued)

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

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(n).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)



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

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognised additional \$133,951 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.4089%.

(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

The Group assessed that the above IFRSs may not be relevant to the Group.

(Continued)

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

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

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

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the 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) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income are measured at fair value;
- 3) Hedging financial instruments are measured at fair value;
- 4) The defined benefit liability 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.

(Continued)



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

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.

(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		Note
			December 31, 2019	December 31, 2018	
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. ("HDEC")	Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment	100.00 %	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")	Civil engineering, construction	92.24 %	92.24 %	
CEC	Continental Engineering Corporation(Hong Kong) Limited ("CEC HK")	Contract civil engineering construction and invest in real estate	100.00 %	100.00 %	

(Continued)

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

Investor Company	Subsidiary	Main Business Scope	Percentage of ownership		Note
			December 31, 2019	December 31, 2018	
CDC	CEC Commercial Development Corp. ("CCD")	Real estate development, sales and leasing of building	80.65 %	80.65 %	
CDC	MEGA Capital Development Sdn. Bhd ("MEGA")	Real estate development for office buildings and hotels	55.00 %	55.00 %	
CDC	Bangsar Rising Sdn. Bhd. ("BANGSAR")	Real estate development for office buildings and hotels	60.00 %	60.00 %	Note D
CDC	CDC Asset Management Malaysia Sdn. Bhd ("CDCAM")	Management consulting	100.00 %	- %	Note F
CDC	CDC US Corp. ("CDC US")	Investment in overseas companies	100.00 %	100.00 %	
CDC US	CDC Investment Management LLC	Engineering management	100.00 %	100.00 %	
CDC US	Trimosa Holdings LLC	Investment in overseas companies	70.65 %	70.65 %	
Trimosa Holdings LLC	950 Investment LLC	Investment in overseas companies	76.55 %	76.55 %	
950 Investment LLC	950 Property LLC	Real estate development for office buildings and hotels	100.00 %	100.00 %	
950 Investment LLC	950 Hotel LLC ("950P")	Real estate management	100.00 %	- %	Note G
HDEC	Fu Da Construction Corp., Ltd. ("SDC")	Construction of underground pipeline and environmental protection project, plumbing	100.00 %	100.00 %	
HDEC	North Shore Corp. ("NSC")	Sewer system design and construction in Danshui area, New Taipei City	100.00 %	100.00 %	Note A
HDEC	Blue Whale Water Technology Corp. ("BWC")	Feng Shan River wastewater reclamation and reuse BTO project in Kaohsiung City	51.00 %	51.00 %	Note B
HDEC	Pu Ding Corp. ("PDC")	Pu Ding area sewerage construction in Taoyuan City	100.00 %	100.00 %	Note C
HDEC	HDEC-CTCI (Lin Hai) Corp. ("LHC")	Feng Shan River wastewater reclamation and reuse BTO project in Kaohsiung City	55.00 %	55.00 %	Note E

Note A: 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 B: 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.

(Continued)

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

Note C: 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.

Note D: For expanding businesses in Malaysia, CDC established subsidiaries in the Malaysia in December 2018 based on a resolution passed in the board meeting held on December 6, 2018.

Note E: LHC was founded as a SPC to perform the contract for Kaohsiung coastal area 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 F: For managing investment companies in Malaysia, CDC established subsidiaries in Malaysia in September, 2019 based on a resolution approved in the board meeting held on August 2, 2019.

Note G: For managing businesses on real estate based on different classifications, CDC established subsidiaries in November, 2019 based on a resolution approved in the board meeting held on September, 17, 2019.

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

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) an investment in equity securities designated as at fair value through other comprehensive income;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

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

(Continued)



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

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 planned nor likely settled in the foreseeable future. Exchange differences 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, real estate development, and environmental project development. The normal operating cycle of the Group is more than one year. The balance sheet accounts 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.

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) The Group 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.

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

(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

Account receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(Continued)

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

2) Fair value through other comprehensive income (FVOCI )

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Trade receivables that the Group intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the 'trade receivables' line item. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

(Continued)



**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

5) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)

6) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

7) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities

1) Financial liabilities

Financial liabilities are classified as measured at amortized cost.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

2) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iii) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Group designates certain hedging instruments (which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk) as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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

1) Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under 'other equity— gains (losses) on hedging instruments', limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Furthermore, if the Group expects that some or all of the loss accumulated in other equity will not be recovered in the future, that amount is immediately reclassified to profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. The discontinuation is accounted for prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in other equity remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in other equity are immediately reclassified to profit or loss.

(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.

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

(i) 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(g) '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(o) '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 IFRS 15. Please refer to note 4(r) 'Revenue'.

(iii) Operating services

The accounting policy of operation services to the government shall be in accordance with IFRS 15 Please refer to note 4(r) 'Revenue'.

(j) Investment in associates

Associates are those entities in which the Group has significant influence, but no control, over the financial and operating policies.

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.

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align the accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases. The Group recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual proportionate share.

Gains and losses resulting from the transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interest in associates, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(k) Joint arrangements

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

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

IFRS 11 'Joint arrangement' defines 'Joint control' as '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 arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group accounts for the assets, liabilities, revenues and expenses in relation to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses. When assessing whether a joint arrangement is a joint operation or a joint venture, the Group considers the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances.

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

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

(m) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owneroccupied to investment property.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iv) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Buildings	4~50 years
Machinery and equipment	2~12 years
Transportation equipment	1~10 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 and adjusted if appropriate.

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

(n) Leases

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
  - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
  - the relevant decisions about how and for what purpose the asset is used are predetermined and:
    - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

Applicable before January 1, 2019

(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.

(o) 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.

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

(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.

(p) Impairment of non-derivative financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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.

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

(q) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(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) Onerous contract

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

(iii) After-sales service

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

(r) Revenue

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Construction contracts

The Group enters into contracts to build residential properties, commercial buildings and public constructions. Because its customer controls the asset as it is constructed, the Group recognizes revenue over time on the basis of the construction costs incurred to date as a proportion of the total estimated costs of the contract or the surveys of work performed / completion of a physical proportion of the contract work. The consideration promised in the contract includes fixed and variable amounts. The customer pays the fixed amount based on a payment schedule. For some variable considerations (for example, a penalty payment calculated based on delay days), accumulated experience is used to estimate the amount of variable consideration, using the expected value method. For other variable considerations (for example, completion bonus if a construction is completed by a specified date), the Group estimates the amount of variable consideration using the most likely amount. Considering the progress of a public construction is highly susceptible to factors outside the Group's control and, therefore, completion bonus is usually constrained, the Group recognizes revenue only to the extent that it is highly

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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probable that a significant reversal in the amount of cumulative revenue recognized will not occur. If the Group has recognized revenue, but not issued a bill, then the entitlement to consideration is recognized as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.

If the Group cannot reasonably measure its progress towards complete satisfaction of the performance obligation of a construction contract, the Group shall recognize revenue only to the extent of the costs expected to be recovered.

A provision for onerous contracts is recognized when the Group expects the unavoidable costs of performing the obligations under a construction contract exceed the economic benefits expected to be received under the contract.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

For residential properties, commercial buildings and public constructions, the Group offers a standard warranty to provide assurance that they comply with agreed upon specifications and has recognized warranty provisions for this obligation; please refer to note 6(s).

2) Land development and sale of real estate

The Group develops and sells residential properties and usually sales properties in advance during construction or before construction begins. Revenue is recognized when control over the properties has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title of a property has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer.

The revenue is measured at the transaction price agreed under the contract. For sale of readily available house, in most cases, the consideration is due when legal title of a property has been transferred. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component. For pre selling properties, the consideration is usually received by installment during the period from contract inception until the transfer of properties to the customer. If the contract includes a significant financing component, the transaction price will be adjusted for the effects of the time value of money during the period, using the specific borrowing rate of the construction project. Receipt of a prepayment from a customer is recognized as contract liability. Interest expense and contract liability are recognized when adjusting the effects of the time value of money. Accumulated amount of contract liability is recognized as revenue when control over the property has been transferred to the customer.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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Certain contracts include multiple deliverables, such as sale of residential properties and a decoration service. The Group accounts for the decoration service as a single performance obligation, and the transaction price is allocated to the decoration service on a relative stand alone selling price basis. If a stand alone selling price is not directly observable, it is estimated based on expected cost plus margin. Revenue from providing the decoration service is recognized in the accounting period in which the services are rendered and is determined based on the costs incurred to date as a proportion of the total estimated costs of the contract.

(ii) Contract costs

1) Incremental costs of obtaining a contract

The Group recognizes as an asset the incremental costs of obtaining a contract with a customer if the Group expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

2) Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), the Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

General and administrative costs, costs of wasted materials, labor or other resources to fulfil the contract that were not reflected in the price of the contract, costs that relate to satisfied performance obligations (or partially satisfied performance obligations), and costs for which the Group cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations), the Group recognizes these costs as expenses when incurred.

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid 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.

(t) Income Taxes

Income taxes comprise 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 are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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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 are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are 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 profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

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.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(u) 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 bonds and employee stock options.

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

(v) Operating Segments

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

**(5) 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) 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(e) and 6(n).

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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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) 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(g) for further description of the valuation of inventories.

(b) 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 subcontracting 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.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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Please refer to notes listed as below for assumptions used in measuring fair value.

- (a) Note 6(m), Investment property
- (b) Note 6(ac), Financial instruments

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

- (a) Cash and cash equivalents

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash	\$ 18,147	21,412
Cash in banks	3,353,176	3,265,442
Time deposits	942,153	1,227,377
Cash equivalents	<u>109,763</u>	<u>32,943</u>
Cash and cash equivalents	<u>\$ 4,423,239</u>	<u>4,547,174</u>

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

- (b) Financial assets at fair value through profit or loss

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Mandatorily measured at fair value through profit or loss:		
Stocks of listed company	\$ -	2,003,713
Stocks of unlisted company	<u>606,305</u>	<u>1,018,257</u>
Total	<u>\$ 606,305</u>	<u>3,021,970</u>

- (i) Please refer to note 6(ab) for the amount of remeasurements at fair value through profit or loss.
- (ii) The aforesaid financial assets were not pledged as collateral.
- (iii) Please refer to note 6(ac) for the aforementioned financial instruments' exposure to credit risk and interest rate risk.
- (iv) On May 23, 2018, the board meeting passed a resolution to purchase 18,188 preferred stocks issued by American Bridge Holding Company (ABHC) which is a subsidiary of New Continental Corp. The unit price is 1,000 USD. The information is as follows:
  - 1) Dividend yield ratio: The ratio is 6% before 2020, 7% in 2021, 8% in 2022, 9% 2023 and 10% after 2024. The dividend can be cumulative and be paid by cash or new stocks.
  - 2) Redeemable condition: If the net value of tangible assets of ABHC surpasses \$165,000 thousand within 3 years or \$150,000 thousand within 4 to 5 years, the issuer could redeem the preferred stock.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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- (v) For the year ended December 31, 2019 and 2018, the Group recognized the dividend income of \$33,553 thousands and \$33,519 thousands, respectively; both amounts were related to the abovementioned investments in preferred stocks. Please refer to Note 6(ab).
- (vi) On December 17, 2019, a resolution was approved during the board meeting to recognize the net value of ABHC, which was less than the book value of preferred stocks due to the loss of the infrastructure works contracted by ABHC. In consideration of its financial difficulties and solvency, the Group assessed that the investment of preferred stocks and the accumulated dividends receivable will be highly unrecoverable. Therefore, the book amount of \$512,067 thousand and the dividend receivable of \$67,072 thousand were fully recognized as losses, resulting in the above dividend receivable related to income tax liabilities of \$20,121 thousand to be reversed. Hence, the Group ceased to apply the original third level valuation method as of December 31, 2019.
- (c) Financial assets at fair value through other comprehensive income

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Equity investments at fair value through other comprehensive income:		
Unlisted common share—Xinrong Enterprise	\$ 586,246	584,775
Unlisted common share—Evergreen Steel Corp.	983,982	1,241,467
Unlisted common share—Metro Consulting Service Ltd.	<u>2,248</u>	<u>2,520</u>
Total	<u>\$ 1,572,476</u>	<u>1,828,762</u>

- (i) The Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for longterm for strategic purposes.
- (ii) For the years ended December 31, 2019 and 2018, the dividends of \$100,455 thousand and \$100,407 thousand, respectively, related to equity investments at fair value through other comprehensive income, were recognized, please refer to Note (ab).
- (iii) In October, 2019, the Group has sold its financial assets at fair value through other comprehensive income. The shares sold had a fair value of \$620 thousand, and the Group realized a loss of \$5,177 thousand, which has been transferred to retained earnings.
- (iv) No strategic investments were disposed as of December 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.
- (v) For credit risk and market risk; please refer to note 6(ac).
- (vi) As of December 31, 2019 and 2018 the aforesaid financial assets were not pledged as collateral.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (d) Financial instruments used for hedging

The components of financial assets were as follows:

	December 31, 2019	December 31, 2018
Cash flow hedge:		
Financial instruments used for hedging	\$ <u>538,361</u>	<u>255,391</u>

- (i) The Group is exposed to certain foreign exchange risk arising from the payments made to overseas companies for the purchase of facilities, preparation of overseas related investment and some construction projects involving foreign consultant design fees, etc. The foreign exchange risk is estimated to be high, therefore, the Group decided to use derivative financial instruments for hedging purposes.
- (ii) As of December 31, 2019 and 2018, the items hedged and the hedge instrument held by the Group were as follows:

Item Hedged	Hedge instrument	Hedge instrument designated to be hedge and fair value		Expected Cash flow Period	Expected Income Period
		December 31, 2019	December 31, 2018		
Expected Foreign assets	Foreign deposits	\$ <u>539,272</u>	<u>242,441</u>	2019~2020	2019~2020
	Change in value of Foreign currency	\$ <u>(6,694)</u>	<u>3,439</u>	2019~2020	2019~2020

Item Hedged	Hedge instrument	Hedge instrument designated to be hedge and fair value		Contract amount (in thousand)	Delivery date
		December 31, 2019	December 31, 2018		
Expected Foreign assets	Forward exchange	\$ <u>5,783</u>	<u>19,103</u>	USD 4,953	2020.03.25~2022.06.25

- (iii) The transactions of cash flow hedges for the years ended December 31, 2019 and 2018, were all effective.

