# CONTINENTAL HOLDINGS CORPORATION

# AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEAR ENDED DECEMBER 31, 2010

# AND

# INDEPENDENT AUDITORS' REPORT

**CONTINENTAL HOLDINGS CORPORATION**

**FINANCIAL STATEMENTS**

## TABLE OF CONTENTS


| Contents | Page |
|---|---|
| Independent Auditors' Report | 1～2 |
| Balance Sheet | 3～4 |
| Income Statement | 5 |
| Statement of Changes in Stockholders' Equity | 6 |
| Statement of Cash Flows | 7～8 |
| Notes to Financial Statements | 9～56 |

## Independent Auditors' Report

The Board of Directors
Continental Holdings Corporation

We have audited the accompanying consolidated balance sheet of Continental Holdings Corporation (the Company) as of December 31, 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the period from April 8 (date of establishment) to December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. As described in Note 2, we did not audit the financial statements of certain investee companies. The financial statements of these companies were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for these companies, is based solely upon the reports of the other auditors. As of December 31, 2010, these companies' assets amounted to $14,528,675 thousand, constituting 27.52% of total consolidated assets. These companies' net operating income amounted to $11,576,684 thousand, constituting 45.35% of the Company's consolidated net operating income, from April 8 (date of establishment) to December 31, 2010.

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. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Continental Holdings Corporation and its subsidiaries as of December 31, 2010, and the results of their operations and cash flows for the period from April 8 (date of establishment) to December 31, 2010, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

KPMG

Taipei, Taiwan, R.O.C.
March 30, 2011

**Notice to Readers**

The accompanying financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit (or review) such financial statements are those generally accepted and applied in the Republic of China.
The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### BALANCE SHEET
### DECEMBER 31, 2010
### (Expressed in thousands of New Taiwan dollars)

| ASSETS | | 31-Dec-10 Amount | % |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents (Note 4) | $ | 5,588,163 | 12 |
| Derivative financial assets for hedging—current (Note 6) | | 19,572 | - |
| Notes receivable, net | | 383,958 | 1 |
| Accounts receivable, net (Note 7) | | 4,133,333 | 8 |
| Other accounts receivable—related party (Note 23) | | 314,183 | 1 |
| Other financial assets—current (Note 24) | | 1,067,077 | 2 |
| Inventory (Notes 8 and 24) | | 15,729,132 | 30 |
| Costs of uncompleted contracts in excess of related billings (Note 9) | | 1,778,077 | 3 |
| Deferred selling expenses (for construction industry) | | 627,351 | 1 |
| Prepayments | | 828,848 | 2 |
| Other current assets (Note 18) | | 688,279 | 1 |
| | | 31,157,973 | 61 |
| **LONG-TERM INVESTMENTS** | | | |
| Financial assets carried at cost—non-current (Note 5) | | 7,644,764 | 14 |
| **FIXED ASSETS (Notes 11 and 24)** | | | |
| Land | | 927,165 | 2 |
| Buildings | | 1,499,033 | 3 |
| Machinery and equipment | | 4,229,775 | 8 |
| Computer equipment | | 61,516 | - |
| Transportation equipment | | 263,410 | - |
| Furniture and office equipment | | 272,418 | 1 |
| Leased assets | | 7,723,265 | 15 |
| | | 14,976,582 | 29 |
| Less: accumulated depreciation | | (2,474,818) | (5) |
| accumulated impairment | | (360,650) | (1) |
| Unfinished construction | | 1,085,773 | 2 |
| Prepayments for equipment | | 210,654 | - |
| | | 13,437,541 | 25 |
| **INTANGIBLE ASSETS** | | | |
| Deferred pension cost (Note 20) | | 55,146 | - |
| Other intangible assets | | 64,893 | - |
| | | 120,039 | - |
| **OTHER ASSETS** | | | |
| Idle assets | | 195,943 | - |
| Refundable deposits | | 6,627 | - |
| Other assets | | 50,071 | - |
| Consolidated debit | | 177,138 | - |
| | | 429,779 | - |
| **TOTAL ASSETS** | $ | **52,790,096** | **100** |

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

## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### BALANCE SHEET (CONT'D)
### DECEMBER 31, 2010
### (Expressed in thousands of New Taiwan dollars)

| LIABILITIES AND STOCKHOLDERS' EQUITY | 31-Dec-10 Amount | % |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Short-term bank loans (Note 12) | $ 8,964,762 | 17 |
| Short-term bills payable | 40,000 | - |
| Accounts payable | 3,721,793 | 7 |
| Accounts payable—related party (Note 23) | 611 | - |
| Accrued expenses | 1,035,420 | 2 |
| Advance receipts (Note 13) | 3,898,632 | 7 |
| Billings on uncompleted contracts in excess of related costs (Note 9) | 5,041,664 | 10 |
| Current portion of long-term loans and long-term notes payable (Note 14) | 933,612 | 2 |
| Other current liabilities (Note 18) | 1,728,571 | 3 |
| | 25,365,065 | 48 |
| **LONG-TERM LIABILITIES** | | |
| Long-term loans (Note 14) | 8,747,874 | 17 |
| Long-term notes payable | 99,444 | - |
| Long-term lease obligations payable (Note 14) | 19,699 | - |
| | 8,867,017 | 17 |
| **RESERVE** | | |
| Reserve for land value incremental tax | 2,228 | - |
| **OTHER LIABILITIES** | | |
| Accrued pension liabilities (Note 20) | 235,933 | - |
| Guarantee deposit received | 111,051 | - |
| | 346,984 | - |
| **Total Liabilities** | 34,581,294 | 65 |
| **STOCKHOLDERS' EQUITY** | | |
| **Parent company stockholders' equity** | | |
| Capital stock (Note 15) | 8,411,581 | 16 |
| Capital surplus (Note 16) | | |
| Premium on stock issuance | 7,368,919 | 14 |
| Long-term equity investments | 11,258 | - |
| | 7,380,177 | 14 |
| Retained earnings (Note 17) | | |
| Unappropriated earnings | 931,102 | 2 |
| Others | | |
| Cumulative translation adjustments | (665,245) | (1) |
| Unrecognized loss on pension cost | (42,208) | - |
| Unrealized gain (loss) on financial instruments | (1,062) | - |
| | (708,515) | (1) |
| **Minority interest** | 2,194,457 | 4 |
| **Total Stockholders' Equity** | 18,208,802 | 35 |
| **MAJOR COMMITMENTS AND CONTINGENCIES (Note 25)** | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$ 52,790,096** | **100** |

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

## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### INCOME STATEMENT
### FROM APRIL 8 (DATE of ESTABLISHMENT) to DECEMBER 31, 2010
### (Expressed in thousands of New Taiwan dollars, except for per share data)

| | For the year ended December 31, 2010 | |
|---|---|---|
| | Amount | % |
| Operating Income | | |
| Construction contract income | $ 18,819,071 | 74 |
| Realty sales income | 6,493,274 | 25 |
| Rental income (Note 23) | 213,673 | 1 |
| Others | 17,493 | - |
| Less: Sales returns and allowances | (17,016) | - |
| Total operating income | 25,526,495 | 100 |
| Operating Costs | | |
| Construction costs | 17,366,813 | 68 |
| Realty sales costs | 4,566,970 | 18 |
| Rental costs | 70,048 | - |
| Other operating costs | 6,517 | - |
| Total operating costs | 22,010,348 | 86 |
| Gross profit | 3,516,147 | 14 |
| Operating Expenses | | |
| Selling expenses | 506,179 | 2 |
| Administrative expenses | 1,310,638 | 5 |
| Total operating expenses | 1,816,817 | 7 |
| Income from operations | 1,699,330 | 7 |
| Non-operating Income | | |
| Interest income | 79,041 | - |
| Investment income under equity method (Note 10) | 12,856 | - |
| Dividend income | 44,682 | - |
| Gain on disposal of fixed assets | 1,062,927 | 4 |
| Gain on disposal of investments (Note 10) | 200,443 | 1 |
| Foreign exchange gain | 2,828 | - |
| Others | 39,866 | - |
| | 1,442,643 | 5 |
| Non-operating Expenses | | |
| Interest expense (Note 8) | 190,377 | 1 |
| Others | 106,295 | - |
| | 296,672 | 1 |
| Income from continuing operations before income tax | 2,845,301 | 11 |
| Less: Income tax expense (Note 18) | 540,381 | 2 |
| Income from continuing operations | $ 2,304,920 | 9 |
| Attributable to: | | |
| Stockholders of the parent | $ 931,102 | 4 |
| Income for minority interest | 1,373,818 | 5 |
| | $ 2,304,920 | 9 |

| **Earnings per share (Note 19)(dollars)** | **Before tax** | **After tax** |
|---|---|---|
| **Basic earnings per share** | **$ 1.11** | **1.11** |
| **Diluted earnings per share** | **$ 1.11** | **1.11** |

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

**CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES**
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
**FROM APRIL 8 (DATE OF ESTABLISHMENT) TO DECEMBER 31, 2010**
**(Expressed in thousands of New Taiwan dollars)**

| | Capital Stock | Capital Surplus | Retained Earnings | Cumulative Translation Adjustments | Unrecognized Loss on Pension Cost | Unrealized Gain (Loss) on Financial Instrument | Minority Interest | Total |
|---|---|---|---|---|---|---|---|---|
| **Authorized capital** | **$ 8,411,581** | **7,388,487** | - | **(333,974)** | - | **(397)** | **2,297,983** | **17,763,680** |
| Net income for the year ended December 31, 2010 | - | - | 931,102 | - | - | - | 1,373,818 | 2,304,920 |
| Minority interest | - | - | - | - | - | - | (1,477,344) | (1,477,344) |
| Adjustment arising from changes in ownership of investees | - | (8,310) | - | (331,271) | (42,208) | (665) | - | (382,454) |
| **Balance, December 31, 2010** | **$ 8,411,581** | **7,380,177** | **931,102** | **(665,245)** | **(42,208)** | **(1,062)** | **2,194,457** | **18,208,802** |

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

## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### STATEMENT OF CASH FLOWS
### FROM APRIL 8 (DATE OF ESTABLISHMENT) TO DECEMBER 31, 2010
### (Expressed in thousands of New Taiwan dollars)

| | Amount |
|---|---|
| **Cash flows from operating activities:** | |
| **Net income** | $ 2,304,920 |
| **Adjustments to reconcile net income to net cash provided by (used in) operating activities:** | |
| Depreciation | 595,345 |
| Gain on investments under the equity method | (12,856) |
| Loss on disposal of fixed assets | (1,062,927) |
| Gain on sale of investments (including liquidation) | (200,443) |
| Reversal of warranty reserve | (44,984) |
| **Changes in operating assets and liabilities:** | |
| Notes receivable, net | (897) |
| Accounts receivable, net | (76,868) |
| Other receivables – related party | 42,779 |
| Inventory | (5,479,560) |
| Costs of uncompleted contracts in excess of related billings | 135,379 |
| Prepayments | 190,553 |
| Other current assets | 110,347 |
| Other financial assets – current | 271,944 |
| Deferred selling expenses | 135,318 |
| Other operating assets | (51,080) |
| Accounts payable | 464,394 |
| Accounts payable – related party | 611 |
| Accrued expenses | (39,562) |
| Advance receipts | (29,012) |
| Billings on uncompleted contracts in excess of related costs | 822,578 |
| Other current liabilities | 567,989 |
| Accrued pension liabilities | 36,865 |
| Other operating liabilities | (118,032) |
| **Net cash provided by (used in) operating activities** | (1,437,199) |
| **Cash flows from investing activities:** | |
| Proceeds from sale of available-for-sale financial assets | 39,828 |
| Proceeds from sale of long-term investments under equity method | 112,545 |
| Purchase of fixed assets | (753,138) |
| Proceeds from sale of fixed assets | 3,144,713 |
| Increase in refundable deposits | 50 |
| Purchase of deferred assets | (378,929) |
| **Net cash provided by (used in) investing activities** | 2,165,069 |

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

## CONTINENTAL HOLDINGS CORPORATION AND SUBSIDIARIES

### STATEMENT OF CASH FLOWS (CONT'D)
### FROM APRIL 8 (DATE OF ESTABLISHMENT) TO DECEMBER 31, 2010
### (Expressed in thousands of New Taiwan dollars)

| | Amount |
|---|---|
| **Cash flows from financing activities:** | |
| Short-term bank loans | 3,747,298 |
| Short-term bills payable | (210,000) |
| Long-term loans (including current portion) | (1,826,719) |
| Increase in guaranty deposit received | (8,961) |
| Decrease in long-term notes payable | 54,896 |
| Increase in long-term lease obligations payable | (9,610) |
| Increase in derivative financial assets for hedging | (19,635) |
| Minority interest | (1,477,344) |
| **Net cash provided by (used in) financing activities** | 249,925 |
| Influence of exchange rate | (216,373) |
| **Net increase (decrease) in cash and cash equivalents** | 761,422 |
| **Cash and cash equivalents, beginning of year** | 4,826,741 |
| **Cash and cash equivalents, end of year** | **$ 5,588,163** |
| **Supplemental disclosures of cash flow information:** | |
| Interest paid during the year (excluding capitalized interest) | **$ 190,774** |
| Income tax paid during the year | **$ 449,251** |
| **Investing and financing activities with no effect on cash flows:** | |
| Current portion of long-term loans | **$ 933,612** |

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

(All currency amounts expressed in thousands, unless otherwise indicated)

## 1. ORGANIZATION AND OPERATIONS

Continental Holdings Corporation (the Company) was established through share exchange with Continental Engineering Corporation (CEC) on April 8, 2010 and CEC became the Company's 100%-owned subsidiary. On the same day, the Company was approved to be a listed company by Financial Supervisory Commission, Executive Yuan, R.O.C.

