

**CATHAY REAL ESTATE DEVELOPMENT CO., LTD**  
**AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**For The Years Ended**  
**December 31, 2018 And 2017**  
**Report of Independent Auditors**

*The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.*

## **Independent Auditors' Report Translated from Chinese**

To the Board of Directors and Stockholders of  
Cathay Real Estate Development Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated balance sheets of Cathay Real Estate Development Co., Ltd. (the “Company”) and its subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition

The Company and its subsidiaries is primarily engaged in entrusting construction company in construction and planning of public housing and commercial offices for sale. Since the company's construction income is classified as operating revenue based on sale of goods, the relevant profit and loss are recognized when the ownership transferred. Due to the significance of the construction income in the financial statements, with respect to a significant proportion within operating revenue, and need to judge and determine performance obligation and the timing of satisfaction, the construction revenue is determined to be a key audit matter.

The audit procedures we performed regarding construction revenue recognition included but not limited to: evaluate the appropriateness of the construction income recognition policies; realize the transaction process and perform the tests of control on the effectiveness of control points during internal control audit; select samples to perform transaction test of details and verify major clauses and conditions in the construction contract; review the transaction conditions and confirm the appropriateness of the timing the performance obligation is recognized.

We also assess whether the the company properly disclose information relating the construction income of financial statement. Please refer note 4(18) and note 6(21).

### Valuation of inventories

The construction land of the Company and its subsidiaries shall be measured at the lower of cost and net realized value, and the net realizable value of the construction land is determined based on the management's judgement and estimation. Due to the significance of construction land in the financial statements, the valuation of construction land is determined to be a key audit matter.

The audit procedures we performed regarding construction land valuation included but not limited to: evaluate the appropriateness of the construction land accounting policies; realize the transaction process and perform tests of control on the effectiveness of control points during internal control audit; select samples to analyze the management valuation process and the key valuation parameters, and evaluate the reasonableness on the basis of working paper and relevant documentation corresponding to construction land valuation which included in inventories.

We also assess whether the the company properly disclose information relating the construction land valuation of financial statement. Please refer note 4(10), note 5.2(E) and note 6(7).

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on financial statements of the Company as of and for the years ended December 31, 2018 and 2017.

Hsu, Jung Huang  
Huang, Chien Che  
Ernst & Young, Taiwan  
March 21, 2019

#### Notice to Readers

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

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Financial Statements Originally Issued in Chinese

CATHAY REAL ESTATE DEVELOPMENT CO., LTD.

Consolidated Balance Sheet

As at 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

Assets			December 31, 2018		December 31, 2017	
Code	Items	Notes	Amounts	%	Amounts	%
	Current assets					
1100	Cash and Cash equivalents	4 & 6(1),(29) & 7	\$1,620,157	3	\$1,227,465	2
1120	Financial Assets At Fair Value Through Other Comprehensive Income-Current	3 & 4 & 6(2)	2,620,886	6	-	-
1125	Financial assets in available-for-sale-Current	4 & 6(3)	-	-	2,983,349	6
1150	Notes Receivable(Net)	4 & 6(5),(22)	24,209	-	24,121	-
1170	Accounts Receivable(Net)	4 & 6(6),(22),(29)	461,933	1	267,884	-
1200	Others Receivable	6(29)	424,397	1	23,988	-
1220	Current Tax Assets	4 & 6(27)	105	-	4	-
130x	Inventories	4 & 6(7) & 7	26,003,437	53	28,850,643	54
1410	Prepayments	6(12),(29)	511,030	1	600,779	1
1470	Others Current-Assets		382,155	1	105,194	-
1480	Revenue from Contracts with Customers	3 & 6(7),(21)	481,597	1	-	-
11xx	Total Current-Assets		32,529,906	67	34,083,427	63
	Non-Current Assets					
1517	Financial Assets At Fair Value Through Other Comprehensive Income-Non-Current	3 & 4 & 6(2)	1,637,951	3	-	-
1523	Financial assets in available-for-sale-Non-Current	4 & 6(3)	-	-	1,525,265	3
1543	Financial Assets measured at Cost - Non-Current	4 & 6(4)	-	-	212,200	-
1550	Investment Accounted for Using Equity Method	4 & 6(8)	-	-	11,088	-
1600	Property, Plant and Equipment	4 & 6(9),(29)	1,858,494	4	1,136,419	2
1760	Investment property(Net)	4 & 6(10),(29)	11,132,166	23	12,983,381	24
1780	Intangible Assets	4 & 6(11)	20,416	-	33,008	-
1840	Deferred Tax Assets	4 & 6(27)	516,233	1	687,765	2
1900	Other Non-Current Assets	6(12),(29) & 7	1,076,222	2	3,088,635	6
15xx	Total Non-Current Assets		16,241,482	33	19,677,761	37
1xxx	Total Assets		\$48,771,388	100	\$53,761,188	100