## (e) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable from operating activities	\$ 342,904	419,775
Accounts receivable-measured as amortized cost	2,140,165	1,882,715
Long-term receivable-measured as amortized cost	4,548,058	4,245,668
Less: Allowance for bad debts	-	-
	\$ <u>7,031,127</u>	<u>6,548,158</u>

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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The Group applies the simplified approach to provide for the loss allowance used for expected credit losses, which permit the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as forward looking information, including overall economic environment and related industrial information. The loss allowance provision was determined as follows:

	<b>December 31, 2019</b>		
	<b>Gross carrying amount</b>	<b>Expected loss rate</b>	<b>Loss allowance provision</b>
Not overdue	\$ 6,998,544	0%	-
Pass due less than one year	15,134	0%	-
Pass due over one year	17,449	0%	-
Pass due over two years	-	100%	-
	<u>\$ 7,031,127</u>		<u>-</u>

	<b>December 31, 2018</b>		
	<b>Gross carrying amount</b>	<b>Expected loss rate</b>	<b>Loss allowance provision</b>
Not overdue	\$ 6,467,874	0%	-
Pass due less than one year	8,957	0%	-
Pass due over one year	71,327	0%	-
Pass due over two years	-	100%	-
	<u>\$ 6,548,158</u>		<u>-</u>

The movement in the allowance for notes and accounts receivable was as follows:

	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ -	6,261
Impairment losses reversed	-	(6,722)
Exchange differences on translation of foreign financial statement	-	461
Balance at December 31	<u>\$ -</u>	<u>-</u>

As of December 31, 2019 and 2018, the notes and accounts receivable of the Group were not pledged as collateral.

Please refer to Note 6(ac) for other credit risk information.

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

## (f) Other receivables

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Other receivables—lending of capital	\$ 348,135	194,937
Other receivables—lawsuit	243,206	243,206
Other receivables—related party	905	8,458
Other	227,238	266,467
Other non-current assets	67,072	33,519
Less: Allowance for impairment	<u>(67,072)</u>	<u>-</u>
	<u>\$ 819,484</u>	<u>746,587</u>

(i) Please refer to Note 6(b) (vi) for recognition of impairment losses for the year ended December 31, 2019.

(ii) Please refer to Note 6(ac) for other credit risk information

## (g) Inventory

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Construction:		
Material on hand	\$ 5,033	31,028
Real estate:		
Real estate held for sale	7,784,208	3,473,753
Land held for development	3,185,050	2,728,054
Building construction in progress	15,420,614	17,647,530
Prepayment for land	<u>226,127</u>	<u>233,659</u>
Subtotal	26,615,999	24,082,996
Less: Allowance for impairment loss	<u>(252,395)</u>	<u>(101,213)</u>
	<u>\$ 26,368,637</u>	<u>24,012,811</u>

For the years ended December 31, 2019 and 2018, the cost of inventory was \$3,489,189 thousand and \$4,205,512 thousand, respectively. Due to the sales of the remaining real estates in 2019 and 2018, the allowance for impairment loss was reversed, and the costs of goods sold were decreased by \$667 thousand in 2019.

Capitalizing interest costs were as follows:

	<u>2019</u>	<u>2018</u>
Interest costs	\$ <u>493,501</u>	<u>470,679</u>
Capitalized interests	\$ <u>247,507</u>	<u>276,216</u>
Capitalization interest rate	<u>1.66%~7.9%</u>	<u>1.64%~7.9%</u>

Please refer to Note 8 for information about inventory collateral.

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(h) Investments accounted for using equity method

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Associates	<u>\$ 601,867</u>	<u>850,164</u>

(i) Associates

The Group's significant associates were as follows:

<b>Name of associates</b>	<b>Relationship with the Group</b>	<b>Location</b>	<b>Percentage of ownership or voting power</b>	
			<b>December 31, 2019</b>	<b>December 31, 2018</b>
New Continental Corp. ("NCC")	Holding company of parties involved in American infrastructure project contracts	British Virgin Islands	45.47 %	45.47 %
CTCI & HDEC (Chungli) Corporation ("CTCI & HDEC")	SPC, mainly responsible for the sewerage system BOT project in Chung-Li area, Taoyuan City.	Taiwan	49 %	49 %
Fan Lu Construction Industry Co., Ltd. ("Fan Lu")	Real estate	Taiwan	35 %	- %

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.

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1) Summary of NCC's financial figures

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Current assets	\$ 3,328,140	3,131,087
Non-current assets	3,711,824	3,036,577
Current liabilities	(5,954,867)	(4,128,557)
Non-current liabilities	<u>(1,330,213)</u>	<u>(1,292,180)</u>
Net assets	<u>\$ (245,116)</u>	<u>746,927</u>
Net assets attributable to non-controlling interests	<u>\$ (5,276)</u>	<u>11,303</u>
Net assets attributable to investee owners	<u>\$ (239,840)</u>	<u>735,624</u>
	<b>2019</b>	<b>2018</b>
Revenue	<u>\$ 9,105,258</u>	<u>7,744,847</u>
Comprehensive income	<u>(1,871,518)</u>	<u>1,463,864</u>
Comprehensive income attributable to non-controlling interests	<u>\$ (14,992)</u>	<u>92,257</u>
Comprehensive income attributable to investee owners	<u>\$ (1,856,526)</u>	<u>(1,556,121)</u>
Net assets attributable to the Group, January 1	\$ 543,477	1,285,458
Comprehensive income attributable to the Group	(761,353)	(714,699)
Additions	420,857	-
Changes in equity of associates accounted for using equity method	7,347	(27,282)
Assets attributable to the Group, December 31	210,328	543,477
Impairment loss	<u>(210,328)</u>	<u>-</u>
Assets attributable to the Group	<u>\$ -</u>	<u>543,477</u>

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.

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**Notes to the Consolidated Financial Statements**

2) Summary of CTCI & HDEC's financial figures

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Current assets	\$ 151,227	288,065
Non-current assets	338,735	262,929
Current liabilities	(15,153)	(71,551)
Non-current liabilities	-	-
Net assets	<u>\$ 474,809</u>	<u>479,443</u>
Net assets attributable to non-controlling interests	<u>\$ 232,656</u>	<u>234,927</u>
Net assets attributable to investee owners	<u>\$ 242,153</u>	<u>244,516</u>
	<u>2019</u>	<u>2018</u>
Revenue	<u>\$ 75,987</u>	<u>231,122</u>
Net loss from continuing operation/Comprehensive income	<u>\$ (4,634)</u>	<u>(10,045)</u>
Comprehensive income attributable to non-controlling interests	<u>\$ (2,271)</u>	<u>(4,922)</u>
Comprehensive income attributable to investee owners	<u>\$ (2,363)</u>	<u>(5,123)</u>
Net assets attributable to the Group, January 1	\$ 234,927	239,849
Comprehensive income attributable to the Group	(2,271)	(4,922)
Assets attributable to the Group, December 31	<u>\$ 232,656</u>	<u>234,927</u>

3) Summary of Fan Lu's financial figures

	<u>December 31,</u> <u>2019</u>
Current assets	\$ 3,290,949
Non-current assets	554
Current liabilities	(31,563)
Non-current liabilities	<u>(2,205,000)</u>
Net assets	<u>\$ 1,054,940</u>
Net assets attributable to non-controlling interests	<u>\$ 369,211</u>
Net assets attributable to investee owners	<u>\$ 685,729</u>

(Continued)

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

	<b>2019</b>
Revenue	\$ <u>573</u>
Net loss from continuing operation/Comprehensive income	\$ <u>(63,718)</u>
Net assets attributable to the Group, January 1	\$ 71,760
Comprehensive income attributable to the Group	(22,301)
Additions	<u>319,752</u>
Assets attributable to the Group, December 31	\$ <u><u>369,211</u></u>

The Group's financial information for investments in individually insignificant joint venture accounted for using equity method at the reporting date was as follows. These financial information are included in the consolidated financial statements.

	<b>December 31, 2018</b>
Individually insignificant joint venture	\$ <u>71,760</u>
Attributable to the Group:	<b>2018</b>
Net loss for the year	\$ (105)
Loss from continuing operation	<u>-</u>
Comprehensive income	\$ <u><u>(105)</u></u>

(ii) Impairment loss

The investee of NCC mainly engages in infrastructure construction. Due to the sustained loss, the Group recognized an impairment loss of \$210,328 after its evaluation. Please refer to Note 6(ab).

(iii) Guarantee

As of December 31, 2019 and 2018, the investments accounted for using equity method were not pledged as collateral.

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

<u>Subsidiaries</u>	<u>Country of registration</u>	<u>Equity ownership of non-controlling interest</u>	
		<u>December 31, 2019</u>	<u>December 31, 2018</u>
CDC US and subsidiaries	The United States	29.35 %	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.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current assets	\$ 5,758,143	3,662,778
Non-current assets	-	-
Current liabilities	(1,590,957)	(1,331,991)
Non-current liabilities	(337,275)	(360,901)
Net assets	<u>\$ 3,829,911</u>	<u>1,969,886</u>
Non-controlling interest	<u>\$ 1,825,739</u>	<u>902,998</u>
	<u>2019</u>	<u>2018</u>
Revenue	\$ -	-
Net loss for the year	\$ (14,249)	(7,989)
Other comprehensive income	-	-
Comprehensive income	<u>\$ (14,249)</u>	<u>(7,989)</u>
Net income attribute to non-controlling interest	<u>\$ (1,120)</u>	<u>(570)</u>
Comprehensive income attribute to non-controlling interest	<u>\$ (1,120)</u>	<u>(570)</u>
Cash flows from operating activities	\$ 292,965	(32,533)
Cash flows from investing activities	(1,862,595)	(760,126)
Cash flows from financing activities	1,768,205	644,896
Net decrease in cash and cash equivalents	<u>\$ 198,575</u>	<u>(147,763)</u>

- (j) Losing control over subsidiaries

As of February, 2018, the Group established Fan Lu which outstanding ordinary shares were 100% held for NTD9,000 thousand. As of December, 2018, Fan Lu conducted capital increased by cash, the Group didn't participate in the stock subscription so the proportion of shareholding fell to 35% which resulted in losing control and only having significant influence on Fan Lu.

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The carrying amount of assets and liabilities of Fan Lu were as follow:

Cash and cash equivalents	\$ <u>8,972</u>
Carrying amount of net assets	\$ <u><u>8,972</u></u>

There was no related profit or loss recognized because the fair value of Fan Lu's equity was unchanged before the date for remeasurement of losing control.