The Company's main business includes managing of investee companies and investing in companies which are approved by the relevant authority. As of December 31, 2010, the number of employees in the Company and its subsidiaries (the Consolidated Company) was 2,956.

The Company's parent company: None.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were compiled in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The 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 financial statements, the Chinese version shall prevail.

The significant accounting policies and measurement basis were as follows:

a. Principles of consolidation

(1) The subsidiaries included in the consolidated financial statements are as follows:

| Investor Company | Subsidiary | Main Business Scope | Percentage of Ownership 2010.12.31 | Notes |
|---|---|---|---|---|
| The Company | Continental Engineering Corp. (CEC) | Civil engineering, construction | 100% | Subsidiary directly held over 50% by the Company. |
| 〃 | CEC Development Corp. (CDC) | Land development specific on residential housing and office building | 100% | 〃 |
| CEC | North Shore Corp. | Tamsui sewage drainage construction in Taipei County | 54.55% | The subsidiary was founded to perform the contract for a Tamsui sewage treatment plant in Taipei County, and will be transferred without condition after the legal concession period. |
| 〃 | Hsin-Dar Environment Engineering Co., Ltd. (HDEC) | Construction of underground pipeline and environmental protection project, plumbing, sale of pollution prevention equipment | 100.00% | Subsidiary directly held over 50% by CEC. |
| 〃 | CEC International Corp. (CIC) | Investment in and control of overseas corporations | 100.00% | 〃 |
| 〃 | CEC International Corp. (India) Private Limited (CICI) | 〃 | 100.00% | 〃 |
| CDC | CEC Commercial Development Corp. | Rental of building | 80.64% | Subsidiary directly held over 50% by CDC. |
| 〃 | CEC Retailer Development Corp. | Restaurant, rental, amusement park, etc. | (Note 2) | - |

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

| Investor Company | Subsidiary | Main Business Scope | Percentage of Ownership 2010.12.31 | Notes |
|---|---|---|---|---|
| HDEC | Shen-Da Construction Corp., Ltd. (SDC) | Construction of underground pipeline and environmental protection project, plumbing | 51.00% | Subsidiary directly held over 50% by HDEC. |
| 〃 | North Shore Corp. | Tamsui sewage drainage construction in Taipei County | 45.45% | Subsidiary directly and indirectly held over 50% by HDEC and CEC. |
| CIC | New Continental Corp. (NCC) | Investment in and control of overseas company and its subsidiaries | 56.36% | Subsidiary directly held over 50% by CIC. |
| NCC | American Bridge Holding Company (ABHC) | Investment in and control of ABC and its subsidiaries | 54.51% | Subsidiary directly held over 50% by NCC. |
| ABHC | American Bridge Company (ABC) | Civil engineering, construction, steel bridge, etc. | 〃 | Subsidiary directly held over 50% by ABHC. |
| 〃 | American Bridge Manufacturing Company (ABM) | 〃 | 〃 | 〃 |
| 〃 | American Dock & Transfer Company (ADTC) | 〃 | 〃 | 〃 |
| 〃 | American Bridge International Corporation (ABIC) | 〃 | 〃 | 〃 |

Note 1: SDC, North Shore Corp., CEC Commercial Development Corp., CICI, and CIC and its subsidiaries were audited by other CPAs.

Note 2: The investee completed the liquidation process on December 1, 2010, and thus, in accordance with ROC SFAS No. 7, the net income (loss) of this investee company was excluded from the consolidated financial statements as of December 1, 2010.

(2) Subsidiaries not included in the consolidated financial statements: None.

(3) Accounting year of subsidiary different from its controlling parent:

The fiscal year of the subsidiary CICI is from April 1 to March 31 of the following year, in accordance with Indian regulations. However, the financial reports of CICI are also published according to the fiscal year of the Company.

(4) Accounting policies of subsidiary different from its controlling parent:

i. ABHC and its subsidiaries were invested in by the Company, and some of the Company's accounting policies were according to US GAAP. Commencing from January 1, 2006, the Company has established related accounting policies according to ROC Statements of Financial Accounting Standards (SFAS), whose content and influence are as follows:

(i) Comprehensive income—ABHC applies the provisions of US SFAS No. 130, "Reporting Comprehensive Income". US SFAS No. 130 requires the reporting and display of comprehensive income, which is composed of net income and other comprehensive income or loss items, in a full set of general-purpose financial statements. Other comprehensive income items for ABHC include unrealized appreciation (depreciation) of restricted assets and foreign currency translation adjustments. Under generally accepted accounting principles, these other comprehensive income items are excluded from net income and reflected as a component of equity.

(ii) In the case where more than 50% of a joint venture is owned, according to Financial Accounting Standards Board (FASB) guidelines, the accounting treatment is the same as for full consolidation where minority interest is excluded, which is different from the proportional consolidation treatment used under accounting principles generally accepted in the ROC.

ii. Depreciation of fixed assets has been provided on a WDV basis at the rates and basis prescribed by Schedule XIV of the Companies Act, 1956 of India. This is a declining-balance method and will be used until completion of the project at the current applicable rates; if CICI's depreciation were computed using the straight-line method, as of December 31, 2010, the effect on profit before tax would be $4,808.

(5) Special risk of foreign subsidiary's operations: None.

(6) Restriction on subsidiary's ability to transfer funds to the Company: None.

(7) Securities of the Company held by subsidiary: None.

b. Principles of preparing consolidated financial statements

The consolidated financial statements include the Company and all of its subsidiaries. Significant transactions between them were eliminated.

c. The exchange basis of the investee's functional currency is the foreign currency financial statements.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

d. Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

e. Foreign currency transactions

Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

f. Foreign currency translation of financial statements of foreign operations

(1) Assets and liabilities are measured at exchange rates prevailing on the balance sheet date;

(2) Income and expenses are measured at average exchange rates for the year;

(3) Intercompany transactions and working capital are translated at historical exchange rates;

(4) Gains or losses from the above translation are usually not recognized for the current period and are recorded as an adjustment to stockholders' equity.

g. Current and non-current assets and liabilities

The balance sheet accounts related to construction business are classified either as current or non-current based on the Company's operating cycle, which is usually 2-5 years. The remainder is based upon a one-year cycle.

h. Impairment of assets

The Company and its subsidiaries assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company and its subsidiaries estimate the recoverable amount of the asset. The Company and its subsidiaries recognize impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company and its subsidiaries reverse an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company and its subsidiaries assess the goodwill and intangible assets that have indefinite lives or are not yet available for use on an annual basis and recognize an impairment loss on the carrying value in excess of the recoverable amount.

i. Cash and cash equivalents

Cash consists of cash, demand deposits, checking accounts, time deposits rescindable anytime, certificates of deposits, and cash equivalents. Cash equivalents are short-term investments which could be converted to cash anytime and which do not have a significant level of market risk related to potential interest rate changes, and include treasury bills, commercial paper, and banker's acceptances with maturities of three months or less at the date of purchase.

j. Financial assets

Financial assets are classified into three accounts: financial assets measured at fair value through profit or loss; available-for-sale financial assets; and financial instruments carried at cost.

The Company adopted transaction-date accounting for financial instrument transactions. At the initial recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, the original cost of financial instruments should include the cost of acquisition or issuance.

The financial instruments held or issued by the Company are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition.

(1) Available-for-sale financial assets: These are evaluated at fair value, and any changes are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss should be recognized. If the impairment loss decreases subsequently, the decreased amount of impairment of equity financial instruments cannot be reversed.

(2) Financial assets carried at cost: Equity investments that cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

k. Financial derivatives and hedging

The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operating, financing and investing activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

If a cash flow hedge meets the criteria for hedge accounting, the gain or loss on hedging items will be recognized as an adjustment of stockholders' equity. If a hedging transaction will be recognized as assets or liabilities, the gain or loss recorded in stockholders' equity will be reclassified as current gain or loss in the financial statements. And if a hedging transaction will influence the net gain or loss, the above-mentioned gain or loss recognized in stockholders' equity will be reclassified as a current gain or loss in the financial statements.

l. Allowance for doubtful accounts

An allowance for doubtful accounts is provided based on the expected collectability of notes and accounts receivable at year-end.

m. Real estate investment and construction accounting

The Company's investment in real estate construction projects is recorded based upon the construction costs of the different construction projects. Gain on sale of real estate is recorded based upon the completion method, except for the projects described below which qualify under the percentage-of-completion method:

(1) The construction progress is past the planning stage, i.e., the construction design, planning, subcontracting and site preparation have been completed, and construction can commence at any time.

(2) Contracts for advance sale have already reached the total estimated construction costs.

(3) Payments received on advance sale have already reached 15% of the total contract price.

(4) The collectability of contract receivables can be reasonably estimated.

(5) The total construction costs and year-end construction progress can be reasonably estimated.

(6) The cost of sales relating to real estate sales contracts can be reasonably estimated.

For adoption of the percentage-of-completion method, the status of construction progress will determine the percentage of construction completed.

Building construction cost is recorded by project. Purchase or trade-in of land is recorded as "land held for development". Prepayment for land prior to the transfer of title is recorded as "prepayment for land". The related land and construction costs incurred are recorded as "building construction in progress". Upon the completion of construction, the related land and construction costs are transferred to "real estate held & for sale". The proceeds from pre-sale of real estate are recorded as "advance receipts". The related expenses incurred on such pre-sales are recorded as "deferred selling expenses", which are charged to operations upon the completion and delivery of the real estate.

With reference to recognition of gain or loss on sale of real estate, in theory, it is based upon the date the real property is ready for delivery, assuming full payment is received and the ownership deed is transferred. However, if at the balance sheet date only one criterion has been fulfilled and the remaining criteria are completed in the subsequent period, then the gain or loss is still recognized currently.

Interest cost incurred during the construction period until the project is completed or the property can be used is capitalized (including for land and building costs).

The construction costs are allocated between property already sold and property held for sale based upon the percentage of sales price or size of property. However, once the cost allocation method is determined for a project, it cannot be changed from one year to another.

At year-end, a provision for loss is made when there is sufficient evidence indicating that the market value of "land held for development", "real estate held for sale", or "building construction in progress" is lower than cost.

n. Accounting for long-term construction contracts

The percentage-of-completion method of accounting for long-term construction projects is adopted when the construction period exceeds one year and the contract price, the completion cost, and the extent of construction progress can be reasonably estimated. The construction costs incurred are recorded as "work in progress". Advance receipts on construction contracts are recorded as "advance contract receipts". At each year-end, the percentage-of-completion method is used for estimating aggregate contract gain less aggregate contract gain recognized in the prior period, and the resulting difference is recognized currently.

However, should the aggregate gain recognized in the prior period exceed that computed at the end of the current period, the excess is recognized as contract loss currently. When a loss is estimated on construction contracts, the entire estimated loss should be recognized immediately. If in the future such estimated loss is reduced, then the loss should be reversed and the resulting gain recognized currently.

Costs of uncompleted contracts in excess of related billings are classified under current assets, whereas billings on uncompleted contracts in excess of related costs are classified under current liabilities.

o. Deferred assets

Deferred assets consist of amortized equipment, materials needed for construction, and the issuing cost of financing, which are recorded at cost and amortized over the estimated economic use period and construction progress.

p. Long-term investments (including joint venture investment)

All long-term investments are valued at cost. For both equity-method and cost-method investments, the cost of an investment sold is determined using the weighted-average method.