(k) Property, plant and equipment

Movements of the cost, depreciation, and impairment of property, plant and equipment of the Group for the years 2019 and 2018, were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Transportation equipment</u>	<u>Computer equipment</u>	<u>Office equipment</u>	<u>Total</u>
Cost or deemed cost:							
Balance at January 1, 2019	\$ 1,264,952	541,608	1,740,107	206,849	91,843	163,570	4,008,929
Additions	-	-	105,220	18,880	12,222	5,296	141,618
Reclassification	360,698	61,602	19,920	-	-	-	442,220
Disposals	-	-	(189,943)	(28,157)	(23,534)	(17,560)	(259,194)
Effect of exchange rate changes	-	(19)	(49,430)	(779)	(610)	(1,292)	(52,130)
Balance at December 31, 2019	<u>\$ 1,625,650</u>	<u>603,191</u>	<u>1,625,874</u>	<u>196,793</u>	<u>79,921</u>	<u>150,014</u>	<u>4,281,443</u>
Balance at January 1, 2018	\$ 1,264,952	541,591	2,294,051	209,831	99,360	189,335	4,599,120
Additions	-	-	9,000	11,872	8,670	9,849	39,391
Reclassification	-	-	(475,789)	(14,557)	(14,759)	(32,625)	(537,730)
Effect of exchange rate changes	-	17	(87,155)	(297)	(1,428)	(2,989)	(91,852)
Balance at December 31, 2018	<u>\$ 1,264,952</u>	<u>541,608</u>	<u>1,740,107</u>	<u>206,849</u>	<u>91,843</u>	<u>163,570</u>	<u>4,008,929</u>
Depreciation and impairment loss:							
Balance at January 1, 2019	\$ -	194,661	1,583,932	176,193	75,266	142,544	2,172,596
Depreciation	-	13,047	119,293	11,840	8,079	5,922	158,181
Impairment loss	-	-	(114,000)	-	-	-	(114,000)
Reclassification	-	17,011	-	-	-	-	17,011
Disposals	-	-	(127,822)	(26,463)	(22,714)	(14,564)	(191,563)
Effect of exchange rate changes	-	(24)	(45,252)	(616)	(461)	(1,063)	(47,416)
Balance at December 31, 2019	<u>\$ -</u>	<u>224,695</u>	<u>1,416,151</u>	<u>160,954</u>	<u>60,170</u>	<u>132,839</u>	<u>1,994,809</u>
Balance at January 1, 2018	\$ -	182,523	2,005,783	173,373	80,209	159,025	2,600,913
Depreciation	-	12,133	84,652	17,361	10,755	13,253	138,154
Impairment loss	-	-	8,297	-	-	-	8,297
Impairment loss reverse	-	-	(47,000)	-	-	-	(47,000)
Disposals	-	-	(401,430)	(14,266)	(14,432)	(27,706)	(457,834)
Effect of exchange rate changes	-	5	(66,370)	(275)	(1,266)	(2,028)	(69,934)
Balance at December 31, 2018	<u>\$ -</u>	<u>194,661</u>	<u>1,583,932</u>	<u>176,193</u>	<u>75,266</u>	<u>142,544</u>	<u>2,172,596</u>
Carrying amount							
Balance at December 31, 2019	<u>\$ 1,625,650</u>	<u>378,496</u>	<u>209,723</u>	<u>35,839</u>	<u>19,751</u>	<u>17,175</u>	<u>2,286,634</u>
Balance at December 31, 2018	<u>\$ 1,264,952</u>	<u>346,947</u>	<u>156,175</u>	<u>30,656</u>	<u>16,577</u>	<u>21,026</u>	<u>1,836,333</u>

(i) As of December 31, 2019 and 2018, the properties were pledged as collateral, please refer to Note 8.

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- (ii) Please refer to Note 6(ab) for details of the gain and loss on disposal of property, plant and equipment.
- (iii) As of December 31, 2018 the Group recognizes impairment loss amounted to \$8,297 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.
- (iv) Impairment loss and reversal

In year 2019 and 2018, after comparing the book value and recoverable of property, plant and equipment, the Group reversed \$114,000 thousand and \$47,000 thousand of impairment, respectively. The impairment loss was included in deduction of operating costs and other income and expenses. Please refer to note 6(ab).

(I) Right-of-use assets

The movements in the cost and depreciation of the leased land, buildings, machinery equipment and transportation equipment were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
<b>Cost:</b>				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	17,265	110,759	5,927	133,951
Additions	39,026	78,970	-	117,996
Disposals	(2,783)	(8,889)	-	(11,672)
Effect of exchange rate changes	-	(2,195)	-	(2,195)
Balance at December 31, 2019	<u>\$ 53,508</u>	<u>178,645</u>	<u>5,927</u>	<u>238,080</u>
<b>Accumulated depreciation:</b>				
Balance at January 1, 2019	\$ -	-	-	-
Depreciation for the period	14,185	54,528	2,655	71,368
Disposals	(2,667)	(6,396)	-	(9,063)
Effect of exchange rate changes	-	(390)	-	(390)
Balance at December 31, 2019	<u>\$ 11,518</u>	<u>47,742</u>	<u>2,655</u>	<u>61,915</u>
<b>Carrying amounts:</b>				
Balance at December 31, 2019	<u>\$ 41,990</u>	<u>130,903</u>	<u>3,272</u>	<u>176,165</u>

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (m) Investment property

	<u>Owned</u>		
	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 11,664,853	2,500,610	14,165,463
Addition	-	316,887	316,887
Reclassification	(2,425,019)	(229,677)	(2,654,696)
Disposals and obsolescence	(911,329)	(242,072)	(1,153,401)
Effect of exchange rate changes	<u>(2,762)</u>	<u>(8,791)</u>	<u>(11,553)</u>
Balance at December 31, 2019	<u>\$ 8,325,743</u>	<u>2,336,957</u>	<u>10,662,700</u>
Balance at January 1, 2018	\$ 12,007,038	2,630,930	14,637,968
Disposal	-	160,168	160,168
Reclassification	(276,543)	(358,777)	(635,320)
Effect of exchange rate changes	<u>(65,642)</u>	<u>68,289</u>	<u>2,647</u>
Balance at December 31, 2018	<u>\$ 11,664,853</u>	<u>2,500,610</u>	<u>14,165,463</u>
Depreciation and impairment losses :			
Balance at January 1, 2019	\$ 501,205	581,159	1,082,364
Depreciation	-	36,231	36,231
Reclassification	(151,849)	(48,143)	(199,992)
Disposal	<u>-</u>	<u>(90,976)</u>	<u>(90,976)</u>
Balance at December 31, 2019	<u>\$ 349,356</u>	<u>478,271</u>	<u>827,627</u>
Balance at January 1, 2018	\$ 501,205	543,720	1,044,925
Depreciation	<u>-</u>	<u>37,439</u>	<u>37,439</u>
Balance at December 31, 2018	<u>\$ 501,205</u>	<u>581,159</u>	<u>1,082,364</u>
Carrying amounts:			
Balance at December 31, 2019	<u>\$ 7,976,387</u>	<u>1,858,686</u>	<u>9,835,073</u>
Balance at December 31, 2018	<u>\$ 11,163,648</u>	<u>1,919,451</u>	<u>13,083,099</u>
Fair value:			
Balance at December 31, 2019			<u>\$ 13,983,170</u>
Balance at December 31, 2018			<u>\$ 17,251,115</u>

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.

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Investment property comprises a number of commercial properties that are leased to third parties. Refer to Note 6(t) 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, 2019 and 2018, the investment properties were pledged as collateral, please refer to Note 8.

(n) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2019 and 2018, were as follows:

	<u>Goodwill</u>	<u>Service Concession Agreements</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 30,249	1,309,250	1,339,499
Additions	-	50,747	50,747
Balance at December 31, 2019	<u>\$ 30,249</u>	<u>1,359,997</u>	<u>1,390,246</u>
Balance at January 1, 2018	\$ 30,249	1,116,479	1,146,728
Additions	-	223,774	223,774
Disposal	-	(31,003)	(31,003)
Balance at December 31, 2018	<u>\$ 30,249</u>	<u>1,309,250</u>	<u>1,339,499</u>
Amortization and impairment loss:			
Balance at January 1, 2019	\$ -	182,476	182,476
Amortization	-	58,117	58,117
Balance at December 31, 2019	<u>\$ -</u>	<u>240,593</u>	<u>240,593</u>
Balance at January 1, 2018	\$ -	135,290	135,290
Amortization	-	47,186	47,186
Balance at December 31, 2018	<u>\$ -</u>	<u>182,476</u>	<u>182,476</u>
Carrying amount:			
Balance at December 31, 2019	<u>\$ 30,249</u>	<u>1,119,404</u>	<u>1,149,653</u>
Balance at December 31, 2018	<u>\$ 30,249</u>	<u>1,126,774</u>	<u>1,157,023</u>

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**Notes to the Consolidated Financial Statements**

## (i) Amortization

The amortization of intangible assets were recognized in the statement of comprehensive income as follows:

	<u>2019</u>	<u>2018</u>
Operating costs	\$ <u>58,117</u>	<u>47,186</u>

## (ii) Guarantee

As of December 31, 2019 and 2018, the intangible assets were pledged as collateral, please refer to Note 8.

## (o) Short-term borrowings

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unsecured loans	\$ 1,456,389	2,450,000
Secured loans	<u>6,629,121</u>	<u>8,569,633</u>
	<u>\$ 8,085,510</u>	<u>11,019,633</u>
Unused credit limit	<u>\$ 24,061,123</u>	<u>22,080,870</u>
Annual interest rate	<u>1.067%~5.25%</u>	<u>1%~6%</u>

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

## (p) Short-term notes and bills payable

	<u>December 31, 2019</u>		
	<u>Guarantee or Acceptance Agency</u>	<u>Interest Rate Range</u>	<u>Amount</u>
Bills payable	Financial institutions	1.302%~1.664%	\$ <u>1,100,000</u>
	<u>December 31, 2018</u>		
	<u>Guarantee or Acceptance Agency</u>	<u>Interest Rate Range</u>	<u>Amount</u>
Bills payable	Financial institutions	1.232%~1.34%	\$ <u>790,000</u>

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

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (q) Long-term borrowings

<b>December 31, 2019</b>				
	<b>Currency</b>	<b>Interest Rate Range</b>	<b>Matured Period</b>	<b>Amount</b>
Unsecured loans	TWD	1.1%~2.1%	2020.01~2025.02	\$ 4,757,800
	USD	3.3291%	2020.05	299,800
Secured loans	TWD	1.42%~1.871%	2020.02~2026.12	6,854,922
	USD	4.2354%~5.4293%	2021.06	<u>329,512</u>
				12,242,034
Less: current portion				(1,886,230)
Less: fees				<u>(2,625)</u>
Total				<u><u>\$ 10,353,179</u></u>
Unused credit limit				<u><u>\$ 5,318,814</u></u>

<b>December 31, 2018</b>				
	<b>Currency</b>	<b>Interest Rate Range</b>	<b>Matured Period</b>	<b>Amount</b>
Unsecured loans	TWD	1.3080%~2.2500%	2020.06~2025.12	\$ 4,393,000
	USD	4%	2020.05	307,150
Secured loans	TWD	1.42%~2.0613%	2019.02~2026.12	8,675,352
	USD	4.24%~5.38%	2021.06	<u>238,124</u>
				13,613,626
Less: current portion				(884,930)
Less: fees				<u>(3,075)</u>
Total				<u><u>\$ 12,725,621</u></u>
Unused credit limit				<u><u>\$ 3,448,313</u></u>

- (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, 2019 and 2018, CEC did not violate any terms in the loan agreement.
- (iii) The loan agreement requires HDEC to maintain certain financial ratios: As of December 31, 2019 and 2018, debt ratio  $\leq$  100% and 130%, and net worth > \$2.0 billion. As of December 31, 2019 and 2018, HDEC did not violate any terms in the loan agreement.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(iv) The loan agreement requires NSC to maintain certain financial ratios:

<b>Financial ratio</b>	<b>2017~2023</b>
Debt ratio $\leq$	150%
<b>Financial ratio</b>	<b>2012~2023</b>
Liquidity ratio $\geq$	100

As of December 31, 2019 and 2018, NSC did not violate any terms in the loan agreement.

(r) Lease liabilities

The Group's lease liabilities were as follows:

	<b>December 31,</b> <b>2019</b>
Current	\$ <u><u>106,982</u></u>
Non-current	\$ <u><u>73,542</u></u>

For maturity analysis, please refer to Note 6(ac).

The amounts recognized in profit or loss were as follows:

	<b>2019</b>
Interest on lease liabilities	\$ <u><u>4,317</u></u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u><u>17,470</u></u>
Expenses relating to short-term leases	\$ <u><u>99,093</u></u>

The amounts recognized in the statement of cash flows for the Group was as follows :

	<b>2019</b>
Total cash outflow for leases	\$ <u><u>188,211</u></u>

(i) Real estate leases

As of December 31, 2019, the Group leases land and buildings for its office space, work station and staff dormitory which leases typically run for a period of one to five years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some leases provide for additional rent payments that are based on changes in the facts or circumstances after the lease commencement date.

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(ii) Other leases

The Group leases transportation equipment, with lease terms of two to five years.

In addition, the Group leases office equipment and machinery, with lease terms of one to three years which are short-term items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(s) Provisions

	<u>Onerous contracts</u>	<u>Warranties</u>	<u>After-sales service</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2019	\$ 303,531	104,411	128,853	-	536,795
Addition	-	48,040	11,350	-	59,390
Realized	-	(15,765)	(2,373)	-	(18,138)
Reversal	(12,941)	(19,798)	-	-	(32,739)
Effect of exchange rate changes	(3,929)	-	-	-	(3,929)
Balance at December 31, 2019	<u>\$ 286,661</u>	<u>116,888</u>	<u>137,830</u>	<u>-</u>	<u>541,379</u>
Balance at January 1, 2018	\$ -	144,657	116,527	35,000	296,184
Adjustments for applying new standard	417,915	-	-	-	417,915
Addition	-	12,846	17,970	-	30,816
Realized	-	(11,267)	(5,644)	(16,901)	(33,812)
Reversal	(114,384)	(41,825)	-	(18,099)	(174,308)
Balance at December 31, 2018	<u>\$ 303,531</u>	<u>104,411</u>	<u>128,853</u>	<u>-</u>	<u>536,795</u>

(i) Onerous contract

After adopting IFRS 15, when total future construction cost is likely to surpass total contract revenue the Group would evaluate onerous contract based on IAS 37 Provision, Contingent Liabilities and Contingent Assets.

(ii) Warranties

The provision for warranties and aftersales service relates mainly to construction contracts and sales premises for the years ended December 31, 2019 and 2018. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to settle the majority of the liability within one to five years after the construction completed.

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(t) Operating leases

The Group has classified some leases as operating, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to Note 6(m) set out information about the operating leases of investment property.

As of December 31, 2019, a maturity analysis of lease payments, showing the undiscounted lease payments to be received after reporting date are as follows:

	<b>December 31, 2019</b>
Less than one year	\$ 202,082
Between one and five years	238,496
More than five years	<u>100,035</u>
Total undiscounted lease payments	<u><u>\$ 540,613</u></u>

As of December 31, 2018, the future minimum lease receivables under non-cancellable lease are as follows:

	<b>December 31, 2018</b>
Less than one year	\$ 284,853
Between one and five years	<u>257,626</u>
	<u><u>\$ 542,479</u></u>

For the years ended December 31, 2019 and 2018, the rental revenue of investment property was \$254,313 thousand and \$275,793 thousand, respectively.

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

	<b>2019</b>	<b>2018</b>
Expenses that generated rental revenue	\$ 9,442	8,447
Expenses unrelated to the derivation of rental revenue	<u>72</u>	<u>38</u>
	<u><u>\$ 9,514</u></u>	<u><u>8,485</u></u>

(u) 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 after the completion of the construction projects of its subsidiaries. Unpaid amount to 2019 and 2018 are \$337,275 thousand and \$360,901 thousand, respectively.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (v) Employee benefits

## (i) Defined benefit plan

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	\$ 571,450	562,127
Fair value of plan assets	<u>(310,608)</u>	<u>(258,030)</u>
Net defined benefit liabilities	<u>\$ 260,842</u>	<u>304,097</u>

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

## 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 \$310,608 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.

## 2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Defined benefit obligation, January 1	\$ 562,127	539,135
Current service costs and interest	10,522	11,146
Re-measurements of the net defined benefit liabilities (assets)		
— Actuarial gains (losses) arose from changes in financial assumption	2,487	3,041
— Experience adjustments	27,632	20,705
Benefits paid by the plan	<u>(31,318)</u>	<u>(11,900)</u>
Defined benefit obligation, December 31	<u>\$ 571,450</u>	<u>562,127</u>

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3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets, January 1	\$ 258,030	230,988
Interest revenue	2,846	2,798
Re-measurements of the net defined benefit liabilities (assets)		
— Expected return on plan assets (excluding interest)	8,979	6,155
Contributions made	46,848	29,989
Benefits paid by the plan	<u>(6,095)</u>	<u>(11,900)</u>
Fair value of plan assets, December 31	<u>\$ 310,608</u>	<u>258,030</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Current service costs	\$ 4,451	4,794
Interest on net defined benefit obligations (assets)	<u>3,225</u>	<u>3,554</u>
	<u>\$ 7,676</u>	<u>8,348</u>
Administrative expenses	<u>\$ 7,676</u>	<u>8,348</u>

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

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Cumulative amount, January 1	\$ 68,465	50,874
Recognized during the period	<u>21,140</u>	<u>17,591</u>
Cumulative amount, December 31	<u>\$ 89,605</u>	<u>68,465</u>

6) Actuarial assumptions

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

	<u>2019.12.31</u>	<u>2018.12.31</u>
Discount rate	1.00%~1.20%	1.0%~1.45%
Long-term average adjustment rate of salary	2.50%~3.00%	2.5%~3.0%

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The Group expects to pay defined contribution benefit plans amounted to \$5,272 thousand within one year, after December 31, 2019.

The weighted-average duration of the defined benefit plan is 2.7 to 18.5 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, 2019 and 2018, the changes in the principal actuarial assumptions will have impact on the present value of the defined benefit obligation as follows:

	<b>Impact on the defined benefit obligations</b>	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2019		
Discount (change by 0.25%)	(0.46)~(1.47)	0.47~1.52
Future salary increase (change by 1.00%)	3.02~7.18	(2.84)~(6.43)
December 31, 2018		
Discount (change by 0.25%)	(0.48)~(1.54)	0.49~1.59
Future salary increase (change by 1.00%)	3.04~7.59	(2.86)~(6.76)

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 \$50,827 thousand and \$51,612 thousand for the years 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (w) Income Tax

## (i) Income tax expenses

	<u>2019</u>	<u>2018</u>
Current income tax expenses		
Current period	\$ 208,348	52,772
Current land value increment tax	98,154	42,042
Additional surtax on unappropriated earnings	158,533	30
Prior-years-adjustment on current income tax	<u>7,089</u>	<u>9,448</u>
	<u>472,124</u>	<u>104,292</u>
Deferred income tax expense		
Reversal of temporary difference	(1,252)	34,964
Adjustment in tax rate	<u>-</u>	<u>4,256</u>
	<u>(1,252)</u>	<u>39,220</u>
Income tax expenses	<u>\$ 470,872</u>	<u>143,512</u>

## (ii) Income tax recognized in other comprehensive income (expense) benefit of the year ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Items that will not be reclassified to profit and loss		
Actuarial gains (losses) of defined benefit plan	<u>\$ 5,285</u>	<u>4,398</u>

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

	<u>2019</u>	<u>2018</u>
Income before tax	\$ <u>622,932</u>	<u>2,161,793</u>
Income tax expense at domestic statutory tax rate	\$ 266,040	432,359
Effect of difference tax rates on foreign countries	(1,400)	816
Adjustment of income tax rate	-	4,256
Tax-exempt income	(261,938)	(170,238)
Investment loss accounted for using equity method	60,669	152,732
Current tax loss from unrecognized deferred tax assets	(127,739)	(153,311)
Adjustment for prior periods	7,089	9,448
Additional surtax on unappropriated earnings	158,533	30
Current land value increment tax	98,154	42,042
Income basic tax	112,300	-
Gain on valuation of financial assets	(107,321)	(98,299)
Deductible temporary difference of unrealized deferred tax assets	139,648	(64,555)
Others	<u>126,837</u>	<u>(11,768)</u>
Total	<u>\$ 470,872</u>	<u>143,512</u>

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

1) Unrecognized deferred tax assets:

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Deductible temporary difference	\$ 301,796	181,946
Net losses	<u>922,350</u>	<u>1,297,770</u>
	<u><b>\$ 1,224,146</b></u>	<u><b>1,479,716</b></u>

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, 2019 was as follows:

<u>Years of losses</u>	<u>Unused amount</u>	<u>Year of expiry</u>
2010 (assessed)	\$ 1,011,230	2020
2011 (assessed)	439,516	2021
2012 (assessed)	374,243	2022
2013 (assessed)	27,241	2023
2014 (assessed)	563,024	2024
2015 (assessed)	1,660,201	2025
2016 (declared)	523,940	2026
2017 (declared)	54	2027
2018 (declared)	103	2028
2019 (estimated)	<u>12,195</u>	2029
	<u><b>\$ 4,611,747</b></u>	

2) Recognized deferred tax assets and liabilities:

Changes in the amount of deferred tax assets and liabilities for 2019 and 2018 were as follows:

Deferred tax liabilities:

	<b>Others</b>
<b>Balance at January 1, 2019</b>	\$ 76,054
Current tax expense	<u>39,039</u>
<b>Balance at December 31, 2019</b>	<u><b>\$ 115,093</b></u>

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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	<b>Others</b>
<b>Balance at January 1, 2018</b>	\$ 31,340
Current tax expense	44,712
Effect of exchange rate changes	2
<b>Balance at December 31, 2018</b>	<b>\$ 76,054</b>
Deferred tax assets:	
	<b>Others</b>
<b>Balance at January 1, 2019</b>	\$ 10,522
Current tax expense	40,291
Effect of exchange rate changes	-
<b>Balance at December 31, 2019</b>	<b>\$ 50,813</b>
<b>Balance at January 1, 2018</b>	\$ 5,028
Current tax expense	5,492
Effect of exchange rate changes	2
<b>Balance at December 31, 2018</b>	<b>\$ 10,522</b>

(v) Status of approval of income tax

- 1) The Company's income tax retruns through 2015 have been assessed and approved by the tax authority.
- 2) The Group have income tax returns approved by the tax authority were as follows:

<b>Year of assessed</b>	<b>Company</b>
2015	CEC and CDC
2016	HDEC
2017	BWC and NSC
2018	SDC, PDC and CCD

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(x) Capital and reserves

As of December 31, 2019 and 2018, 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) Capital surplus

The components of the capital surplus were as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Premiums from issuance of share capital	\$ 6,397,913	6,397,913
Treasury stock transactions	406,518	406,518
Change on subsidiaries equity	<u>4</u>	<u>4</u>
	<u>\$ 6,804,435</u>	<u>6,804,435</u>

- 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.

(ii) 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.

The distribution plan shall issue new shares which should be proposed by the Board of directors and submitted to the shareholders' meeting for approval.

1) Legal Reserve

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.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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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, 2019 and 2018, the Company recognized the special reserve related to all IFRSs adjustments amounting to \$2,262,233 thousand and \$2,493,481 thousand, respectively.

A special reserve equal to the debit balance of unrealized loss on financial instruments in the stockholders' equity is appropriated from the unappropriated retained earnings pursuant to Article 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 2018 and 2017 has been approved in the general shareholders' meeting on June 12, 2019 and June 5, 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount per share</u>	<u>Total Amount</u>	<u>Amount per share</u>	<u>Total Amount</u>
Dividends distributed to common shareholders:				
Cash	\$ <u>0.90</u>	<u>740,894</u>	<u>0.60</u>	<u>493,930</u>

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

## (iii) Other equity interest

	Exchange differences on translation of foreign financial statements	cash flow hedges	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available -for-sale investments	Gains (losses) on hedging instruments	Total
Balance at January 1, 2019	\$ (529,154)	-	978,564	-	12,950	462,360
Exchange differences on foreign operation	(104,504)	-	-	-	-	(104,504)
Exchange differences on associates accounted for using equity method	(11,383)	-	-	-	-	(11,383)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	5,177	-	-	5,177
Unrealized gain from financial assets measured at fair value through other comprehensive income, subsidiaried accounted for using equity method	-	-	61	-	-	61
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	-	(255,516)	-	-	(255,516)
Change in fair value of hedging instrument	-	-	-	-	(13,861)	(13,861)
Balance at December 31, 2019	<u>\$ (645,041)</u>	<u>-</u>	<u>728,286</u>	<u>-</u>	<u>(911)</u>	<u>82,334</u>
Balance at January 1, 2019	\$ (538,891)	(13,557)	-	2,119,508	-	1,567,060
Effects of retrospective application	-	13,557	959,687	(2,119,508)	(13,557)	(1,159,821)
Balance at January 1, 2019 after adjustments	(538,891)	-	959,687	-	(13,557)	407,239
Exchange differences on foreign operation	(34,112)	-	-	-	-	(34,112)
Exchange differences on associates accounted for using equity method	43,849	-	-	-	-	43,849
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	-	18,793	-	-	18,793
Unrealized gain from financial assets measured at fair value through other comprehensive income, subsidiaried accounted for using equity method	-	-	84	-	-	84
Change in fair value of hedging instrument	-	-	-	-	26,507	26,507
Balance at December 31, 2018	<u>\$ (529,154)</u>	<u>-</u>	<u>978,564</u>	<u>-</u>	<u>12,950</u>	<u>462,360</u>

## (y) Earnings per share

## (i) Basic earnings per share

The basic earnings per share that are calculated based on the net income attributable to the ordinary shareholders of the Company amounted to \$97,007 thousand, and \$1,941,677 thousand for the years 2019 and 2018, respectively; they were divided by the weighted-average numbers of thousand ordinary shares and 823,216 thousand ordinary shares. The computations of the basic earnings per share were as follows:

## 1) Net income attributable to ordinary shareholders

	<u>2019</u>	<u>2018</u>
Net income attributable to ordinary shareholders	<u>\$ 97,007</u>	<u>1,941,677</u>

## 2) Weighted average number of ordinary shares

	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares, at December 31	<u>823,216</u>	<u>823,216</u>

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(ii) Diluted earnings per share

The diluted earnings per share that are calculated based on the net income attributable to the ordinary shareholders of the Company amounted to \$97,007 thousand and \$1,941,677 thousand for the years ended December 31, 2019 and 2018, respectively; they were divided by the weighted-average numbers of 823,494 thousand ordinary shares and 823,974 thousand ordinary shares after the adjustment for the effects of potentially dilutive ordinary shares. The computations of diluted earnings per share were as follows:

1) Net income attributable to ordinary shareholders

	<u>2019</u>	<u>2018</u>
Net income attributable to ordinary shareholders	\$ <u>97,007</u>	<u>1,941,677</u>

2) Weighted average number of ordinary shares (Diluted)