If the Company has influence or controlling interest over the investee, it should be valued under the equity method. Long-term investments in which the holding proportion of the investee is 20% ~ 50% (or under 20% but the Company has influence over investee) are accounted for by the equity method in the second quarter and at the year-end. Long-term investments in which the holding proportion of the investee is over 50%

(or under 50% but the Company has influence over the investee) are accounted for by the equity method each quarter.

The difference between investment cost and net equity (the difference) attributed to depreciable, depletable, or amortizable assets is amortized over the estimated remaining economic years. The difference attributed to the carrying amount in excess of or lower than the fair value of assets is eliminated entirely when the difference disappears. The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill.

The difference attributed to the fair value of identifiable net assets in excess of the cost of investment causes a proportional decrease in the carrying amount of non-current assets. When the carrying amount of non-current assets is decreased to zero, the remaining difference is through extraordinary gain or loss. The differences between investment cost and net equity in the previous investments that cannot be attributed to any reason and were originally amortized over five years are no longer amortized starting from January 1, 2006.

The difference between the disposal price and carrying amount of long-term equity investment under the equity method on the disposal date is recognized as gain or loss from disposal of long-term equity investment. The associated capital surplus resulting from long-term equity investment is reclassified into current gain or loss in proportion to disposal of long-term equity investment.

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

When an investee company accounted for under the equity method issues new capital shares, if the existing shareholders do not subscribe to the new shares in proportion to their stock ownership percentage, resulting in a change in investment ratio and an increase or decrease in net equity of the investment, such increase or decrease is adjusted to "capital surplus" and "long-term investments". If the "capital surplus" account should be debited and the balance in "capital surplus" resulting from long-term investments is insufficient, then the difference should be debited to "retained earnings".

If an investee's functional currency is a foreign currency, translation adjustments will result from the process of translating the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

q. Property and equipment

Land is recorded at cost plus incremental value from land revaluation. Land revaluation is based upon the government-announced price for adjustment of book value, and a reserve for land value incremental tax is provided accordingly.

Depreciable property and equipment and unsold real estate held for lease are stated at cost plus revaluation, if any. Major additions, improvements and replacements are capitalized. For purchase and construction of property and equipment, the interest is an expense until these fixed assets are ready for use and is also capitalized as part of the acquisition costs of the assets.

Depreciation is computed using the straight-line method over the following service lives promulgated by the government, which approximate their estimated useful lives:

| | |
|---|---|
| Buildings | 8-60 years |
| Machinery and equipment | 3- 8 years |
| Computer equipment | 3 years |
| Transportation equipment | 3- 5 years |
| Office equipment | 5- 9 years |
| Sewage treatment plant building | 30 years |
| Sewage equipment | 15 years |
| Drainage and sewage piping connection equipment | 25 years |
| Leased assets | 44-60 years |

A depreciable asset that continues to be used beyond its depreciable life can continue to be depreciated over its estimated remaining useful life.

Gain or loss on disposal of property and equipment is recorded as non-operating income or expenses. Land, buildings, machinery and equipment that could be used but not for operation purposes are changed to idle assets and transferred to other assets. In accordance with the newly amended ROC SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", idle assets which were evaluated at net realizable value are now evaluated at book value. In addition, the impairment loss the Company recognized could be recovered according to ROC SFAS No. 35, "Impairment of Assets."

r. Provision for warranty reserve

Provision for warranty reserve is provided based on the estimated costs to be incurred during the warranty period. The excess, if any, of actual payment for warranty over the accrued provision is charged to expenses when paid.

s. Pension plan

The Company has a retirement plan covering all regular employees. This plan (the defined benefit pension plan) provides for a payment of 2 units for each year of service. However, it shall be one unit per year after the completion of 15 years, and the total units shall not exceed 45. Each unit of retirement payment referred to above shall be computed as the last 6 months' average salary at the time of approved retirement. After July 1, 2005, the Labor Pension Act took effect.

The employees who were previously subject to the Labor Standards Law could choose to be subject to the defined contribution pension plan under the Labor Pension Act (the New Plan), and for employees hired after the effective date, the pension plan was changed to the New Plan. Under the New Plan, the Company contributes monthly an amount equal to 6% of the employees' monthly salaries and wages to the employees' individual pension accounts deposited with the Bureau of Labor Insurance as a current expense.

The Company accounts for the defined benefit pension plan in accordance with ROC SFAS No. 18, "Accounting for Pensions." ROC SFAS No. 18 requires that the Company recognize a minimum pension liability as of the balance sheet date equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. ROC SFAS No. 18 also requires the Company to recognize net periodic pension costs (including service cost, transitional net assets, past service cost and pension gain/loss) based on actuarially determined amounts over the service lives of the retirement plan participants. If the average remaining service life is shorter than 15 years, then 15 years is used. Under the defined benefit plan, the Company contributes 2% of gross salaries paid on a monthly basis to a designated pension fund account at Bank of Taiwan.

t. Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2009, are accounted for by Interpretation (96)052 issued by the Accounting Research and Development Foundation (ARDF). The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

u. Recognition of revenue

A subsidiary of the Company, North Shore Corp., is to receive as income monthly a sewage processing fee that includes amortization of sewage construction and amortization of sewage piping connection based on the amount of water used and the operating period.

A subsidiary of the Company, Hsin-Dar Development Corp., is to receive an environmental engineering adviser fee and trial run fee monthly based on the stage of service rendered.

v. Treasury stock

In accordance with ROC SFAS No. 30, "Accounting for Treasury Stock", the Company's purchase of common stock issued is recognized as "treasury stock" based on cost. When the price of disposed of treasury stock is higher than book value, the difference is credited to "capital surplus – treasury stock". When the situation is reversed, the difference is recorded as a reduction in "capital surplus – treasury stock" or retained earnings when "capital surplus – treasury stock" is insufficient. The book value of treasury stock is calculated based on the reasons for purchase, and the weighted-average method is used.

At the time of writing off treasury stock, the Company should debit "common stock" and "capital surplus – premium on stock issuance" proportionally. As long as the book value is higher than the sum of par value and premium on stock issuance, the excess should be recorded as a reduction in "capital surplus – treasury stock" or retained earnings when "capital surplus – treasury stock" is insufficient. When the situation is reversed, the difference is credited to "capital surplus – treasury stock".

w. Income tax

The Company adopted the newly promulgated ROC SFAS No. 22, "Income Taxes", and makes inter-period and intra-period tax allocations. Furthermore, it complies with the requirements to recognize deferred income tax liabilities resulting from taxable temporary differences and to recognize deferred income tax assets resulting from deductible temporary differences, prior-year loss carryforwards, and investment tax credits. The realization of deferred income tax assets is further assessed, and a valuation account, if needed, is provided accordingly.

Effective in 1998, after implementation of the imputation tax system, a 10% surtax is levied on the current year's retained earnings not distributed in the following year by a stockholders' meeting resolution, and is recorded as income tax expense in the year of the stockholders' meeting resolution.

The R.O.C. government enacted the Income Basic Tax Act (the "IBTA"), which became effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the IBTA is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Act is below the minimum amount prescribed under the IBTA. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the IBTA in the determination of its tax liabilities.

x. Earnings per share

Basic earnings per share are computed by dividing the amount of net income (loss) attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period. Potential common stock includes convertible bonds, employee stock options, and employee stock bonuses that have not been proposed in stockholders' meetings. If potential common stock is not dilutive, the Company only discloses basic earnings per share. If it is dilutive, the Company needs to disclose both basic and diluted earnings per share. The calculation of diluted earnings per share should consider the effect of potential common stock. The weighted-average number of outstanding shares is adjusted retroactively for stock dividends and bonus share issues that were approved in the shareholders' meetings prior to 2008.

## 3. CHANGES IN ACCOUNTING POLICIES: NONE.

## 4. CASH AND CASH EQUIVALENTS

| | | December 31, 2010 |
|---|---|---|
| Cash | $ | 12,603 |
| Cash in bank | | 4,548,136 |
| Cash equivalents | | 1,027,424 |
| Total | $ | **5,588,163** |

## 5. FINANCIAL ASSETS

| | | December 31, 2010 |
|---|---|---|
| Financial assets carried at cost—non-current: | | |
| Stock—common stock | $ | 4,907,057 |
| Stock—preferred stock | | 2,737,707 |
| Total | $ | **7,644,764** |

a. Because the aforementioned stock investments were not sold and repurchased in the short term or had no active market price, the fair values are unpredictable.

b. Hsin-Dar Development Co., Ltd. completed its liquidation process on December 23, 2010, and distributed to the Company cash of $112,545 and non-cash assets of $274,174 consisting of 12,148 thousand shares of Evergreen Development Corp. worth $209,880 and 5,657 thousand shares of Hsin Yung Enterprise Corp. worth $64,294. The gain resulting from such transaction amounted to $32,053.

c. As of December 31, 2010, the Consolidated Company held shares of preferred stock issued by Taiwan High Speed Rail Co., Ltd. as follows:

| Type | Shares (in thousands) | | December 31, 2010 |
|---|---|---|---|
| A (a) | 199,350 | $ | 1,993,500 |
| C (d) | 9,800 | | 91,140 |
| C (e) | 107,500 | | 999,750 |
| C (h) | 32,250 | | 299,925 |
| | | | 3,384,315 |
| Less: dividends | | | (646,608) |
| Total | | $ | **2,737,707** |

d. The Consolidated Company evaluated the equity investment in Taiwan High Speed Rail Corp. (THSRC) according to THSRC's most recent financial report. The Company has not recognized impairment of operating assets. According to THSRC's prediction of net income and cash flows from 2010 to 2033, based on its estimated future operation which was reviewed by independent experts, there was no indication that an asset may have been impaired. Even though THSRC experienced a series of deficits since it incorporated, the passenger numbers increased since the second half of 2010, which led to an increase in operating income and gross profit. The operating conditions and cash flow are forecasted to ameliorate through the expansion of the operation. Therefore, as of December 31 2010, the Consolidated Company's assessment was that there was no impairment loss on the investment in THSRC.

## 6. HEDGE ACCOUNTING

The Company has expected future foreign currency liability due to construction contracts, and cash flows arising from the liability may be influenced by changes in exchange rates. The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchanges rates and interest rates resulting from operating, financing and investing activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

As of December 31, 2010, hedged items and derivative financial assets were as follows:

| Hedged items | Hedging instruments | Nominal principal | Fair value of hedged items | Expected period of cash flow | Period of recognizing gain or loss |
|---|---|---|---|---|---|
| December 31, 2010 | | | | | |
| Expected foreign currency liability | Foreign currency deposits | USD 681 | 20,763 | 2011 | 2011 |
| | Forward foreign exchange contract | USD 1,160 | (1,101) | 〃 | 〃 |

For the year ended December 31, 2010, gain or loss from cash flow hedged items and hedging instruments was recorded as an adjustment of shareholders' equity.

| Items | For the year ended December 31, 2010 |
|---|---|
| Adjustment of shareholders' equity | $ 1,399 |

## 7. ACCOUNTS RECEIVABLE, NET

| Accounts receivable | December 31, 2010 |
|---|---|
| Contract receivables | $ 2,651,251 |
| Contract retention receivable | 1,577,352 |
| Other | 1,534 |
| Subtotal | 4,230,137 |
| Less: allowance for doubtful accounts | (96,804) |
| Total | $ 4,133,333 |

The above-mentioned contract retention receivable is 5～10% retention that the owner will deduct when paying the contract amount in order to make sure construction progress is good.

As of December 31, 2010, the above contract retention receivable had been billed and would be collected as listed below:

| Estimated recovery year | December 31, 2010 |
|---|---|
| 2011.01.01~2011.12.31 | $ 574,675 |
| 2012.01.01 and thereafter | 1,002,677 |
| Total | $ 1,577,352 |

## 8. INVENTORY

a. REAL ESTATE AND PARKING SPACES HELD FOR SALE

| | December 31, 2010 |
|---|---|
| 1052C | $ 140,031 |
| 1000E | 52,995 |
| 1000H | 38,964 |
| 1000J | 38,683 |
| Other | 30,584 |
| Subtotal | 301,257 |
| Less: allowance for valuation loss on real estate and parking spaces | (113,532) |
| Total | $ 187,725 |

b. LAND HELD FOR DEVELOPMENT

| | December 31, 2010 |
|---|---|
| 1100C | $ 978,054 |
| 1100K | 5,033,326 |
| 10500 | 231,657 |
| | $ 6,243,037 |

c. BUILDING CONSTRUCTION IN PROGRESS

| | December 31, 2010 | Type of property development |
|---|---|---|
| The Village | | |
| 10530 | $ 189,133 | Land owned and building constructed by the Company |
| 1062B | 5,453 | " |
| 1063A~F | 4,500,578 | " |
| 1050F | 445,656 | Joint construction with completed units to be shared |
| 1050R | 3,522,468 | Joint construction with completed portion to be shared |
| 1070E | 493,324 | Part of land owned and building constructed by the Company, and part under joint construction with completed units shared |
| 1080F | 64,280 | Joint construction with completed units to be shared |
| 1100C | 9,076 | Land owned and building constructed by the Company |
| Subtotal | 9,229,968 | |
| Less: allowance for valuation loss on building construction in progress for development | - | |
| Total | $ 9,229,968 | |

(1) For the year ended December 31, 2010, some projects qualified under the percentage-of-completion criteria, and the related profits and losses were as follows:

| | Amount of Contract | Estimated Construction Cost | Percent Sold | Percent Completed | Estimated Year of Completion | Cumulative Gain (Loss)(Note) |
|---|---|---|---|---|---|---|
| **December 31, 2010** | | | | | | |
| 1063A~F | $ 6,606,141 | 4,867,361 | 93.93% | 66.71% | 2011 | 1,159,940 |
| 1050F | 2,007,422 | 1,391,466 | 100.00% | 24.63% | 2011 | 151,710 |
| 1050R | 4,706,848 | 3,898,510 | 92.40% | 80.10% | 2011 | 647,479 |
| 1070E | 1,530,949 | 1,095,124 | 100.00% | 22.54% | 2012 | 98,235 |
| | **$ 14,851,360** | **11,252,461** | | | | |

Note: The cumulative gain included the construction contract income before April 8, 2010.

(2) For the year ended December 31, 2010, capitalizing of interest was as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Interest before capitalization | $ 252,195 |
| Interest capitalized | 61,818 |
| Rate of capitalization | 1.78%~1.90% |

d. PREPAYMENT FOR LAND

| | 2010.12.31 |
|---|---|
| Others | **$ 1,500** |

e. OTHERS

| | 2010.12.31 |
|---|---|
| Material on hand | **$ 66,902** |

## 9. COSTS OF UNCOMPLETED CONTRACTS IN EXCESS OF RELATED BILLINGS, AND BILLINGS ON UNCOMPLETED CONTRACTS IN EXCESS OF RELATED COSTS

| Project No. | Construction in progress | Billings on uncompleted contracts | Costs of uncompleted contracts in excess of related billings | Billings on uncompleted contracts in excess of related costs |
|---|---|---|---|---|
| **December 31, 2010** | | | | |
| 2090E | $ 128,703 | 100,306 | 28,397 | - |
| 3050R | 3,193,494 | 3,196,408 | - | 2,914 |
| 3060U | 574,931 | 575,206 | - | 275 |
| 3070D | 1,518,140 | 1,600,669 | - | 82,529 |
| 3080A | 500,641 | 497,976 | 2,665 | - |
| 3080D | 702,126 | 663,960 | 38,166 | - |
| 3080G | 606,312 | 984,567 | - | 378,255 |
| 3080H | 237,680 | 267,061 | - | 29,381 |
| 4050C | 6,745,163 | 6,526,370 | 218,793 | - |
| 4070C | 1,058,062 | 1,383,210 | - | 325,148 |
| 4070F | 2,151,115 | 2,705,865 | - | 554,750 |
| 4080L | 1,710,315 | 2,347,488 | - | 637,173 |
| 4090B | 613,915 | 899,902 | - | 285,987 |
| 4100A | 301,396 | 564,882 | - | 263,486 |
| 6060M | 2,077,424 | 2,017,672 | 59,752 | - |
| 6061A | 1,482,785 | 1,315,516 | 167,269 | - |
| 6061B | 1,744,009 | 1,570,112 | 173,897 | - |
| 6061D | 3,450,009 | 3,442,839 | 7,170 | - |
| 6061E | 293,676 | 273,821 | 19,855 | - |
| 6090C | 151,311 | 389,843 | - | 238,532 |
| 8080K | 273,465 | 314,809 | - | 41,344 |
| Other (1) | 46,605 | 3,244 | 43,361 | - |
| Other (2) | 198,782 | 229,388 | - | 30,606 |
| Other (3) | 1,082,297 | 1,082,297 | - | - |
| Overseas Project No. 630100 | 3,246,099 | 3,224,246 | 21,853 | - |
| Overseas Project No. 660100 | 18,409,059 | 20,289,157 | - | 1,880,098 |
| Overseas Project No. Other (1) | 24,287,693 | 23,290,794 | 996,899 | - |
| Overseas Project No. Other (2) | 3,546,574 | 3,837,760 | - | 291,186 |
| Total | **$ 80,331,781** | **83,595,368** | **1,778,077** | **5,041,664** |

For the year ended December 31, 2010, the contract price and other related information for those contracts accounted for by the percentage-of-completion method were as follows:

| Project No. | Amount of Contract | Estimated Construction Cost | Completed % | Estimated Year of Completion | Cumulative Gain (Loss)(Note) | Cumulative Price Adjustment Gain (Loss)(Note) |
|---|---|---|---|---|---|---|
| **December 31, 2010** | | | | | | |
| 2090E | $ 1,356,539 | 1,291,942 | 9.49% | 2012 | 6,129 | - |
| 2100I | 1,647,619 | 1,564,278 | 0.06% | 2013 | 54 | - |
| 3050R | 3,969,011 | 3,816,604 | 80.46% | 2011 | 122,628 | - |
| 3070D | 1,934,509 | 1,810,275 | 78.48% | 2011 | 97,495 | - |
| 3080A | 671,150 | 645,770 | 74.59% | 2011 | 18,932 | - |
| 3080D | 984,139 | 919,628 | 71.34% | 2011 | 46,025 | - |
| 3080G | 1,429,140 | 1,349,723 | 42.42% | 2012 | 33,693 | - |
| 3080H | 417,223 | 391,592 | 56.97% | 2011 | 14,602 | - |
| 3090A | 290,238 | 277,663 | 27.60% | 2012 | 3,470 | - |
| 3100F | 291,425 | 258,149 | 5.63% | 2012 | 1,873 | - |
| 3100G | 1,763,654 | 1,584,970 | 1.73% | 2012 | 3,098 | - |
| 4050C | 9,908,147 | 9,687,824 | 68.08% | 2014 | 149,989 | 59,233 |
| 4070C | 2,714,844 | 3,288,048 | 49.61% | 2014 | (573,204) | - |
| 4070F | 4,281,196 | 4,498,733 | 52.65% | 2013 | (217,537) | - |
| 4080L | 5,767,582 | 5,524,651 | 29.65% | 2015 | 72,039 | (6,488) |
| 4090B | 4,171,277 | 4,316,599 | 17.59% | 2012 | (145,322) | - |
| 4100A | 2,826,744 | 2,768,162 | 10.66% | 2013 | 6,246 | - |
| 4100H | 4,215,238 | 4,088,723 | 0.57% | 2016 | 719 | - |
| 8080K | 403,420 | 340,303 | 67.79% | 2011 | 42,785 | (21) |
| | **$ 49,043,095** | **48,423,637** | | | **(316,286)** | **52,724** |
| **Expressed in Rupees** | | | | | | |
| 6060M | $ 3,743,187 | 5,868,942 | 90.66% | 2011 | (2,125,755) | 28,717 |
| 6061A | 2,338,179 | 3,208,315 | 98.20% | 2011 | (870,136) | - |
| 6061B | 2,755,275 | 3,729,120 | 98.04% | 2011 | (973,844) | - |
| 6061D | 5,323,051 | 5,773,860 | 99.71% | 2011 | (450,810) | - |
| 6061E | 466,570 | 569,354 | 97.38% | 2011 | (102,783) | - |
| 6090C | 3,826,688 | 3,780,309 | 6.08% | 2013 | 2,820 | - |
| | **$ 18,452,950** | **22,929,900** | | | **(4,520,508)** | **28,717** |
| **Expressed in USD** | | | | | | |
| 660100 | $ 877,161 | 672,161 | 72.05% | 2014 | 147,695 | - |

Note: The cumulative gain (loss) included the construction contract income before April 8, 2010.

a. As of December 31, 2010, the Consolidated Company had joint ventures, and the financial information was as follows:

| Project No. | Joint Venture Partner | Joint Venture Percentage<br>The Company : Joint Venture Partner |
|---|---|---|
| 4070C | TAISEI Corporation | 50% : 50% |
| 630100 | Edward Kraemer and Sons, Inc. | 55% : 45% |
| 650100 | McLean Contracting Company | 54% : 46% |
| 650200 | PMS Engineering | 50.5% : 49.5% |
| 660100 | Fluor Enterprises, Inc. | 50% : 50% |

b. The Consolidated Company recognized its assets, liabilities and income by the percentage of the joint ventures, and the amounts were as follows:

| | Amount Recognized as Company's Ownership Percentage | | | | |
|---|---|---|---|---|---|
| December 31, 2010 | Company's Ownership Percentage | Assets | Liabilities | Construction Income | Construction Cost |
| 4070C | 50% | 338,926 | 338,926 | 467,667 | 747,965 |
| 630100 | 55% | 21,877 | 2,371 | 13,034 | 13,034 |
| 650100 | 54% | 627 | 627 | 4,824 | 4,824 |
| 650200 | 50.5% | - | - | - | - |
| 660100 | 50% | 3,732,992 | 2,508,651 | 5,918,127 | 4,590,357 |

## 10. LONG-TERM EQUITY INVESTMENT

As of December 31, 2010, the Consolidated Company recorded investment gain/loss and cumulative translation adjustment based on the audited financial statements of investee companies. Investment gain/loss and cumulative translation adjustment were as follows:

| | December 31, 2010 | | | For the year ended December 31, 2010 | |
|---|---|---|---|---|---|
| Investee | Original Investment | Ownership % | Carrying Amount | Investment Gain (Loss) | Cumulative Translation Adjustment |
| Hsin-Dar Development Co., Ltd. | - | - | $ - | **12,856** | - |

Hsin-Dar Development Co., Ltd. completed its liquidation process on December 23, 2010, and distributed to the Company cash of $112,545 and non-cash assets of $274,174 consisting of 12,148 thousand shares of Evergreen Development Corp. worth $209,880 and 5,657 thousand shares of Hsin Yung Enterprise Corp. worth $64,294. The gain resulting from such transaction amounted to $32,053. Since the equity instrument distributed mentioned above has no active market price and its fair value cannot be reliably measured, the equity is recorded as financial assets carried at cost – non-current.

## 11. FIXED ASSETS

As of December 31, 2010, the accumulated depreciation was as follows:

| | December 31, 2010 |
|---|---|
| Buildings | $ 305,340 |
| Machinery and equipment | 1,153,256 |
| Computer equipment | 50,818 |
| Transportation equipment | 202,284 |
| Furniture and office equipment | 436,710 |
| Leased assets | 326,410 |
| Total | **$ 2,474,818** |

a. The accumulated impairment of land and leased assets amounted to $360,650 as of December 31, 2010.

b. The Consolidated Company revalued its land and fixed assets, which resulted in total revaluation increments of $5,679 as of December 31, 2010.

c. In June 2010, the Company resolved to sell its leased assets for $3,050,000. The contract was signed on July 13, 2010, and resulted in a gain on disposal of leased assets of $1,894,067.

## 12. SHORT-TERM BANK LOANS

As of December 31, 2010, short-term debt was as follows:

| Item | December 31, 2010 |
|---|---|
| Collateral loans | $ 8,279,760 |
| Credit loans | 685,002 |
| | **$ 8,964,762** |

a. The Consolidated Company provided collateral for the above collateral loans; please refer to Note 24. The annual interest rates ranged from 1% to 2.11% in 2010.

b. CDC signed a syndicated loan agreement with a group, led by Taipei Fubon Bank and Taiwan Life Insurance, with a credit line of $3,539,760. The line expires in five years and is collateralized by the land held for development (1100K), unless otherwise agreed to by CDC and the group.