	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares (Basic)	823,216	823,216
Effect of the employee bonuses	<u>278</u>	<u>758</u>
Weighted average number of ordinary shares (Diluted)	<u>823,494</u>	<u>823,974</u>

(z) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>			<u>Total</u>
	<u>Civil Construction</u>	<u>Real Estate Development</u>	<u>Environmental Project Development</u>	
Primary geographical markets:				
Taiwan	\$ 13,218,208	4,929,153	1,785,282	19,932,643
Other	<u>2,731,843</u>	<u>601</u>	<u>-</u>	<u>2,732,444</u>
	<u>\$ 15,950,051</u>	<u>4,929,754</u>	<u>1,785,282</u>	<u>22,665,087</u>
Main products:				
Civil construction	\$ 15,871,698	-	-	15,871,698
Environmental project development	-	-	1,785,282	1,785,282
Real estate revenue	-	4,645,183	-	4,645,183
Rental income on investment property	22,093	232,220	-	254,313
Other	<u>56,260</u>	<u>52,351</u>	<u>-</u>	<u>108,611</u>
	<u>\$ 15,950,051</u>	<u>4,929,754</u>	<u>1,785,282</u>	<u>22,665,087</u>

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	2018			
	Civil Construction	Real Estate Development	Environmental Project Development	Total
Primary geographical markets:				
Taiwan	\$ 12,330,439	6,367,997	1,710,093	20,408,529
Other	4,745,294	288	-	4,745,582
	<u>\$ 17,075,733</u>	<u>6,368,285</u>	<u>1,710,093</u>	<u>25,154,111</u>
Main products:				
Civil construction	\$ 17,013,773	-	-	17,013,773
Environmental project development	-	-	1,083,958	1,083,958
Real estate revenue	-	6,078,672	-	6,078,672
Rental income on investment property	42,635	233,158	-	275,793
Other	19,325	56,455	626,135	701,915
	<u>\$ 17,075,733</u>	<u>6,368,285</u>	<u>1,710,093</u>	<u>25,154,111</u>

## (ii) Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable	\$ 342,904	419,775	847,529
Accounts receivable (including long-term receivable)	6,688,223	6,128,383	7,240,573
Less: Allowance for impairment	-	-	(6,261)
Total	<u>\$ 7,031,127</u>	<u>6,548,158</u>	<u>8,081,841</u>
Contract assets-civil construction	\$ 2,359,938	2,916,313	2,854,771
Contract assets-retention receivables	2,592,795	2,743,888	2,545,265
Contract assets-accrual receivables for completion	10,223	257,359	243,344
	<u>\$ 4,962,956</u>	<u>5,917,560</u>	<u>5,643,380</u>
Contract liabilities-civil construction	\$ 4,065,484	3,700,219	3,020,125
Contract liabilities-environment project development	46,375	30,562	79,689
Contract liabilities-advance real estate receipts	2,438,964	1,905,076	2,173,331
Contract liabilities-advance rent receipts	4,374	5,773	4,510
Total	<u>\$ 6,555,197</u>	<u>5,641,630</u>	<u>5,277,655</u>

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Please refer to Note 6(e) for the details on accounts receivable and allowance for impairment.

Please refer to Note 6(s) for details on onerous contracts as of December 31, 2019 and 2018.

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were \$960,130 thousand and \$1,393,776 thousand, respectively. For the amounts of the above contracts, please refer to Note 9.

(aa) 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, 2019 and 2018, the Company estimated its employee remuneration to be \$1,861 thousand and \$9,805 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 2019 and 2018. 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, 2019 and 2018.

(ab) Non-operating income and expenses

(i) Other income

The Group's other income for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Interest income		
Cash in bank	\$ 51,575	16,363
Others	<u>6,001</u>	<u>32,490</u>
Interest income subtotal	<u>57,576</u>	<u>48,853</u>
Dividend income	134,008	183,117
Other income	<u>31,843</u>	<u>110,350</u>
Total other income	<u>\$ 223,427</u>	<u>342,320</u>

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(ii) Other gains and losses

The Group's other gains and losses for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Gains on disposals of property, plant and equipment	\$ 584	2,713
Gains on disposals of investment property	403,650	-
Foreign exchange (losses) gains	(23,250)	7,141
Gain on financial assets at fair value through profit or loss	24,536	459,701
Impairment (loss)/gain on reversal		
Other impairment loss	(210,328)	-
Gain (loss) on reversal of property, plant and equipment impairment	-	38,703
Impairment (loss)/gain on reversal subtotal	<u>(210,328)</u>	<u>38,703</u>
Other	<u>(32,961)</u>	<u>(80,817)</u>
	<u>\$ 162,231</u>	<u>427,441</u>

(iii) Financial costs

The Group's financial costs for the years 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Interest expenses-borrowings	\$ 489,184	470,679
Interest expense-lease liability	4,317	-
Less: capitalized interest	<u>(247,507)</u>	<u>(276,216)</u>
	<u>\$ 245,994</u>	<u>194,463</u>

(ac) Financial instruments

(i) Credit risk

1) Credit risk exposure

As of December 31, 2019 and 2018, the Group's maximum credit risk exposure resulting from uncollectability of accounts receivable from transaction parties and financial losses from offering financial guarantee was as follows:

- The book value of financial assets recognized on the balance sheet; and
- The financial guarantee provided by the Group amounted to \$1,655,000 thousand.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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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.

3) Accounts receivable of credit risk

For credit risk exposure of notes and accounts receivables, please refer to note 6(e). Other financial assets at amortized cost includes other receivables and time deposits, etc.

All of these financial assets are considered to be low risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses. (Please refer to Note 4(g) for the Group determines whether credit risk is to be low risk).

The loss allowance provision were determined as follows:

	<b>Other receivables</b>
Balance at January 1, 2019	\$ -
Impairment loss recognized	(67,072)
Balance at December 31, 2019	<u>\$ (67,072)</u>
Balance at January 1, 2018	\$ -
Impairment loss recognized	-
Balance at December 31, 2018	<u>\$ -</u>

(ii) Liquidity risk

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>December 31, 2019</b>					
<b>Non-derivative financial liabilities</b>					
Secured loans	\$ 14,050,930	14,872,816	3,793,852	10,341,169	737,795
Unsecured loans	6,273,989	6,461,850	2,507,337	3,954,513	-
Short-term bills payable	1,100,000	1,100,000	1,100,000	-	-
Accounts and notes payable	5,907,669	5,907,669	3,220,868	2,413,543	273,258
Other payables	1,622,168	1,622,168	447,112	1,175,056	-
Guarantee deposit received	137,278	137,278	-	86,148	51,130
Lease liability	180,524	189,397	76,253	112,816	328
	<u>\$ 29,272,558</u>	<u>30,291,178</u>	<u>11,145,422</u>	<u>18,083,245</u>	<u>1,062,511</u>

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
<b>December 31, 2018</b>					
Non-derivative financial liabilities					
Secured loans	\$ 17,480,035	18,450,390	5,136,319	12,468,587	845,484
Unsecured loans	7,150,150	7,151,454	2,509,629	3,419,315	1,222,510
Short-term bills payable	790,000	790,000	790,000	-	-
Accounts and notes payable	7,030,182	7,111,128	3,820,905	2,704,503	585,720
Other payables	1,290,902	1,290,002	475,290	811,860	2,852
Guarantee deposit received	130,277	130,277	-	77,840	52,437
	<u>\$ 33,871,546</u>	<u>34,923,251</u>	<u>12,732,143</u>	<u>19,482,105</u>	<u>2,709,003</u>

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

(iii) Currency risk

1) Exposure to currency risk

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

	<u>December 31, 2019</u>			<u>December 31, 2018</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<b><u>Financial Assets</u></b>						
<b><u>Monetary items</u></b>						
USD : TWD	\$ 73,417	29.9800	2,201,056	57,920	30.7150	1,779,001
HKD : MOP	68,064	1.0300	254,349	68,064	1.0300	266,880
MYR : TWD	67,042	7.3290	491,354	44,440	7.3848	328,179
EUR: TWD	3,261	33.5900	109,552	867	35.2000	30,507
USD : MYR	651	4.1135	19,506	-	-	-
<b><u>Financial Liabilities</u></b>						
<b><u>Monetary items</u></b>						
HKD : MYR	10,990	4.1135	329,480	73	4.1592	2,236
EUR : TWD	1,220	33.5900	40,980	-	-	-

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, 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), income before tax would have increased or decreased by \$21,728 thousand and \$21,564 thousand for the years 2019 and 2018, respectively. Due to cash flow hedge, equity would have increased or decreased by \$5,326 thousand and \$2,459 thousand, respectively. The analysis is performed on the same basis for both periods.

(Continued)

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

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, 2019 and 2018, foreign exchange gain or loss (including realized and unrealized) amounted to loss \$23,250 thousand and gain \$7,141 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 \$166,724 thousand and \$213,322 thousand for the years 2019 and 2018, respectively, with all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

(v) Other market price risk

If the equity price changes, the impact of equity price change to other comprehensive income will be as follows, assuming the analysis is based on the same basis for both years and assuming that all other variables considered in the analysis remain the same :

Price of securities at the reporting date	2019		2018	
	Other comprehensive		Other comprehensive	
	Income after tax	Net Income	Income after tax	Net Income
Increase 1%	\$ <u>15,725</u>	<u>4,850</u>	<u>18,288</u>	<u>20,079</u>
Decrease 1%	\$ <u>(15,725)</u>	<u>(4,850)</u>	<u>(18,288)</u>	<u>(20,079)</u>

(vi) 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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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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	December 31, 2019				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets mandatorily measured at fair value through profit or loss	\$ 606,305	-	-	606,305	606,305
<b>Derivative financial assets for hedging</b>	<u>538,361</u>	<u>538,361</u>	-	-	<u>538,361</u>
<b>Financial assets at fair value through other comprehensive income</b>					
Unquoted equity instruments measured at fair value	<u>1,572,476</u>	-	-	<u>1,572,476</u>	<u>1,572,476</u>
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	4,423,239	-	-	-	-
Notes, accounts receivable and long-term accounts receivable	7,031,127	-	-	-	-
Other receivables	819,484	-	-	-	-
Guarantee deposit paid (including current and non-current)	99,627	-	-	-	-
Other financial assets	<u>1,741,951</u>	-	-	-	-
Subtotal	<u>14,115,428</u>	-	-	-	-
Total	<u>\$ 16,832,570</u>	<u>538,361</u>	<u>-</u>	<u>2,178,781</u>	<u>2,717,142</u>
<b>Financial liabilities measured at amortized cost</b>					
Bank loans and short-term notes payable	\$ 21,424,919	-	-	-	-
Accounts and notes payable	5,907,669	-	-	-	-
Other payables	1,622,168	-	-	-	-
Long-term accounts payable	337,275	-	-	-	-
Guarantee deposit received	137,278	-	-	-	-
Lease liabilities (including current and non-current)	<u>180,524</u>	-	-	-	-
Subtotal	<u>29,609,833</u>	-	-	-	-
Total	<u>\$ 29,609,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Financial assets mandatorily measured at fair value through profit or loss	\$ 3,021,970	2,003,713	-	1,018,257	3,021,970
<b>Derivative financial assets for hedging</b>	<u>255,391</u>	<u>255,391</u>	-	-	<u>255,391</u>
<b>Financial assets at fair value through other comprehensive income</b>					
Unquoted equity instruments measured at fair value	<u>1,828,762</u>	-	-	<u>1,828,762</u>	<u>1,828,762</u>

(Continued)



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

	December 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at amortized cost</b>					
Cash and cash equivalents	4,547,174	-	-	-	-
Notes, accounts receivable and long-term accounts receivable	6,548,158	-	-	-	-
Other receivables	713,068	-	-	-	-
Guarantee deposit paid (including current and non-current)	257,216	-	-	-	-
Other financial assets	1,713,310	-	-	-	-
Other non-current assets	33,519	-	-	-	-
Subtotal	<u>13,812,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 18,918,568</u>	<u>2,259,104</u>	<u>-</u>	<u>2,847,019</u>	<u>5,106,123</u>
<b>Financial liabilities measured at amortized cost</b>					
Bank loans and short-term notes payable	\$ 25,420,184	-	-	-	-
Accounts and notes payable	7,030,182	-	-	-	-
Other payables	1,290,902	-	-	-	-
Long-term accounts payable	360,901	-	-	-	-
Guarantee deposit received	130,277	-	-	-	-
Subtotal	<u>34,232,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 34,232,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques for financial instruments measured at fair value

Valuation techniques for financial instruments measured at fair value A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bidask spreads are very wide. Determining whether a market is active involves judgment.

Categories and attributes of financial instrument's fair value with an active market are as follows:

- Listed stock are financial assets which have standard provision and trade in an active market, and their fair value are determined by market quoted price respectively.