## 13. ADVANCE RECEIPTS

| Item | December 31, 2010 |
|---|---|
| Advance receipts from realty sales | $ 3,837,699 |
| Advance rents received | 14,864 |
| Others | 46,069 |
| | **$ 3,898,632** |

## 14. LONG-TERM LOANS/CURRENT PORTION OF LONG-TERM LOANS

| Nature of Loans | Maturity Period | Amount | Note |
|---|---|---|---|
| December 31, 2010 | | | |
| Collateral loans | 2011.05~ 2022.08 | $ 8,205,000 | Repay in installments beginning January 2010, or repay at the maturity date. |
| Credit loans | 2012.05~ 2015.05 | 1,476,486 | Repay in installments beginning May 2010. |
| Less: Current portion | | (933,612) | |
| | | **$ 8,747,874** | |

a. As of December 31, 2010, the related interest rates for the above bonds payable and long-term loans were from 0.43% to 2.77%. For the collateral for the above long-term loans, please refer to Note 24.

b. The loan agreement requires the Company to maintain certain financial ratios: current ratio>100% and debt-to-equity ratio<150%. As of December 31, 2010, the Company was not in violation of the terms of the loan agreement.

## 15. CAPITAL STOCK

The Company was established through share exchange with CEC on April 8, 2010, with capital of $8,411,581. As of December 31, 2010, the Company's authorized capital was $10,000,000, of which $8,411,581, representing 841,158 thousand shares, was issued and outstanding at a par value of $10 (dollars).

## 16. CAPITAL SURPLUS

a. The Company was established on April 8, 2010, and issued 841,158 thousand shares in exchange for CEC's stock. The net equity of CEC's stock in excess of par value of the Company's stock amounted to $7,368,919 and was credited to capital surplus.

b. According to Article 30 of the Business Mergers and Acquisitions Act, any undistributed retained earnings after the share exchange of a company with another company are recorded as the capital surplus of the other company, and such distribution is immune from the restrictions provided in Article 241(1) of the Company Act.

## 17. LEGAL RESERVE AND EARNINGS DISTRIBUTION

According to the policies of the Company, earnings, if any, should first be used to offset cumulative losses then to pay corporate income tax. Of the remainder, 10% will be appropriated as legal reserve, and special reserve will be provided per Article 41 of the Securities and Exchange Act. The remaining balance along with cumulative retained earnings is distributable earnings, of which at least 50% should be appropriated in the following manner:

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

Per SFB regulations, if the aforementioned special surplus is a contra account to stockholders' equity accumulated from prior years, special surplus of the same amount from unappropriated earnings of prior years cannot be distributed. For subsequent reversal of the contra account to stockholders' equity, the amount of the reversal may be appropriated.

A dividend in accordance with the aforementioned distribution ratio does not have to be distributed if it is less than $0.3 (dollars) per share. The cash dividends distributed cannot be less than 20% of total dividends distributed. However, a stock dividend may be distributed instead if the cash dividend per share is less than $0.1 (dollars).

For 2010, the Company estimated employee bonuses and directors' and supervisors' remuneration to be $2,974 and $2,974, respectively. The number of shares of stock distributed as dividends was determined based on the closing price on the day prior to the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and will be recognized as profit or loss for 2011.

Information on the employee bonuses and directors' and supervisors' remuneration is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 18. INCOME TAXES

a. The Company and its domestic subsidiaries were subject to statutory income tax rate of 17% and adopted the Income Basic Tax Act to calculate the alternative minimum tax. Other foreign subsidiaries' income taxes were calculated in compliance with their respective local income tax law.
b. The components of income tax expense were as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Current income tax expense | $ 493,025 |
| Adjustments for prior years' tax | (1,011) |
| Deferred income tax expense (benefit) | 47,504 |
| Additional 10% surtax on undistributed earnings | 863 |
| Income tax expense from continuing operations | **$ 540,381** |

The components of deferred income tax were as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Provision for warranty | $ 12,166 |
| Unrealized construction loss | 47,302 |
| Provision for completion of work by subcontractors | (5,636) |
| Investment tax credits | (1,572) |
| Loss carryforwards | (363,919) |
| Unrealized asset gain — building | (28,544) |
| Inventory valuation loss | (10,168) |
| Others | 44,228 |
| Effect on deferred income tax of statutory tax rate change | 101,798 |
| Allowance for valuation reversal | 251,849 |
| | **$ 47,504** |

c. The reconciliation between income tax expense calculated at statutory rates and income tax expense was as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Income tax calculated on net income (before tax) | $ 643,261 |
| Tax-exempt gain on disposal of land | (228,507) |
| Tax-exempt income on disposal of securities (including dividend income) | (7,412) |
| Timing difference between tax accounting and financial accounting | (171,724) |
| Capital difference between tax accounting and financial accounting | (11,176) |
| Gain on liquidation | (5,449) |
| Investment tax credit | (1,572) |
| Prior year's overestimated income tax expense | (1,011) |
| Additional 10% surtax on undistributed earnings | 863 |
| Effect on statutory tax rate change | 1,366 |
| Allowance for valuation reversal | 315,317 |
| Others | 6,425 |
| Income tax expense | **$ 540,381** |

d. Net deferred income tax assets consisted of the following:

| | December 31, 2010 | | |
|---|---|---|---|
| | | Income tax effect | |
| | Amount | Current | Non-current |
| Deferred tax assets | | | |
| Provision for warranty | $ 465,294 | 79,100 | - |
| Loss carryforwards | 5,628,257 | 37,744 | 919,059 |
| Unrealized construction loss | 680,534 | 115,691 | - |
| Unrealized impairment of long-term equity investment | 124,447 | 21,156 | - |
| Provision for completion of work by subcontractors | 524,697 | 89,198 | - |
| Inventory valuation loss | 59,811 | - | 10,168 |
| Investment tax credit | 321,082 | 1,069 | 53,515 |
| Others | 4,744 | 806 | - |
| | | 344,764 | 982,742 |
| Less: Allowance for deferred tax assets | | (235,689) | (982,742) |
| Net deferred tax assets | | $ **109,075** | - |
| Deferred tax liabilities | | | |
| Unrealized construction gain | $ 234,582 | 39,879 | - |
| Fixed assets difference between financial accounting and tax accounting | 685,753 | 116,578 | - |
| Other | 312,205 | 53,075 | - |
| Deferred tax liabilities | | $ **209,532** | - |

e. As of December 31, 2010, unappropriated earnings were as follows:

| | December 31, 2010 |
|---|---|
| Accumulated earnings | $ **931,102** |
| Balance of the imputation credit account | $ **10,013** |

| | 2010 (estimated) |
|---|---|
| Creditable ratio for distribution of earnings | **1.08%** |

## 19. EARNINGS PER SHARE

| | For the year ended December 31, 2010 | |
|---|---|---|
| **Basic earnings per share** | **Before Tax** | **After Tax** |
| Net income | $ **931,102** | **931,102** |
| Weighted-average number of outstanding shares (in thousands) | $ **841,158** | **841,158** |
| Basic earnings per share—current period | $ **1.11** | **1.11** |
| **Diluted earnings per share** | | |
| Net income | $ **931,102** | **931,102** |
| Weighted-average number of outstanding shares (in thousands) | 841,158 | 841,158 |
| Diluted potential common stock—employee bonuses (in thousands) | 433 | 433 |
| Effect of dilutive potential common stock (in thousands) | $ **841,591** | **841,591** |
| Diluted earnings per share—current period | $ **1.11** | **1.11** |

## 20. PENSION PLAN

a. As of December 31, 2010 and 2009, the reconciliation of the funded status of the plan and accrued pension liabilities was as follows:

| | **December 31, 2010** |
|---|---|
| Benefit obligation | |
| Vested benefit obligation | $ (125,992) |
| Non-vested benefit obligation | (305,907) |
| Accumulated benefit obligation | (431,899) |
| Additional benefits based on future salaries | (102,166) |
| Projected benefit obligation | (534,065) |
| Fair value of plan assets | 195,966 |
| Funded status | (338,099) |
| Unrecognized net transitional obligation | 107,438 |
| Unrecognized net loss | 92,081 |
| Accrued minimum pension liabilities | (97,353) |
| Accrued pension liabilities | $ **(235,933)** |

As of December 31, 2010, the vested benefit obligation under the pension plan amounted to $135,907.

b. Components of net periodic pension cost for the year were as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Service cost | $ 10,093 |
| Interest cost | 11,814 |
| Return on pension fund assets | (5,516) |
| Amortization | 10,627 |
| Net periodic pension cost | $ **27,018** |

c. Actuarial assumptions were as follows:

| | For the year ended December 31, 2010 |
|---|---|
| Discount rate | 2.25% |
| Future salary increase rate | 2.25% |
| Expected rate of return on pension fund assets | 3.00% |

d. In 2010, under the defined contribution pension plan, the Company contributed pension expenses amounting to $22,742 to the Bureau of Labor Insurance.

## 21. DISCOLOSURE OF FINANCIAL INSTRUMENT INFORMATION

a. Information on fair value

The following table does not include short-term financial instruments. Since such financial instruments will soon mature, the carrying amount is a reasonable basis to estimate fair value. Short-term financial instruments include cash and cash equivalents, accounts receivable, notes receivable, other financial assets, short-term debt, accounts payable, notes payable, other accounts payable, etc.

As of December 31, 2010, the information on the Company's financial assets and liabilities was as follows:

| | December 31, 2010 | | |
|---|---|---|---|
| | Carrying Amount | Fair Value | |
| | | Quoted Market Price | Evaluation |
| Financial Assets: | | | |
| Financial assets carried at cost－non-current | $7,644,764 | Note b(1) | Note b(1) |
| Financial Liabilities: | | | |
| Long-term loans (including current portion) | $1,300,000 | Note b(2) | 1,300,000 |

b. The methods and the assumptions to measure the fair value of the financial instruments were as follows:

   (1) Financial assets carried at cost: For investments over which the Company does not exercise significant influence and which do not have quoted market prices in an active market, the fair value cannot be reliably measured.

   (2) Fair value of long-term loans is estimated using the present value of future cash flows discounted by the interest rates the Company may obtain for similar loans.

c. The Company provided financial instruments as collateral for long-term debt payable as of December 31, 2010. Please refer to Note 24.

d. Information on financial risk

   (1) Credit risk

   As of December 31, 2010, guarantees provided for construction warranties of other construction companies and endorsements/guarantees provided for bank loans to related parties amounted to approximately $12,562,487.

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

   (2) Liquidity risk

   The operating funds of the Company are adequate to meet demands, and there is no related liquidity risk. Given that exchange rates are specified in forward contracts, there is no significant related liquidity risk.

   (3) Cash flow risk of change in interest rate

   As of December 31, 2010, financial liabilities exposed to cash flow interest rate risk amounted to $17,346,248. Since the Company's short-term and long-term loans are floating-rate loans, the effective interest rate of the short-term and long-term debt would change if the market rate changed.

## 22. OTHERS

The information on the Consolidated Company's significant foreign financial assets and liabilities was as follows:

| | December 31, 2010 | | |
|---|---|---|---|
| | Foreign Currency | Exchange Rate | NTD |
| **Financial Assets** | | | |
| Monetary Items | | | |
| INR | 830,033 | 0.6502 | 539,687 |
| **Financial Liabilities** | | | |
| Monetary Items | | | |
| INR | 476,806 | 0.6502 | 310,019 |

## 23. RELATED-PARTY TRANSACTIONS

a. Names of related parties and relationship with the Company

| Name of Related Party | Relationship |
|---|---|
| Hsin-Dar Development Co., Ltd. | An investee company accounted for under the equity method (liquidation was completed on December 23, 2010) |
| ABF Barge LLC | ABHC's investee company under equity method |
| Taiwan Synthetic Rubber Corp. | Its director is CEC's Chairman. |
| Metropolis Property Management Corp. | Its chairman is CEC Retailer Development Corp.'s chairman. (CEC Retailer Development Corp.'s liquidation was completed on December 3, 2010.) |
| Shen Ye Construction Co., Ltd. | An investee company accounted for under the equity method by a Company subsidiary |
| Ms. Mei-Ling Tsai | Spouse of CDC's chairman |
| Members of the board of directors, President and Vice-president | Key management personnel of the Company |

b. Significant transactions with related parties

(1) Sales

| For the year ended December 31, 2010 | Location | Amount of contract | Billed in this period | Total billed to date |
|---|---|---|---|---|
| Ms. Mei-Ling Tsai | 1063A | $ 40,752 | 8,140 | 8,140 |

The prices and collection terms of contracts with related parties are the same as those in general transactions.

(2) Accounts receivable (payable)

| **Other accounts receivable－related party** | **December 31, 2010** | |
|---|---|---|
| | **Amount** | **%** |
| Hsin-Dar Development Co., Ltd. | $ 24,299 | 8 |
| Others | 210 | - |
| | **$ 24,509** | **8** |

| **Accounts payable－related party** | **December 31, 2010** | |
|---|---|---|
| | **Amount** | **%** |
| Shen Ye Construction Co., Ltd. | **$ 611** | **100** |

(3) Financing to related parties (other accounts receivable－related party)

| | **December 31, 2010** | | | |
|---|---|---|---|---|
| **Related Party** | **Maximum Balance** | **Ending Balance** | **Interest Rate** | **Interest Income** |
| ABF Barge LLC | **$ 394,282** | **289,674** | **6%** | **18,884** |

(4) Lease contracts

| | **Location** | **Period** | **Rent/Mo.** | **Payment Term** | **Rent Revenue** |
|---|---|---|---|---|---|
| **December 31, 2010** | | | | | |
| Taiwan Synthetic Rubber Corp. | 13F., No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | 2010.05.02 ~2013.03.31 | $ 445 | Monthly | 3,188 |

c. Key management personnel compensation

| | **2010** |
|---|---|
| Salaries and directors' and supervisors' remuneration | $ 225,890 |
| Employee benefits | 100,195 |
| Benefits to members of the board of directors | 6,638 |
| Employee bonuses | 3,159 |

The amounts mentioned above include the estimated employee bonuses and directors' and supervisors' remuneration. Please see the "Legal Reserve and Earnings Distribution" section for reference.

Note: Since the Company was established through share exchange with CEC on April 8, 2010, the compensation disclosed above includes the total amount of subsidiaries' key management personnel compensation for the entire year of 2011.

## 24. PLEDGED ASSETS

As of December 31, 2010, the following assets were pledged:

| Assets | December 31, 2010 | | Note |
|---|---|---|---|
| Other financial assets－current | $ | 430,387 | (a) |
| Inventory (construction industry) | | 7,220,636 | (c) |
| Fixed assets－land and buildings (net book value) | | 2,647,514 | (b),(c),(d) |
| Fixed assets－leased assets (net book value) | | 8,192,897 | 〃 |
| Total | **$** | **18,491,434** | |

Purpose of pledge:

(a) Construction warranty, guarantees for contract performance, advance payment, payback reserve and hedging instruments;

(b) Corporate bonds payable;

(c) Loan collateral;

(d) Construction warranty.

## 25. MAJOR COMMITMENTS AND CONTINGENCIES

a. As of December 31, 2010, promissory notes issued for contract performance, issuance of commercial paper, and construction warranty amounted to $28,590,707. Meanwhile, as of December 31, 2004, because the Company had acquired the certifications of completion of the C260 and C270 projects of Taiwan High Speed Rail Corp., the Company estimated a provision for warranty amounting to $455,991 and $981,156, respectively, which was estimated based on the possibility of a disaster within three to ten years in the future. For the year ended December 31, 2010, the Company deducted the current operating costs of $44,984.

b. As of December 31, 2010, promissory notes receivable for construction contracts amounted to $6,111,573.

c. As of December 31, 2010, realty advance sales and total sales of completed realty amounted to $15,267,224, and the advance receipts from these sales were $3,837,699.

d. As of December 31, 2010, the construction contracts amounted to $49,043,095, INR 18,452,950, and USD 877,161. The advance receipts from the contracts were $83,595,368.

e. As of December 31, 2010, guarantees provided for contract performance and construction warranties of other construction companies, including jointly liable contracts, amounted to approximately $12,562,487.

f. The joint construction contracts with several landowners as of December 31, 2010, are detailed below:

| Contract Title | Landowner | Nature of Joint Construction | Estimated Year of Completion | December 31, 2010 |
|---|---|---|---|---|
| 1050R | Formosan Rubber Group Inc. | Joint construction with completed portion to be shared | 2011 | 30,000 |
| 1050F | Mr. Chong-Ren Cai, etc. | Joint construction with completed units to be shared | 2011 | 48,707 |
| 1070E | Mr. Hsin-Jung Chen, Mr. Hsin- Ren Chen | Joint construction with completed units to be shared | 2012 | 43,847 |
| 1080F | Formosan Rubber Group Inc., Chen Yang Development Corp. | Joint construction with completed units to be shared | Unknown | 33,270 |
| Fu-Zhou St. | Mrs. Jin-Xiu Jian Wang, etc. | Joint construction with completed units to be shared | Unknown | 14,603 |
| Tian-Jin St. | Mr. Wen-Xiang Lian, etc. | Joint construction with completed units to be shared | Unknown | 24,019 |
| YongSheng Park | Fu Bai Shi Construction Co., Ltd. | Joint construction with completed units to be shared | Unknown | 40,000 |
| | | | | **$ 234,446** |

g. CEC had a disagreement with the Construction and Planning Agency, Ministry of the Interior, the proprietor of the project "Hua-Jiang Bridge (the 4th project) and Add-on Works", about whether a barrier to construction would influence the achievement of CEC's construction.

Based on the third item of article 28 of the contract, CEC's position is that if the reason construction cannot begin is not due to CEC, CEC can terminate the contract, and in January 2005, CEC filed a dispute appeal and mediation application with the Public Construction Commission, Executive Yuan. CEC decided not to adopt the intercession in the first quarter of 2006, and it lodged an appeal with the Taipei District Court. In the opinion of the lawyer, the controversy over this project is because the Water Resources Agency disagreed with CEC's decision on dike breaking, and the proprietor announced the cancellation of construction in March and April 2006. Therefore, the above-mentioned circumstances are not due to CEC. CEC is optimistic about the outcome since "the beginning of construction cannot be achieved" and "termination of the contract because construction cannot begin is not due to the company."

The estimated loss was $53,114 and $50,000 in 2005 and 2004, respectively.

On March 23, 2011, the Taiwan High Court decided that the Construction and Planning Agency should pay damages of $27,673 to CEC. CEC still had to pay expenses related to extended guarantee of $2,749.

h. North Shore Corp., a subsidiary of the Company, signed a contract for the Tamsui sewage treatment plant in Taipei County with the Taipei County Government on May 31, 2005. The components are as follows:

(1) Period of contract:

Beginning the day after the date of signing the contract, the construction period cannot be longer than five years, and North Shore must acquire a sewage license before completing the project. The operating period is 35 years. The Company should sign a transfer contract 2 years before the end of the operating period to transfer all the assets and affiliated businesses, and then make a provision for warranty for 3 years.

(2) Authority and scope of operating:

Including Tamsui sewage treatment plant, affiliated facilities, and affiliated businesses.

(3) Endorsements/guarantees:

i. Providing $100,000 as endorsement/guarantee before signing the contract.

ii. Within the operating period, the Company should bear less than $175,000 of professional management expenses to assure the quality and the administration of the contract. For the first three years of operating after the date of signing and for the three years before transferring, the Company should pay $10,000 each year, and pay $5,000 each remaining year.

i. As of December 31, 2010, ABHC had signed long-term lease contracts. Annual rent in the next five years is summarized as follows:

| Period | Amount | |
|---|---|---|
| 2011.01.01~2011.12.31 | $ | 17,851 |
| 2012.01.01~2012.12.31 | | 16,490 |
| 2013.01.01~2013.12.31 | | 9,812 |
| 2014.01.01~2014.12.31 | | 5,096 |
| 2015.01.01~2015.12.31 | | 3,735 |
| | **$** | **52,984** |

**26. MAJOR DISASTER LOSSES: None.**

**27. SIGNIFICANT SUBSEQUENT EVENTS: None**

## 28. OTHER

a. Liquidity analysis of assets and liabilities

| | December 31, 2010 | | |
|---|---|---|---|
| | Expected collection or payment within 12 months | Expected collection or payment exceeding 12 months | Total |
| **Assets** | | | |
| Cash and cash equivalents | $ 5,588,163 | - | 5,588,163 |
| Derivative financial assets for hedging – current | 19,572 | - | 19,572 |
| Notes receivable, net | 383,518 | 440 | 383,958 |
| Accounts receivable, net | 2,254,878 | 1,878,455 | 4,133,333 |
| Accounts receivable – related party, net | 314,183 | - | 314,183 |
| Other financial assets – current | 893,665 | 173,412 | 1,067,077 |
| Inventory | 8,800,863 | 6,928,269 | 15,729,132 |
| Costs of uncompleted contracts in excess of related billings | 979,792 | 798,285 | 1,778,077 |
| Deferred selling expense | 563,901 | 63,450 | 627,351 |
| Prepayments | 828,848 | - | 828,848 |
| Other current assets | 688,279 | - | 688,279 |
| Total current assets | $ 21,315,662 | 9,842,311 | 31,157,973 |
| **Liabilities** | | | |
| Short-term bank loans | $ 8,964,762 | - | 8,964,762 |
| Short-term bills payable, net | 40,000 | - | 40,000 |
| Accounts payable | 3,678,711 | 43,082 | 3,721,793 |
| Accounts payable – related party | 611 | - | 611 |
| Accrued expenses | 1,035,420 | - | 1,035,420 |
| Advance receipts | 3,564,985 | 333,647 | 3,898,632 |
| Billings on uncompleted contracts in excess of related costs | 202,154 | 4,839,510 | 5,041,664 |
| Current portion of corporate bonds payable and long-term loans | 933,612 | - | 933,612 |
| Other current liabilities | 557,681 | 1,170,890 | 1,728,571 |
| Total current liabilities | $ 18,977,936 | 6,387,129 | 25,365,065 |

b. Employee, depreciation, depletion and amortization expenses summary

| | For the year ended December 31, 2010 | | |
|---|---|---|---|
| | **Operating Cost** | **Operating Expenses** | **Total** |
| Employee expenses | | | |
| Salary expenses | 1,661,589 | 731,273 | 2,392,862 |
| Labor and health insurance expenses | 441,101 | 82,611 | 523,712 |
| Pension expenses | 192,271 | 45,753 | 238,024 |
| Other employee expenses | 113,589 | 44,894 | 158,483 |
| Depreciation expenses | 520,301 | 61,308 | 581,609 |
| Depletion expenses | - | - | - |
| Amortization expenses | 13,736 | - | 13,736 |

## 29. DISCLOSURES REQUIRED

a. Information on significant transactions

(1) Schedule 1: Loans to others: None.

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

| Guarantor | Guaranteed party | | Limit on guarantees provided to a single business | Maximum balance of endorsements/ guarantees for the period | Ending balance of endorsements/ guarantees | Collateral | Cumulative guarantee as percentage of net worth of the most recent financial statements | Maximum amount of endorsements/guarantees |
|---|---|---|---|---|---|---|---|---|
| Name of the company | Name of the company | Relationship with the Company | | | | | | |
| Continental Holdings Corp. | Continental Engineering Corp. | Note 2 | 96,086,070 | 9,840,909 | 9,546,201 | - | 61.45% | 96,086,070 (Note 1) |
| 〃 | CEC International Corp. (India) Private Limited | Note 3 | USD 3,298,526 | USD 223,340 | USD 222,143 | - | 40.41% | USD 3,298,526 (Note 1) |

Note 1: The amount of total endorsements/guarantees is limited to net equity value. The amount of endorsements/guarantees is limited to six times the net equity value for a single business. Calculation is as follows:
Maximum endorsements/guarantees: NT$96,086,070＝NT$16,014,345×6
(NT$96,086,070÷29.13＝USD3,298,526)
Endorsements/guarantees to a single business enterprise are limited to six times the net equity value of the Company's most recent financial statements: NT$96,086,070 ＝NT$16,014,345×6
(NT$96,086,070÷29.13＝USD3,298,526)

Note 2: Subsidiary company directly owned by the Company; an endorsement/guarantee for construction and bank loans.

Note 3: Subsidiary company indirectly owned by the Company; an endorsement/guarantee for construction.

Note 4: The endorsements/guarantees were eliminated when compiling the consolidated financial statements.

(3) Schedule 3: Marketable securities held on December 31, 2010:

| Holding Company | Type of Marketable Security | Name of Marketable Security | Relationship with the Company | Account | June 30, 2010 | | | | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Book Value | % | Market Value/Equity (dollars) | |
| The Company | Common stock | Continental Engineering Corp. | An investee company accounted for under the equity method | Long-term investment under the equity method | 451,483,877 | 8,465,295 | 100.00 | 18.79 | (Note 1) |
| " | " | Continental Development Corp. | " | " | 300,000,000 | 7,661,240 | 100.00 | 25.54 | " |

Note 1: Corporation with no market price, whose net value per share is from financial statements audited by a CPA.

Note 2: The above securities held by the Company were eliminated when compiling the consolidated financial statements.

(4) Schedule 4: Cumulative purchases or sales of the same marketable securities exceeding $100,000 or 20% of paid-in capital: None.