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

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

Categories and attributes of financial instruments' fair value without an active market are as follows:

- Debt instruments without quoted price: The Group extrapolated fair value by discounted cash flow method. The main assumption is cash flow based on investors' expectation, and the cash flow is discounted by rate of return which is based on the time value of currency and investment risk.
  - Equity instruments without quoted price: The Group extrapolated fair value by present earning value method. The main assumption is cash flow from future earnings based on investors' expectation, and the cash flow is discounted by rate of return which is based on the time value of currency and investment risk.
  - Equity instruments without quoted price: The Group extrapolated fair value by market approach. The main assumption is surplus multiplier based on comparable quoted market price. The estimates include adjustments of lack of market liquidity.
- 3) Transfer between Level 1 and Level 2
- There were no level transfers in 2019 and 2018.
- 4) The movement of Level 3

	<u>Financial assets at fair value through profit or loss</u>	<u>Financial assets at fair value through other comprehensive income</u>
	Non derivative financial assets mandatorily measured at fair value through profit or loss	Equity instruments without quoted market price
Balance at January 1, 2019	\$ 1,018,257	1,828,762
Total income or loss		
Recognized in other comprehensive income	-	(255,666)
Recognized in income	(512,067)	-
Purchased	100,115	-
Disposal	-	(620)
Balance at December 31, 2019	<u>\$ 606,305</u>	<u>1,572,476</u>
Balance at January 1, 2018	\$ -	1,809,970
Total income or loss		
Recognized in other comprehensive income	-	18,792
Recognized in income	(2,694)	-
Reclassifying	456,540	-
Purchased	564,411	-
Balance at December 31, 2018	<u>\$ 1,018,257</u>	<u>1,828,762</u>

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## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Aforesaid total income or losses that were included in "other gains and losses" and "unrealized gains (losses) from financial assets at fair value through other comprehensive income". Related assets held for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Total income or loss		
Recognized in profit or loss (recognized as "other gains and losses")	\$ (512,067)	(2,694)
Recognized in other comprehensive income (recognized as "unrealized gains (losses) from financial assets at fair value through other comprehensive income")	(256,286)	18,792

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

The Group's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – debt investments" and "fair value through other comprehensive income– equity investments".

The fair value measurement was categorized as level 3 in the hierarchy. Only equity instruments without active market has several significant unobservable inputs. The significant unobservable inputs of equity instruments without active market are not related because they are independent of 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
Financial assets at fair value through profit or loss equity investments without an active market	Discounted cash flow method	Return on equity (December 31, 2019 and 2018 were 12.9411% and 13.6637% , respectively)	The higher the return of equity, the lower the fair value.
Financial assets at fair value through profit or loss liability investments without an active market.	Discounted cash flow method	Weighted average cost of capital (December 31, 2018 were 8%)	The higher the weighted average cost of capital, the lower the fair value
Financial assets at fair value through other comprehensive income equity investments without an active market	Market Method	The multiplier of price to earnings ratio (December 31, 2019 and 2018, were 17.33% and 20.15%; 14.80% and 20.58%, respectively) Market illiquidity discount (December 31, 2019 and 2018, were 80%.)	The higher multiplier is, the higher the fair value The higher market illiquidity discount is, the lower the fair value

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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Item	Valuation Technique	Significant unobservable input	Relationship between input and fair value
Financial assets at fair value through other comprehensive income equity investments without an active market	Income Method	Earnings per share (December 31, 2019 and 2018, were 0%)	The higher the retained earnings, the higher the fair value
		Weighted average cost of capital (December 31, 2019 and 2018, were 5%)	The higher the weighted average cost of capital, the lower the fair value

- 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		Change in fair value reflecting in other comprehensive income	
			Favorable change	Unfavorable change	Favorable change	Unfavorable change
<b>December 31, 2019</b>						
Financial assets at fair value through profit or loss						
Equity instruments without an active market	Return on equity	1%	\$ 1,974	(1,961)	-	-
Financial assets at fair value through other comprehensive income						
Equity instruments without an active market	Market liquidity discount	5%	-	-	98,139	98,139
Equity instruments without an active market	Weighted average cost of capital	1%	-	-	100	94
<b>December 31, 2018</b>						
Financial assets at fair value through profit or loss						
Liability instruments without an active market	Weighted average cost of capital	1%	\$ 39,364	39,689	-	-
Equity instruments without an active market	Return on equity	1%	12,825	(12,166)	-	-
Financial assets at fair value through other comprehensive income						
Equity instruments without an active market	Market liquidity discount	5%	-	-	144,140	144,140
Equity instruments without an active market	Weighted average cost of capital	1%	-	-	154	103

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

(ad) 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.

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## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Exposure to credit risk of the group is mainly affected by the condition of each client. For civil construction which engaged in real estate sales and development business, their customers, under the "Buildings and Land Receivable" account, are usually construction companies or general individuals. As the department maily collects remittance and cash payment from its customers, the related credit risk is low.

The Group establishes an allowance for doubtful accounts that represents its estimate on incurred losses in respect of trade receivables, other receivables, and investments. Components of this doubtful account allowance are specific loss component that relates to individually significant exposure and collective loss component in which the loss is incurred but not identified.

The doubtful account allowance for collective component is based on historical payment statistics of similar financial assets.

#### 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, 2019 and 2018, the Group's guarantee for construction contract work for other construction companies amounted to approximately \$9,358,000 thousand and \$9,359,176 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, 2019 and 2018, the Group has unused bank facilities for \$29,379,937 thousand and \$25,529,183 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.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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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, 2019 and 2018, financial liabilities exposed to cash flow interest rate risk amounted to \$12,242,034 thousand and \$13,613,626 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.

(ae) Capital Management

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

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

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

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The Group's debt-to-equity ratio were as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Total liabilities	\$ 37,850,723	41,181,187
Less: cash and cash equivalents	<u>(4,423,239)</u>	<u>(4,547,174)</u>
Net debt	33,427,484	36,634,013
Total equity	<u>25,697,308</u>	25,824,647
Adjusted capital	<u>\$ 59,124,792</u>	<u>62,458,660</u>
Debt-to-equity	<u>56.54%</u>	<u>58.65%</u>

(af) Non-cash transactions and investing activities

The non-cash transactions and investing activities of the Group were as follows:

- (i) For acquisition right-of-use assets by leasing, please refer to Note 6(l).  
(ii) Reclassification of prepayments for business facilities or investment property

	<u>2019</u>	<u>2018</u>
Inventories property reclassified to property, plant, and equipment	\$ 405,289	-
Inventories reclassified to investment property	-	20,969
Investment property reclassified to inventories	2,049,415	656,289
Prepayments for business facilities reclassified to property, plant, and equipment	33,356	-
Property, plant, and equipment reclassified to inventories	<u>13,436</u>	<u>-</u>
	<u>\$ 2,501,496</u>	<u>677,258</u>

(iii) Non-controlling interest

	<u>2019</u>	<u>2018</u>
Investment by land contributing from the non-controlling interest of CDC US.	<u>\$ -</u>	<u>66,684</u>

(iv) Reconciliation of liabilities arising from financing activities were as follow:

	<u>January 1,</u> <u>2019</u>	<u>Cash flows</u>	<u>Non-cash changes</u>		<u>December</u> <u>31, 2019</u>
			<u>Foreign</u> <u>exchange</u> <u>movement</u>	<u>Other</u>	
Short-term borrowings	\$ 11,019,633	(2,922,144)	(11,979)	-	8,085,510
Long-term borrowings	13,610,551	(1,358,262)	(13,330)	450	12,239,409
Lease liabilities	<u>133,951</u>	<u>(67,331)</u>	<u>-</u>	<u>113,904</u>	<u>180,524</u>
Total liabilities from financing activities	<u>\$ 24,764,135</u>	<u>(4,347,737)</u>	<u>(25,309)</u>	<u>114,354</u>	<u>20,505,443</u>

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Other	
Short-term borrowings	\$ 9,757,733	1,249,835	12,065	-	11,019,633
Long-term borrowings	14,220,657	(626,951)	13,770	3,075	13,610,551
Total liabilities from financing activities	<u>\$ 23,978,390</u>	<u>622,884</u>	<u>25,835</u>	<u>3,075</u>	<u>24,630,184</u>

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

(a) Parent Group and Ultimate Controlling Party

Montrion Corporation is both the parent company and the ultimate controlling party of the Group. It owns 50.05 percent of all shares outstanding of the Company.

(b) Names and relationship with related parties

Name of related party	Relationship with the Group
CTCI & HDEC (Chungli) Corporation (CTCI & HDEC)	Investment for using equity method (Associates)
Fan Lu Construction Industry Co., Ltd. (Fan Lu)	Investment for using equity method (Associates)
New Continental Corp.(NCC)	Investment for using equity method (Associates)
American Bridge Holding Company (ABHC)	Investment of subsidiary using equity method (Associates)
American Bridge Co. (ABC)	Investment of subsidiary using equity method (Associates)
HAN-DE Construction CO. LTD	Other related party
Moderate Investment Ltd.(MIL)	Other related party
Wei-Dar Development Co., Ltd.	Other related party
Metropolis Property Management Corporation	Other related party
Foremost Asset Co. Ltd.	Other related party
MM 180 Jones LLC	Other related party
TSRC Corporation	Other related party
Doisy Trading Co., Ltd.	Other related party
WFV Corporation	Other related party
Hao Ran Foundation	Other related party

(c) Other related party transactions:

(i) Contracted construction

2019	Total Contract Amount (Before tax)	Current Amount	Accumulated Amount
Associate (CTCI & HDEC)	\$ 6,115,200	32,898	133,462

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<u>2018</u>	<u>Total Contract Amount (Before tax)</u>	<u>Current Amount</u>	<u>Accumulated Amount</u>
Associate (CTCI & HDEC)	\$ <u>6,115,200</u>	<u>98,312</u>	<u>100,564</u>

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:

	<u>2019</u>	<u>2018</u>
Other related party	\$ <u>13,022</u>	<u>21,672</u>

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:

	<u>Accounts Receivables</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other related party	\$ 1,337	1,358
Associates	1,034	639
	<u>\$ 2,371</u>	<u>1,997</u>

	<u>Other Receivables</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other related party	\$ 754	8,458
Associates	151	-
	<u>\$ 905</u>	<u>8,458</u>

	<u>Accounts Payables</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other related party	\$ <u>5,620</u>	<u>236,540</u>

	<u>Other Payables</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other related party	\$ <u>76,736</u>	<u>1,006</u>

(Continued)

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

## (iv) Rental

## 1) Rental income

	<b>2019</b>	<b>2018</b>
Other related party	\$ <b>723</b>	<b>165</b>

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

- 2) In November 2017 and January 2018, the Group leased an office building from other related party. A five-year and three-year lease contracts were signed, respectively, with the rental expense amounting to \$4,427 thousand for the year ended December 31, 2018. The Group applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized the additional amount of \$16,742 thousand of right-of-use assets and lease liabilities. For the year ended December 31, 2019, the Group recognized the amount of \$207 thousand as interest expense, with the balance of lease liabilities of \$12,516 thousand.

In July 2016, the Group entered into a three-year lease agreement with other related party for its warehouse, with rental expense amounting to \$60 thousand for the year ended December 31, 2018. In July 2019, the Group extended its lease contract for another three years. For the year ended December 31, 2019, the Group recognized the amount of \$1 thousand as interest expense, with the balance of lease liabilities of \$147 thousand.

## (v) Loan to related parties

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Associate-ABC	\$ <b>89,940</b>	-

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) Loan from related party

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Other related party-MIL	\$ 290,450	308,685
Other related party	90,880	7,394
	\$ <b>381,330</b>	<b>316,079</b>

(Continued)

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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## (vii) Endorsements and Guarantees

	<u>Subject of guarantee</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Associate (CTCI & HDEC)	Guarantee not related to construction contracts	<u>\$ 98,000</u>	<u>98,000</u>

## (viii) Transaction of properties

In 2019, the Group sold its transportation equipment to other related party for \$1,466,075 thousand (tax included). All the payments had been received. Please refer to Note 6(m) for related details on property, plant and equipment.

## (ix) Other

## 1) Interest revenue

	<u>2019</u>	<u>2018</u>
Associate	\$ 1,667	5,480
Other related party	<u>6</u>	<u>12</u>
	<u>\$ 1,673</u>	<u>5,492</u>

## 2) Other expenses

	<u>2019</u>	<u>2018</u>
Other related party	<u>\$ 24,350</u>	<u>14,993</u>

3) The Group purchased preferred stocks issued by ABHC, please refer to Note 6(b).

4) On March 6, 2019, the Group purchased 31,975,230 shares of Fan Lu amounting to \$319,752 thousand.

5) On April 16, 2019, the Group purchased 5,757 shares of NCC amounting to \$420,857 thousand.

## (d) Key Management Personnel Transaction

## Key Management Personnel Compensation

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	<u>\$ 143,413</u>	<u>115,763</u>

The Group provides fourteen and ten vehicles for key management personnel at a cost of \$17,504 thousand and \$13,431 thousand in 2019 and 2018, respectively.