(5) Schedule 5: Acquisition of real estate exceeding $100,000 or 20% of paid-in capital: None.

(6) Schedule 6: Disposal of real estate exceeding $100,000 or 20% of paid-in capital: None.

(7) Schedule 7: Sales to or purchases from related parties exceeding $100,000 or 20% of paid-in capital: None.

(8) Schedule 8: Receivables from related parties exceeding $100,000 or 20% of paid-in capital: None.

(9) Schedule 9: Transactions involving financial derivatives: None.

b. Information on investee companies

(1) Schedule 1: Names and addresses of, and relevant information on, investee companies:

| Investor | Name of investee company | Address | Main business | Original investment amount | | Ownership | | | Current net income (loss) of investee company | Current gain (loss) on investment recognized by the Company | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2010 | December 31, 2009 | Number of shares | Ratio | Amount | | | |
| Continental Holdings Corp. | Continental Engineering Corp. | No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Comprehensive construction | 8,844,949 | - | 451,483,877 | 100.00% | 8,465,295 | 130,163 | 2,800 | Note 1 |
| 〃 | Continental Development Corp. | 12F., No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Housing and building development and lease | 6,620,748 | - | 300,000,000 | 100.00% | 7,661,240 | 1,040,492 | 1,040,492 | 〃 |
| Continental Engineering Corp. | Hsin-Dar Development Co., Ltd. | 24F., No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Housing and building development and lease | - | 452,250 | - | -% | - | 28,568 | Not Applicable | 〃 |
| 〃 | North Shore Corp. | 19F., No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Pollution protection and other environmental sanitation | 600,000 | 600,000 | 60,000,000 | 54.55% | 610,767 | 13,519 | 〃 | 〃 |
| 〃 | Hsin-Dar Environment Engineering Co., Ltd. | 19F., No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Plumbing | 400,000 | 400,000 | 40,000,000 | 100.00% | 349,236 | (12,179) | 〃 | 〃 |
| 〃 | CEC Retailer Development Corp. | No. 52 Han-Chung Street, Floors 1-13 and Basement 1-4, Taipei, Taiwan, R.O.C. | Management and lease of theaters, department stores, restaurants and entertainment centers | - | 948,865 | - | -% | - | - | 〃 | 〃 |
| 〃 | CEC Commercial Development Corp. | No. 52 Han-Chung Street, Basement 1, Taipei, Taiwan, R.O.C | Housing and building development and lease | - | 915,515 | - | -% | - | - | 〃 | 〃 |
| 〃 | CEC International Corp. (India) Private Limited | New Delhi, India | Construction projects | 321,114 | 321,114 | 43,981,492 | 100.00% | 83,703 | (27,258) | 〃 | 〃 |
| 〃 | CEC International Corp. | British Virgin Islands | Investment and holding | 1,305,504 | 1,305,504 | 39,139,940 | 100.00% | 1,973,651 | 328,306 | 〃 | 〃 |
| Continental Development Corp. | CEC Retailer Development Corp. | No. 52 Han-Chung Street, Floors 1-13 and Basement 1-4, Taipei, Taiwan, R.O.C. | Management and lease of theaters, department stores, restaurants and entertainment centers | - | - | - | -% | - | 1,899,984 | 〃 | |

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

| Investor | Name of investee company | Address | Main business | Original investment amount | | Ownership | | | Current net income (loss) of investee company | Current gain (loss) on investment recognized by the Company | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2010 | December 31, 2009 | Number of shares | Ratio | Amount | | | |
| Continental Development Corp. | CEC Commercial Development Corp. | No. 52 Han-Chung Street, Basement 1, Taipei, Taiwan, R.O.C. | Housing and building development and lease | 976,539 | - | 22,913,175 | 80.64% | 1,233,410 | 46,823 | Not Applicable | Note 1 |
| CEC International Corp. | New Continental Corp. | British Virgin Islands | Investment and holding | USD 50,592 | USD 50,592 | 5,696 | 56.36% | USD 83,373 | USD 18,814 | 〃 | 〃 |
| New Continental Corp. | American Bridge Holding Co. | Pittsburgh, PA, U.S.A. | Investment and holding | USD 74,106 | USD 74,106 | 3,547,187 | 96.71% | USD 137,115 | USD 20,748 | 〃 | 〃 |
| Hsin-Dar Environment Engineering Co., Ltd. | Shen-Da Construction Corp., Ltd. | 17F., No. 182, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Construction projects | 51,000 | 51,000 | 5,100,000 | 51.00% | 17,384 | 6,539 | 〃 | 〃 |
| 〃 | North Shore Corp. | 19F, No. 95, Sec. 2, Dunhua S. Rd., Da-an District, Taipei 106, Taiwan, R.O.C. | Pollution protection and other environmental sanitation | 500,000 | 500,000 | 50,000,000 | 45.45% | 511,474 | 13,519 | 〃 | 〃 |
| CEC Retailer Development Corp. | CEC Commercial Development Corp. | No. 52 Han-Chung Street, Basement 1, Taipei, Taiwan, R.O.C. | Housing and building development and lease | - | - | - | -% | - | 46,823 | 〃 | 〃 |

Note 1: According to recognition of gain/loss on investments on December 31, 2010, audited by CPA.

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

(2) Schedule 2: Loans to others:

| No. | Lender | Borrower | Account | Highest amount | December 31, 2010 | Interest rate | Nature | Amount of commercial dealings | Financing purpose | Allowance for bad debt amount | Pledges | | Maximum amount to individual | Maximum total financing amount |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Item | Value | | |
| 1 | American Bridge Co. | ABF Barge | Prepayment | 394,282 | 289,674 | 6% | Short-term financing | - | To acquire equipment | - | - | - | 1,165,200 | 1,165,200 |

Note 1: The board meeting of American Bridge Co. decided to limit the financing to an individual borrower to USD 40,000.

(3) Schedule 3: Endorsements/guarantees to others:

| Guarantor | Guaranteed party | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of the company | Name of the company | Relationship with the Company | Limit on guarantees provided to a single business | Maximum balance of endorsements/ guarantees of the period | Ending balance of endorsements/ guarantees | Collateral | Cumulative guarantee as percentage of net worth of the most recent financial statements | Maximum amount of endorsements/ guarantees |
| Continental Engineering Corp. | Fu Tsu Construction Co., Ltd. | Note 7 | 25,453,857 | 11,151,487 | 11,151,487 | - | 131.43% | 50,907,714 (Note 1) |
| 〃 | Evergreen Construction Co., Ltd. | Note 7 | 〃 | 2,408,097 | 1,411,000 | - | 16.63% | 〃 |
| 〃 | CEC International Corp. | Note 11 | USD 582,535 | USD 29,000 | USD 29,000 | - | 9.96% | USD 582,535 (Note 2) |
| 〃 | American Bridge Co. | Note 8 | USD 873,802 | USD 450,000 | USD 450,000 | - | 154.50% | USD 1,747,604 (Note 1) |
| 〃 | 〃 | Note 9 | USD 582,535 | USD 87,500 | USD 87,500 | - | 30.04% | USD 582,535 (Note 2) |
| 〃 | CEC International Corp. (India) Private Limited | Note 10 | USD 873,802 | USD 222,143 | USD 222,143 | - | 76.27% | USD 1,747,604 (Note 1) |
| 〃 | 〃 | Note 11 | USD 582,535 | USD 6,000 | USD 6,000 | | 2.06% | USD 582,535 (Note 2) |
| 〃 | Hsin-Dar Environment Engineering Co., Ltd. | Note 11 | 16,969,238 | 500,000 | 460,000 | - | 5.42% | 16,969,238 (Note 2) |
| Continental Development Corp. | CEC Commercial Development Corp | Note 11 | 15,322,480 | 1,000,000 | 1,000,000 | - | 13.05% | 15,322,480 (Note 3) |
| CEC Commercial Development Corp. | Continental Development Corp. | Note 12 | 4,588,419 | 1,000,000 | 1,000,000 | 1,200,000 | 65.38% | 4,588,419 (Note 4) |
| New Continental Corp. | American Bridge Holding Co. | Note 10 | USD 873,802 | USD 4,555 | USD 4,555 | - | 3.32% | USD 1,747,604 (Note 5) |
| Shen-Da Construction Corp., Ltd. | North Shore Corp. | Note 7 | 293,488 | 246 | 246 | - | 0.25% | 586,896 (Note 6) |

Note 1: According to Continental Engineering Corp., the amount of total endorsements/guarantees is limited to six times the net equity value of the company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry: NT$8,484,619 × 6 = NT$50,907,714

(NT$50,917,714 ÷29.13 = USD1,747,604)

Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements: NT$8,484,619 × 3 = NT$25,453,857

(NT$25,453,857÷29.13 = USD873,802)

Note 2: According to Continental Engineering Corp., the amount of total endorsements/guarantees is limited to two times the net equity value of the company's most recent financial statements except in the event of joint liability in joint ventures with other companies in the same industry: NT$8,484,619 × 2 = NT$16,969,238

(NT$16,969,238÷29.13 = USD 582,535)

Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements: NT$8,484,619 × 2 = NT$16,969,238

(NT$16,969,238÷29.13 = USD 582,535)

Note 3: According to Continental Development Corp., the amount of total endorsements/guarantees is limited to two times the net equity value of the company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry: NT$7,661,240 × 2 = NT$15,322,480

Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements: NT$7,661,240 × 2 = NT$15,322,480

Note 4: According to CEC Commercial Development Corp., the amount of total endorsements/guarantees is limited to three times the net equity value of the company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry:

(NT$4,588,419 = NT $1,529,473 × 3)

Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements:

(NT$4,588,419 = NT $1,529,473 × 3)

Note 5: According to New Continental Corp., the amount of total endorsements/guarantees is limited to six times the net equity value of the parent company's (CEC) most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry: USD 1,747,604
(NT$8,484,619 ÷29.13 × 6=USD1,747,604)
Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements: USD 873,802
(NT$8,484,619÷29.13 × 3=USD873,802)

Note 6: According to Shen-Da Construction Corp., Ltd., the amount of total endorsements/guarantees is limited to six times the net equity value of the Company's most recent financial statements in the event of joint liability in joint ventures with other companies in the same industry based on the undertaken projects:
(NT$586,896 = NT $97,816 × 6)
Endorsements/guarantees to a single business are limited to three times the net equity value of the company's most recent financial statements:
(NT$293,448 = NT $97,816 × 3)

Note 7: The Company should provide a guarantee to other companies in the same industry based on the undertaken projects.

Note 8: Subsidiary company indirectly owned over 50% by the Company; an endorsement/guarantee for construction.

Note 9: Subsidiary company indirectly owned over 50% by the Company; not an endorsement/guarantee for construction.

Note 10: Subsidiary company directly owned over 50% by the Company; an endorsement/guarantee for construction.

Note 11: Subsidiary company directly owned over 50% by the Company; not an endorsement/guarantee for construction.

Note 12: Parent company which directly held the Company over 50%; not an endorsement/guarantee for construction.

Note 13: The endorsements/guarantees were eliminated when compiling the consolidated financial statements.

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

(4) Schedule 4: Marketable securities held on December 31, 2010:

| Holding Company | Kinds and Names of Securities | Relationship with the Issuer of Securities | Account in Books | End of the Period | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Book Value | Shareholding Ratio | Market Value (expressed in dollars) | |
| Continental Engineering Corp. | Euro-Asia Investment Holding Co. | - | Financial assets carried at cost – non-current | 1,450,000 | 14,500 | 14.87 | 7.64 | |
| 〃 | Evergreen Development Corp. | - | 〃 | 25,645,907 | 443,080 | 6.28 | 30.91 | |
| 〃 | Shin Yung Enterprise Corp. | - | 〃 | 12,256,347 | 130,287 | 8.45 | 15.46 | |
| 〃 | Wei Dar Investment Co., Ltd. | - | 〃 | 36,000,000 | 453,643 | 18.00 | 11.72 | |
| 〃 | JieBang Consultant Management Co., Ltd. | - | 〃 | 300,000 | 3,000 | 6.00 | 10.41 | |
| 〃 | Taiwan Motp MacDonald Ltd. | - | 〃 | 380,000 | 5,796 | 19.00 | 12.57 | |
| 〃 | Taiwan High Speed Rail Corporation – common stock | Common chairman until September 22, 2009; the Company is still a corporate director. | 〃 | 201,735,000 | 1,928,375 | 3.10 | 2.22 | |
| 〃 | (A (I) registered preferred stock) | 〃 | 〃 | 99,675,000 | 800,950 | 3.83 | 2.22 | |
| 〃 | (C (IV) registered preferred stock) | 〃 | 〃 | 9,800,000 | 73,840 | 27.45 | 2.22 | |
| 〃 | (C (V) registered preferred stock) | 〃 | 〃 | 59,125,000 | 445,442 | 23.80 | 2.22 | |
| 〃 | (C (VIII) registered preferred stock) | 〃 | 〃 | 32,250,000 | 252,073 | 15.73 | 2.22 | |
| 〃 | International Property & Finance Co., Ltd. | - | 〃 | 26,301 | - | 1.64 | - | |
| 〃 | Shin Yu Energy Development Co., Ltd. | - | 〃 | 22,405,297 | - | 9.00 | - | |
| 〃 | North Shore Corp. | An investee company accounted for under the equity method | Long-term investment under equity method | 60,000,000 | 610,767 | 54.55 | 10.18 | Note |
| 〃 | Hsin-Dar Environment Engineering Co., Ltd. | 〃 | 〃 | 40,000,000 | 349,236 | 100.00 | 8.73 | 〃 |
| 〃 | CEC International Corp. (India) Private Limited | 〃 | 〃 | 43,981,492 | 83,703 | 100.00 | 1.90 | 〃 |

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

| Holding Company | Kinds and Names of Securities | Relationship with the Issuer of Securities | Account in Books | End of the Period | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares | Book Value | Shareholding Ratio | Market Value (expressed in dollars) | |
| Continental Engineering Corp. | CEC International Corp. | An investee company accounted for under the equity method | Long-term investment under equity method | 39,139,940 | 1,973,651 | 100.00 | 50.43 | Note |
| Continental Development Corp. | Taiwan High Speed Rail Corporation – common stock | - | Financial assets at cost – non-current | 201,735,000 | 1,928,375 | 3.10 | 2.22 | |
| 〃 | (A (I) registered preferred stock) | - | 〃 | 99,675,000 | 800,950 | 3.83 | 2.22 | |
| 〃 | (C (V) registered preferred stock) | - | 〃 | 48,375,000 | 364,452 | 19.47 | 2.22 | |
| 〃 | CEC Commercial Development Corp. | An investee company accounted for under the equity method | Long-term investment under equity method | 22,913,175 | 1,233,410 | 80.64 | 53.83 | Note |
| CEC International Corp. | New Continental Corp. common stock | 〃 | 〃 | 5,696 | USD 83,373 | 56.36 | USD 13,569 | 〃 |
| New Continental Corp. | American Bridge Holding Co. common stock | 〃 | 〃 | 3,547,187 | USD 137,115 | 96.71 | USD 39 | 〃 |
| Hsin-Dar Environment Engineering Co., Ltd. | Shen-Da Construction Corp., Ltd. | 〃 | 〃 | 5,100,000 | 17,384 | 51.00 | 9.78 | 〃 |
| 〃 | North Shore Corp. | 〃 | 〃 | 50,000,000 | 511,474 | 45.45 | 10.18 | 〃 |

(5) Cumulative purchases or sales of the same marketable securities exceeding $100,000 or 20% of paid-in capital: None.

(6) Acquisition of real estate exceeding $100,000 or 20% of paid-in capital:

| Acquirer | Name of Property | Date of Transaction or Occurrence | Transaction Amount | Payment Status | Acquire | Relationship | Information on Previous Transfer | | | | How Trading Decision was Made | Purpose of Acquisition | Other Agreements |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Proprietor | Relationship with the Company | Transfer Date | Amount | | | |
| Continental Development Corp. | 3rd Subsection, Chanan Section | Nov. 29, 2010 | 5,056,800 | Paid in full | Taiwan Life Insurance Co., Ltd. | Non-related party | - | - | - | - | Negotiated | For plant development | |

(7) Disposal of real estate exceeding $100,000 or 20% of paid-in capital:

| **Disposal Party** | **Name of Property** | **Date of Transaction or Occurrence** | **Date of Acquisition** | **Book Value** | **Transaction Amount** | **Payment Status** | **Disposal Gain (Loss)** | **Acquisition Party** | **Relationship with the Company** | **Purpose of Disposal** | **Basis for Determination of Price** | **Other Agreement** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CEC Retailer Development Corp. | Wan-Kuo (IBM) Commercial Building | July 13, 2010 | Year 1997 | 1,142,614 | 3,050,000 | Received in full | 1,864,586 | Asia Pacific Land (BVI) Limited | Non-related | For disposal gain | Negotiated | |

(8) Purchases from and sales to related parties exceeding $100,000 or 20% of paid-in capital:

| Purchasing (Selling) Party | Counter-Party | Relationship | Transactions with Controlling Company | | | | Uncommon Transactions | | Accounts and Notes Receivable (Payable) | | Remark |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases (Sales) | Amount | % of Total Purchases (Sales) | Term | Unit Price | Term | Balance | % of Total Accounts and Notes Receivable (Payable) | |
| Continental Engineering Corp. | Continental Development Corp. | Related party of the Company | Construction contract | (1,252,153) | (11)% | The same as those in general transactions | - | | 454,309 | 16% | Note 1 |
| Continental Development Corp. | Continental Engineering Corp. | Related party of the Company | Construction project | 1,155,389 | 84.35% | 〃 | - | | (454,309) | (50)% | |

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

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

(9) Receivables from related parties exceeding $100,000 or 20% of paid-in capital:

| Company Having Receivable | Counter-Party | Relationship | Balance of Accounts Receivable – Related Parties | Turnover Ratio | Overdue Receivables | | Subsequent Received Amount Accounted for under Accounts Receivable – Related Parties | Provision for Bad Debt Allowance |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Treatment | | |
| Continental Engineering Corp. | Continental Development Corp. | Related party of the Company | 454,309 | 2.76 | - | - | - | - |

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

(10) Transactions involving financial derivatives:

As of December 31, 2010, Continental Engineering Corp. had engaged in a cash flow hedge with a foreign currency deposit of USD 681, and had derivative financial assets for hedge comprising forward exchange contracts of USD 1,160.

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

c. Information on investment in Mainland China: None.

d. Intercompany business relationship and significant transactions

(1) From April 8 to December 31, 2010

| No. (Note 1) | Company Name | Counter-Party | Nature of Relationship (Note 2) | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Item | Amount | Terms | Percentage of Consolidated Total Gross Sales or Total Assets |
| 0 | Continental Holdings Corp. | Continental Engineering Corp. | 1 | Rental expenses | 8,695 | The same as those in general transactions | 0.03% |
| | | 〃 | 1 | Accrued expenses | 1,319 | - | -% |
| 1 | Continental Engineering Corp. | Continental Holdings Corp. | 2 | Rental revenues | 8,281 | The same as those in general transactions | 0.03% |
| | | 〃 | 2 | Other accounts receivable | 1,319 | - | -% |
| | | Continental Development Corp. | 3 | Construction income | 1,252,153 | The same as those in general transactions | 4.91% |
| | | 〃 | 3 | Construction costs | 29,651 | The same as those in general transactions | 0.12% |
| | | 〃 | 3 | Accounts receivable | 454,309 | - | 0.86% |
| | | 〃 | 3 | Advance receipts | 1,155,389 | - | 2.19% |
| | | CICI | 3 | Accounts receivable | 5,518 | - | 0.01% |
| | | 〃 | 3 | Accounts payable | 4,428 | - | 0.01% |
| | | 〃 | 3 | Construction costs | 104,606 | The same as those in general transactions | 0.41% |
| | | ABC | 3 | Other non-operating income | 19,490 | - | 0.08% |
| 2 | Continental Development Corp. | Continental Engineering Corp. | 3 | Construction costs | 1,203,179 | The same as those in general transactions | 4.71% |
| | | 〃 | 3 | Uncompleted contracts | 1,155,389 | - | 2.19% |

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

| No. (Note 1) | Company Name | Counter-Party | Nature of Relationship (Note 2) | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Item | Amount | Terms | Percentage of Consolidated Total Gross Sales or Total Assets |
| 2 | Continental Development Corp. | Continental Engineering Corp. | 3 | Uncompleted contracts | 19,324 | - | 0.04% |
| | | 〃 | 3 | Accounts payable | 454,309 | - | 0.86% |
| 3 | Hsin-Dar Environment Engineering Co., Ltd. | North Shore Corp. | 3 | Other operating income | 17,675 | - | 0.07% |
| | | 〃 | 3 | Accounts receivable | 5,342 | - | 0.01% |
| 4 | North Shore Corp. | Hsin-Dar Environment Engineering Co., Ltd. | 3 | Other operating costs | 17,675 | - | 0.07% |
| | | 〃 | 3 | Accounts payable | 5,342 | - | 0.01% |
| | | Shen-Da Construction Corp., Ltd. | 3 | Construction costs | 326,932 | The same as those in general transactions | 1.28% |
| | | 〃 | 3 | Accounts payable | 46,027 | - | 0.09% |
| 5 | CICI | Continental Engineering Corp. | 3 | Accounts receivable | 4,428 | - | 0.01% |
| | | 〃 | 3 | Accounts payable | 5,518 | - | 0.01% |
| | | 〃 | 3 | Construction contract income | 104,606 | The same as those in general transactions | 0.41% |
| 6 | ABC | Continental Engineering Corp. | 3 | Sundry expenses | 19,490 | - | 0.08% |
| 7 | Shen-Da Construction Corp., Ltd. | North Shore Corp. | 3 | Construction contract income | 347,934 | The same as those in general transactions | 1.36% |
| | | 〃 | 3 | Accounts payable | 46,027 | - | 0.09% |
| | | 〃 | 3 | Uncompleted contracts | 21,002 | - | 0.04% |

Note 1: For transactions between the Company and its subsidiaries, numbers are assigned as follows:
a. 0 represents the Company.
b. serial numbers for the subsidiaries begin from number 1.

Note 2: Relationships are as follows:
1. the Company to subsidiary.
2. subsidiary to the Company.
3. subsidiary to other subsidiary.

## 30. BUSINESS SEGMENT FINANCIAL INFORMATION

a. Information by industry

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Construction | Real estate | Investment | Adjustment and write-off | Total |
| Income from customers (excluding the Company and its subsidiaries) | $ 18,882,785 | 6,643,710 | - | - | 25,526,495 |
| Income from the Company and its subsidiaries | 1,265,954 | - | 1,043,293 | (2,309,247) | - |
| Total external income | **$ 20,148,739** | **6,643,710** | **1,043,293** | **(2,309,247)** | **25,526,495** |
| Segment income (loss) | **$ 378,856** | **1,432,252** | **(111,778)** | - | 1,699,330 |
| Investment income under equity method | | | | | 12,856 |
| General revenue (expense) | | | | | 1,323,492 |
| Interest expense | | | | | (190,377) |
| Income before income taxes | | | | | **$ 2,845,301** |
| Identifiable assets | **$ 26,627,462** | **26,128,405** | **34,229** | - | 52,790,096 |
| Long-term investment | | | | | - |
| General assets of the Company | | | | | - |
| Total assets | | | | | **$ 52,790,096** |
| Depreciation expense | **$ 335,738** | **245,645** | **226** | - | |
| Capital expenditure | **$ 753,138** | - | - | - | |

b. Information by geographical region and export information

| | 2010 | | | |
|---|---|---|---|---|
| | Domestic | Overseas | Adjustment and write-off | Total |
| Revenue except from the Company and its subsidiaries | $ 12,611,423 | 12,915,072 | - | 25,526,495 |
| Revenue from the Company and its subsidiaries | 2,309,247 | - | (2,309,247) | - |
| Total external income | **$ 14,920,670** | **12,915,072** | **(2,309,247)** | **25,526,495** |
| Segment income (loss) | **$ 589,887** | **1,109,443** | - | 1,699,330 |
| Investment income (loss) recognized under equity method | | | | 12,856 |
| Gain (loss) on disposal of investments | | | | - |
| General revenue (expenses) | | | | 1,323,492 |
| Interest expenses | | | | (190,377) |
| Untaxed income | | | | **$ 2,845,301** |
| Identifiable assets | **$ 44,220,737** | **8,569,359** | - | 52,790,096 |
| Long-term investments | | | | - |
| Assets | | | | - |
| Total assets | | | | **$ 52,790,096** |
| Depreciation expenses | **$ 340,831** | **240,778** | - | |
| Capital expenditure | **$ 677,498** | **75,640** | - | |

c. Information on major clients

Information on clients representing over 10% of total income in 2010 is as follows:

| Client | Income | % | Segment |
|---|---|---|---|
| **2010** | | | |
| California Department of Transportation | **$ 5,522,610** | **22** | Construction |