(Continued)

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

The carrying values of pledged assets are as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Inventory (development corp.)	Loan collateral	\$ 21,996,847	17,063,275
Restricted deposits (other current assets)	Time deposits collateral	577,964	363,432
Property, plant and equipment	Loan collateral and construction guarantee	1,077,894	675,966
Investment property, net	Loan collateral and construction guarantee	9,283,755	12,132,748
Intangible assets	Loan collateral	856,792	846,477
Long-term accounts receivables	Loan collateral	<u>3,558,061</u>	<u>3,635,887</u>
Total		<u>\$ 37,351,313</u>	<u>34,717,785</u>

**(9) Commitments and contingencies:**

(a) Major commitments were as follows:

- (i) As of December 31, 2019 and 2018, details of pre-sales prior to real estate complete, sales of completed real estate, and the advance receipts from these sales were listed below:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Pre-sales and total sales of completed real estate	<u>\$ 8,826,791</u>	<u>7,460,256</u>
Advance receipts	<u>\$ 2,438,964</u>	<u>1,905,077</u>

- (ii) As of December 31, 2019 and 2018, the Group purchased land in a contract amount of \$1,186,472 thousand and \$2,002,882 thousand, respectively, within which, \$218,236 thousand and \$832,863 thousand has been respectively paid in accordance with the contracts.

- (iii) As of December 31, 2019 and 2018, total price of the construction contracts entered into by the Group and the total collected/billed amounts according to the contract are listed below:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Total contract amount—TWD	127,594,964	126,938,365
—INR	34,804,246	49,455,015
—HKD	4,365,034	4,142,772
—MOP	1,015,674	1,008,111
—MYR	394,926	394,863
Accumulated billing amount	120,908,792	160,197,678

- (iv) As of December 31, 2019 and 2018, 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 \$9,359,176 thousand, respectively.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(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:

<b>The subsidiary as an operator</b>	<b>Location</b>	<b>Grantor</b>	<b>Agreement type</b>	<b>Concession period</b>
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
LHC	Kaohsiung area	Kaohsiung City	BTO of wastewater reclamation and reuse	October 2018~October 2036

(b) Contingent liability:

- (i) As of December 31, 2019 and 2018, the Group provided promissory notes for contract performance, issuance of commercial paper, and construction warranty, amounting to \$42,226,868 thousand and \$42,267,992 thousand, respectively.
- (ii) As of December 31, 2019 and 2018, the Group was provided with guarantee deposits and performance guarantees amounting to \$12,052,777 thousand and \$1,489,892 thousand, respectively, from construction subcontractors.

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(c) Other

- (i) As of December 31, 2019 and 2018 the Group paid guarantee deposits for the joint construction contracts with several landowners amounting to \$4,235 thousand and \$6,409 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 (Kao Nan), demanding for the compensation fee of \$444,579 thousand for the dispute concerning the extension of the construction of the highway between Wujia and Shangliao. During the 2nd verdict in February 2014, Taiwan High Court Kaohsiung Branch decided that Kao Nan should pay the amount of \$243,206 thousand to the Group (including interest). However, the Group disagreed with the Court's decision and appealed to the Supreme Court regarding the matter. 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 overturned the decision made by the High Court during the 2nd verdict and handed over this case back to the High Court for another decision. September 2018, Taiwan High Court Kaohsiung Branch decided that Kao Nan should pay the amount of \$318,498 thousand to the Group (excluding interest). Both the Group and Kao Nan Region Construction Office appeal against the decision. Until financial statement date, the case is still in progress.
- (iii) In January 2020, some of the purchasers of Yuandi construction project undertaken by the Group jointly filed a lawsuit to the court accusing land owner, original builder, the real estate management company who took over from the original builder and the Group. The purchasers claimed for approximate \$80,230 thousand to the real estate management company and the Group due to the delay of completion and handover. The lawsuit is currently under 1st hearing. According to the legal advice, given dispute for the attribution of responsibility for delay completion, the Group is not yet able to anticipate the lawsuit period and its outcome. As of December 31, 2019, the Group yet to recognize any relevant liability.

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events: None**

**(12) Other:**

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

Fuction	2019			2018		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Nature						
Employee expenses						
Salary expenses	1,150,948	571,536	1,722,484	1,171,935	571,709	1,743,644
Health and labor insurance	70,754	38,862	109,616	62,353	33,809	96,162
Pension	38,499	27,747	66,246	45,311	26,518	71,829
Others	135,682	131,266	266,948	145,301	109,399	254,700
Depreciation	213,549	52,231	265,780	155,647	19,946	175,593
Depletion	58,117	-	58,117	47,186	-	47,186

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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 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	ABC	Other receivables	Yes	91,500	89,940	89,940	The same day at a federal rate +0.50%	2	-	Operation requirements	-	Buildings	72,851	1,392,565	1,392,565
2	CDC	BANGSAR	Other receivables	Yes	224,862	217,671	136,319 (Note 2)	7.90%	2	-	Land purchases and operation requirements	-	-	-	6,554,924	6,554,924
2	CDC	MEGA	Other receivables	Yes	896,232	871,742	351,994 (Note 2)	7.65% -7.90%	2	-	Land purchases and operation requirements	-	-	-	6,554,924	6,554,924
2	CDC	Grand River Development Limited	Other receivables	No	478,700	478,700	238,195	1.90% -2.5%	2	-	Land purchases and operation requirements	-	-	-	6,554,924	6,554,924

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: \$3,481,413 thousand × 40% = 1,392,565 thousand

Maximum amount of loans provided to a single business enterprise is limited to 40% of net equity value: \$3,481,413 thousand × 40% = 1,392,565 thousand

2) CDC:

Maximum amount of loans is limited to 40% of net equity value: \$16,387,311 thousand × 40% = 6,554,924 thousand

Maximum amount of loans provided to a single business enterprise is limited to 40% of net equity value: \$16,387,311 thousand × 40% = 6,554,924 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

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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	CTIC	CICI	2	90,439,808	565,681	526,043	526,043	-	2.33 %	90,439,808	Y	N	N
0	CTIC	IDEC	2	90,439,808	893,800	893,800	693,800	-	3.95 %	90,439,808	Y	N	N
0	CTIC	CECTIK	2	90,439,808	1,007,000	962,230	-	-	4.26 %	90,439,808	Y	N	N
0	CTIC	CEC	2	90,439,808	20,151,119	20,045,417	10,280,925	-	88.66 %	90,439,808	Y	N	N
1	CEC	In Tan Construction Co., Ltd.	5	10,444,239	9,358,000	9,358,000	9,358,000	-	268.86 %	20,888,478	N	N	N
1	CEC	Teddy Construction Company Limited	5	10,444,239	1,175	-	-	-	- %	20,888,478	N	N	N
1	CEC	CIC	2	6,962,826	363,400	344,770	323,784	-	9.90 %	6,962,826	N	N	N
1	CEC	IDEC	4	6,962,826	-	-	-	-	- %	6,962,826	N	N	N
1	CEC	IDEC	4 and 5	10,444,239	4,181	-	-	-	- %	20,888,478	N	N	N
1	CEC	PDC	4	6,962,826	32,000	32,000	32,000	-	0.92 %	6,962,826	N	N	N
1	CEC	CICI	2	6,962,826	181,410	-	-	-	- %	6,962,826	N	N	N
1	CEC	CECTIK	2	6,962,826	311,680	307,920	-	-	8.84 %	6,962,826	N	N	N
1	CEC	CICI	2 and 5	10,444,239	4,568,251	4,215,656	4,215,656	-	121.09 %	20,888,478	N	N	N
1	CEC	CIMY	2 and 5	10,444,239	3,724,981	3,517,920	3,517,920	-	101.05 %	20,888,478	N	N	N
2	CDC	CDC US	2	32,774,622	158,000	149,900	142,405	-	0.91 %	32,774,622	N	N	N
2	CDC	CCD	2	32,774,622	1,475,000	1,475,000	1,250,000	-	9.00 %	32,774,622	N	N	N
2	CDC	BANGSAR	2 and 6	32,774,622	189,746	181,691	-	-	1.13 %	32,774,622	N	N	N
2	CDC	MEGA	2 and 6	32,774,622	469,260	445,203	181,214	-	2.72 %	32,774,622	N	N	N
2	CDC	990P	2 and 6	32,774,622	3,964,713	3,761,459	303,922	-	22.93 %	32,774,622	N	N	N
2	CDC	Ian Lu	6	32,774,622	1,557,000	1,557,000	771,750	-	9.50 %	32,774,622	N	N	N
3	CCD	CDC	3	13,372,720	1,258,200	1,258,200	968,500	1,258,200	37.63 %	13,372,720	N	N	N
3	CCD	CDC	3 and 7	13,372,720	1,215,000	1,215,000	964,793	-	36.34 %	13,372,720	N	N	N
4	IDEC	CEC	4	17,856,396	-	-	-	-	- %	17,856,396	N	N	N
4	IDEC	CEC	4 and 5	17,856,396	6,028,750	6,028,750	6,028,750	-	202.57 %	17,856,396	N	N	N
4	IDEC	BWC	2	17,856,396	70	-	-	-	- %	17,856,396	N	N	N
4	IDEC	BWC	2 and 6	17,856,396	800,700	800,700	700,740	-	26.90 %	17,856,396	N	N	N
4	IDEC	CTCI & IDEC	6	17,856,396	98,000	98,000	98,000	-	3.20 %	17,856,396	N	N	N
4	IDEC	NSC	2	17,856,396	700,000	700,000	400,000	-	23.52 %	17,856,396	N	N	N

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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 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										
4	HDEC	LIC	2	17,856,396	5,071	5,071	5,071	-	0.17%	17,856,396	N	N	N
4	HDEC	LIC	2 and 6	17,856,396	1,485,000	1,485,000	332,000	-	49.90%	17,856,396	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: \$22,609,952 thousand × 4 = \$90,439,808 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: \$22,609,952 thousand × 4 = \$90,439,808 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: \$3,481,413 thousand × 6 = \$20,888,478 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: \$3,481,413 thousand × 3 = \$10,444,239 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: \$3,481,413 thousand × 2 = \$6,962,826 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: \$3,481,413 thousand × 2 = \$6,962,826 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: \$16,387,311 thousand × 2 = \$32,774,622 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: \$16,387,311 thousand × 2 = \$32,774,622 thousand

According to the policy of CCD 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: \$3,343,180 thousand × 4 = \$13,372,720 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: \$3,343,180 thousand × 4 = \$13,372,720 thousand

According to the policy of HDEC, 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: \$2,976,066 thousand × 4 = \$11,904,264 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: \$2,976,066 thousand × 4 = \$11,904,264 thousand

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Note 2: Seven categories between relationship with the endorser/guarantor:

- 1) Having business relationship.
- 2) The endorser / guarantor parent company directly and indirectly holds more than 50% of voting shares of the endorsed / guaranteed subsidiary.
- 3) The endorser / guarantor subsidiary which directly and indirectly be held more than 50% voting shares by the endorsed / guaranteed parent company.
- 4) The endorser / guarantor company and the endorsed / guaranteed party both be held more than 90% by the parent company.
- 5) Company that is mutually protected under contractual requirements based on the needs of the contractor.
- 6) Company that is endorsed by its shareholders in accordance with its shareholding ratio because of the joint investment relationship.
- 7) Performance guarantees for presale contracts under the Consumer Protection Act.

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account name	Ending balance			Highest Percentage of ownership (%)	Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)		
CEC	Evergreen Steel Corp.	-	Financial assets measured at fair value through other comprehensive income-non-current	25,645,907	983,982	6.42 %	38.37	6.42 %
CEC	Shin Yung Enterprise Corp.	-	Financial assets measured at fair value through other comprehensive income-non-current	12,256,347	586,246	8.45 %	47.83	8.45 %
CEC	JieBang Consultant Management Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-non-current	300,000	2,248	6.00 %	7.49	6.00 %
CEC	International Property & Finance Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-non-current	26,301	-	1.64 %	-	1.64 %
CEC	Shin Yu Energy Development Co., Ltd.	-	Financial assets measured at fair value through other comprehensive income-non-current	22,405,297	-	9.00 %	-	9.00 %
CEC	ABHC	Associate	Financial assets measured at fair value through profit or loss-non-current	18,188	-	45.47 %	-	-
CDC	Grand River Development Limited	-	Financial assets measured at fair value through profit or loss-non-current	51,436,803	606,305	10.00 %	11.79	10.00 %

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

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales			Ending Balance	
					Shares	Amount	Shares	Amount	Price	Shares	Cost	Gain (loss) on disposal	Shares
CEC	CIC	Investment for using equity method	CIC	Subsidiary	39,139,940	326,329	13,641,000	420,825	-	-	-	52,780,940	(263,886)
CIC	NCC	Investment for using equity method	NCC	Associate	4,596	543,477	5,757	420,857	-	-	-	10,353	-
CDC	CDC US	Investment for using equity method	CDC US	Subsidiary	5,000,000	1,066,887	-	1,002,220	-	-	-	5,000,000	2,004,173
CDC	Taiwan High Speed Rail Cor.-common stock	Financial assets measured at fair value through profit or loss-current	-	-	65,588,000	2,003,713	-	-	2,540,316	2,003,713	536,603	-	-
CDC	Fan Lu	Investment for using equity method	Fan Lu	Associate	7,189,332	71,760	31,975,230	319,752	-	-	-	39,164,562	369,211

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

(vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Type of property	Transaction date	Acquisition date	Book value	Transaction amount	Amount actually receivable	Gain from disposal	Counter-party	Nature of relationship	Purpose of disposal	Price reference	Other terms
CDC	55 Timeless-Inventories	2019.04.30	N/A	Inventory held-for-sale, not applicable	353,414	353,414	Inventory held-for-sale, not applicable	Po Jhuang investment Co. Ltd.	Not related party	Profit	Contract	-
CDC	55 Timeless-Inventories	2019.05.27	N/A	Inventory held-for-sale, not applicable	352,461	352,461	Inventory held-for-sale, not applicable	Pan Lu investment Inc.	Not related party	Profit	Contract	-
CDC	55 Timeless-Inventories	2019.12.23	N/A	Inventory held-for-sale, not applicable	361,372	361,372	Inventory held-for-sale, not applicable	Minchi Xcelstor Co., Ltd.	Not related party	Profit	Contract	-
CDC	Minsheng Building-Investment Property	2019.12.31	2014.10	Inventory held-for-sale, not applicable	1,466,075	1,466,075	Inventory held-for-sale, not applicable	Hao Ran Foundation	Associate	Revitalize assets and increase in profit	Evaluation report	-

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(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Relationship	Transaction details			Transactions with terms different from others			(In Thousands of New Taiwan Dollars)		
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	Note
CEC	CDC	Related party of the Company	Construction contract	(1,167,071)	6.82%	Same as those in general transactions	-	-	585,532	8.38%	I
CDC	CEC	Related party of the Company	Construction project	1,167,071	74.87%	Same as those in general transactions	-	-	(585,532)	(66.58)%	
HDEC	BWC	Parent company	Construction contract	(158,140)	24.17%	Same as those in general transactions	-	-	6,352	3.29%	I
BWC	HDEC	Parent company	Construction project	158,140	59.63%	Same as those in general transactions	-	-	(6,352)	(32.71)%	
HDEC	LHC	Parent company	Construction contract	(311,253)	56.14%	Same as those in general transactions	-	-	117,295	60.77%	I
LHC	HDEC	Parent company	Construction project	311,253	52.78%	Same as those in general transactions	-	-	(117,295)	54.88%	

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

Note 2: Aforesaid notes and accounts receivable are including contract assets.

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

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

Name of company	Counter-party	Relationship	Ending balance	Turnover rate		Overdue		Amounts received in subsequent period	Allowance for bad debts
				Accounts receivable	Accounts receivable	Amount	Action taken		
CEC	CDC	Related party of the Company	585,532	2.05	-	-	229,173	-	
HDEC	LHC	Parent company	117,295	5.31	-	-	58,838	-	

Note 1: Aforesaid notes and accounts receivable are including contract assets.

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

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(ix) Derivatives transactions: Please refer to notes

As of December 31, 2019, the Group entered into forward exchange agreement with an amount of USD4,953 thousand, and hedging instruments in amounts of USD15,450 thousand, JPY3,218 thousand and EUR2,039 thousand.

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Relationship	Account name	Amount	Intercompany transactions		Percentage of the consolidated net revenue or total assets
						Trading terms	Same as those in normal transactions	
1	CEC	CDC	3	Construction revenue	1,167,071	Same as those in normal transactions		5.15%
				Accounts receivable	171,590	-		0.27%
				Contract asset	413,942	-		0.65%
2	CDC	CEC	3	Construction costs	1,167,071	Same as those in normal transactions		5.15%
				Accounts payable	585,532	-		0.92%
				Other receivable	441,638	-		0.69%
3	HDEC	BANGSAR	3	Other receivable	145,316	-		0.23%
				Operating revenue	99,745	Same as those in normal transactions		0.44%
				Account receivable	17,871	-		0.03%
	NSC	NSC	3	Contract asset	13,662	-		0.02%
				Operating revenue	158,140	Same as those in normal transactions		0.70%
				Accounts payable	6,044	-		0.01%
	BWC	BWC	3	Contract asset	308	-		-
				Operating revenue	311,253	Same as those in normal transactions		1.37%
				Account receivable	100,694	-		0.16%
	LHC	LHC	3	Contract asset	16,601	-		0.03%
				Operating revenue	74,091	Same as those in normal transactions		0.33%
				Account receivable	13,792	-		0.02%
4	NSC	HDEC	3	Contract asset	6,400	-		0.01%
				Operating cost	99,745	Same as those in normal transactions		0.44%
				Account payable	31,533	-		0.05%
5	BWC	HDEC	3	Construction cost	158,140	Same as those in normal transactions		0.70%
				Account payable	6,352	-		0.01%
				Construction cost	311,253	Same as those in normal transactions		1.37%
6	LHC	HDEC	3	Account payable	117,295	-		0.19%
				Construction cost	74,091	Same as those in normal transactions		0.33%
				Account payable	20,192	-		0.03%
7	PDC	HDEC	3	Construction cost	441,638	Same as those in normal transactions		0.69%
				Account payable	145,316	-		0.23%
				Other payable		-		
8	MEGA	CDC	3	Other payable		-		
				Other payable		-		
				Other payable		-		
9	BANGSAR	CDC	3	Other payable		-		
				Other payable		-		
				Other payable		-		

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

- 1) 0 represents the Company.
- 2) 1~9 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, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main business and products	Original investment amount		Balance as of December 31, 2019		Highest Percentage of ownership	Net income (loss) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership				
CHC	CEC	Taiwan	Comprehensive construction	6,484,384	6,484,384	400,002,071	100.00 %	3,372,313	(1,372,763)	(1,239,703)	Note 1
CHC	CDC	Taiwan	Housing and building development and lease	6,620,748	6,620,748	600,158,851	100.00 %	16,387,311	1,463,003	1,463,003	Note 1
CHC	HDEC	Taiwan	Construction of underground pipeline	2,160,366	2,160,366	171,100,000	100.00 %	2,975,066	303,160	303,160	Note 1
CEC	CICI	India	Construction projects	497,839	497,839	73,081,492	100.00 %	49,679	12,450	Disclosure not required	-
CEC	CIC	British Virgin Islands	Investment and holding	1,786,329	1,305,504	52,780,540	100.00 %	(263,856)	(1,013,875)	Disclosure not required	-
CEC	CIMY	Malaysia	Construction projects	352,327	352,327	46,340,476	92.24 %	169,402	(591)	Disclosure not required	-
CEC	CEC HK	Hong Kong	Construction projects	384	384	100,000	100.00 %	297	(90)	Disclosure not required	-
CIC	NCC	British Virgin Islands	Investment and holding	1,610,006	1,219,149	19,353	45.47 %	-	(1,649,507)	Disclosure not required	-
CDC	BANGSAR	Malaysia	Real estate development	4,444	4,444	600,000	60.00 %	4,666	618	Disclosure not required	-
CDC	CDD	Taiwan	Housing and building development and lease	976,539	976,539	41,176,850	80.65 %	2,696,275	47,033	Disclosure not required	-
CDC	Fai Lu	Taiwan	Housing and building development and lease	391,646	71,893	39,164,562	35.00 %	3,692,241	(63,718)	Disclosure not required	-
CDC	MEGA	Malaysia	Real estate development	7,375	7,375	825,000	55.00 %	(503)	(6,153)	Disclosure not required	-
CDC	CDC US	The U.S.	Investment	2,001,080	1,038,650	5,000,000	100.00 %	2,094,173	(13,129)	Disclosure not required	-
CDC	GDGAM	Malaysia	Construction Management	7,524	-	1,000,000	100.00 %	7,501	179	Disclosure not required	-
HDEC	SDC	Taiwan	Construction projects	49,600	49,600	3,000,000	100.00 %	38,428	3,888	Disclosure not required	-
HDEC	NSC	Taiwan	Pollution protection and other environmental sanitation	1,112,000	1,112,000	166,000,000	100.00 %	2,788,316	208,729	Disclosure not required	-
HDEC	BWC	Taiwan	Pollution protection and other environmental sanitation	362,100	362,100	37,740,000	51.00 %	428,473	82,017	Disclosure not required	-
HDEC	PDC	Taiwan	Pollution protection and other environmental sanitation	240,000	140,000	24,000,000	100.00 %	239,173	(131)	Disclosure not required	-
HDEC	CTCI & IHDCC	Taiwan	Pollution protection and other environmental sanitation	240,000	245,000	24,500,000	49.00 %	237,696	(4,834)	Disclosure not required	-
HDEC	HTC	Taiwan	Pollution protection and other environmental sanitation	247,500	247,500	24,750,000	55.00 %	237,695	21,006	Disclosure not required	-

Note 1: The information on investment income/loss for the years ended December 31, 2019 was derived from the investees' financial statements audited by the auditors for the same period.

(c) Information on investment in mainland China: None



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

**(14) Segment information:**

Operating segments required to be disclosed are categorized as Civil Construction, Real Estate Development, Environmental Project Development, and Investment. The Group assessed performance of the segments based on the segments' profit before tax, and report the amount of revenues based on the financial information used to prepare the consolidated financial report.

1. Civil Construction: civil and architectural engineering and construction.
2. Real Estate Development: selling, renting and investing in construction of the residential, commercial buildings and largescale residential communities.
3. Environmental Project Development: Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment.
4. Investment: to integrate operating strategy, supervising and monitoring each operating segments' operation, and control and allocate each operating segments' operating resources.

**(a) Disclosure of the information on industrial departments**

The reconciliation statements of all operating departments:

	For the year ended December 31, 2019					
	Civil Construction	Real Estate Development	Environmental project Development	Investment	Adjustment and write-off	Total
Revenue:						
Segment revenues from external customers	\$ 15,950,051	4,929,754	1,785,282	-	-	22,665,087
Intersegment revenues	1,868,549	-	-	436,459	(2,305,008)	-
Total revenues	<u>\$ 17,818,600</u>	<u>4,929,754</u>	<u>1,785,282</u>	<u>436,459</u>	<u>(2,305,008)</u>	<u>22,665,087</u>
Reportable segment profit or loss	<u>\$ (2,367,547)</u>	<u>1,600,983</u>	<u>697,276</u>	<u>370,389</u>	<u>321,831</u>	<u>622,932</u>
Assets:						
Investments accounted for using equity method	\$ 169,699	5,081,827	3,984,743	22,735,690	(31,370,092)	601,867
Capital expenditure	3,430,150	8,632,457	57,157	1,943	-	12,121,707
Reportable segment total assets	<u>\$ 17,439,716</u>	<u>43,406,792</u>	<u>12,923,912</u>	<u>22,965,206</u>	<u>(33,187,595)</u>	<u>63,548,031</u>
Reportable segment total liabilities	<u>\$ 14,087,917</u>	<u>19,887,024</u>	<u>5,573,249</u>	<u>355,254</u>	<u>(2,052,721)</u>	<u>37,850,723</u>
	For the year ended December 31, 2018					
	Civil Construction	Real Estate Development	Environmental project Development	Investment	Adjustment and write-off	Total
Revenue:						
Segment revenues from external customers	\$ 17,666,399	6,368,284	1,119,428	-	-	25,154,111
Intersegment revenues	2,409,989	-	590,665	2,049,403	(5,050,057)	-
Total revenues	<u>\$ 20,076,388</u>	<u>6,368,284</u>	<u>1,710,093</u>	<u>2,049,403</u>	<u>(5,050,057)</u>	<u>25,154,111</u>
Reportable segment profit or loss	<u>\$ (814,407)</u>	<u>1,908,505</u>	<u>652,845</u>	<u>1,951,118</u>	<u>(1,536,268)</u>	<u>2,161,793</u>
Assets:						
Investments accounted for using equity method	\$ 1,041,429	3,803,939	3,689,448	23,588,260	(31,272,912)	850,164
Capital expenditure	3,381,020	11,472,029	64,272	2,111	-	14,919,432
Reportable segment total assets	<u>\$ 20,056,973</u>	<u>43,900,546</u>	<u>12,450,546</u>	<u>23,722,802</u>	<u>(33,125,033)</u>	<u>67,005,834</u>
Reportable segment total liabilities	<u>\$ 14,421,120</u>	<u>22,863,185</u>	<u>5,620,839</u>	<u>69,967</u>	<u>(1,793,924)</u>	<u>41,181,187</u>

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**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**  
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(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:

<u>Area</u>	<u>2019</u>	<u>2018</u>
Revenue from external customers:		
Taiwan	\$ 19,932,643	20,408,529
Others	<u>2,732,444</u>	<u>4,745,582</u>
	<u>\$ 22,665,087</u>	<u>25,154,111</u>
Non-current assets		
Taiwan	\$ 16,805,180	19,733,477
Others	<u>1,289,138</u>	<u>1,594,070</u>
Total	<u>\$ 18,094,318</u>	<u>21,327,547</u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other assets, but excluding financial instruments, deferred tax assets of non-current assets.

(c) Information on major customers

	<u>2019</u>	<u>2018</u>
Construction corporations	\$ 7,022,612	7,886,355
Governments	10,679,623	10,218,642
Others	<u>4,962,852</u>	<u>7,049,114</u>
Total	<u>\$ 22,665,087</u>	<u>25,154,111</u>