(The accompanying notes are an integral part of these consolidated financial statements)

English Translation of Financial Statements Originally Issued in Chinese

CATHAY REAL ESTATE DEVELOPMENT CO., LTD.

Consolidated Balance Sheet(Continue)

As at 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

Liabilities and Equity			December 31,2018		December 31,2017	
Code	Items	Notes	Amounts	%	Amounts	%
	Current Liabilities					
2100	Short-term Loans	4 & 6(13) & 7	\$8,715,000	18	\$5,779,000	11
2110	Short-term Notes Payable	4 & 6(14)	260,000	1	879,529	2
2130	Contract Liability	3 & 6(21)	3,651,612	8	-	-
2150	Notes Payable		90,385	-	28,554	-
2170	Accounts Payable	6(29)	461,385	1	604,318	1
2180	Accounts Payable-Related Parties	7	595,710	1	265,555	-
2200	Others Payable	6(29)	653,898	1	444,793	1
2230	Current Tax Liabilities	4 & 6(27)	27,056	-	108,513	-
2300	Other-Current Liabilities	4 & 6(29)	122,731	-	54,360	-
2310	Advance Receipts	3 & 4	-	-	4,504,886	9
2320	Long-Term Liabilities-Current Portion	4 & 6(16),(29)	4,200,000	9	59,566	-
21xx	Total Current-Liabilities		18,777,777	39	12,729,074	24
	Non-Current Liabilities					
2530	Corporate Bonds	4 & 6(15)	3,000,000	6	3,000,000	6
2540	Long-term Loans	4 & 6(16),(29)	1,405,285	3	14,475,709	27
2570	Deferred Tax Liabilities	4 & 6(27)	10,049	-	8,542	-
2600	Other Non-Current Liabilities	4 & 6(17),(29) & 7	234,590	-	323,701	-
2650	Investment Accounted for Using Equity Method(Credit)	4 & 6(8)	2,138	-	-	-
25xx	Total Non-Current Liabilities		4,652,062	9	17,807,952	33
2xxx	Total Liabilities		23,429,839	48	30,537,026	57
	Equity	4				
3100	Capital stock					
3110	Common Stock	6(18)	11,595,611	24	11,595,611	21
3200	Capital Surplus	6(19)	25,783	-	18,063	-
3300	Retained earnings	6(20)				
3310	Legal Capital Reserve		3,991,496	8	3,847,032	7
3320	Special Capital Reserve		504,189	1	504,189	1
3350	Unappropriated Retained Earnings		8,877,586	18	6,418,942	12
	Total Retained Earnings		13,373,271	27	10,770,163	20
3400	Other Equity		80,071	-	384,665	1
31xx	Total Controlling Interests		25,074,736	51	22,768,502	42
36xx	Non-controlling Interests	6(20)	266,813	1	455,660	1
3xxx	Total Equity		25,341,549	52	23,224,162	43
	Total Liabilities and Equity		\$48,771,388	100	\$53,761,188	100

(The accompanying notes are an integral part of these consolidated financial statements)



English Translation of Financial Statements Originally Issued in Chinese  
CATHAY REAL ESTATE DEVELOPMENT CO., LTD.  
Consolidated Income Statement  
For the years ended 31 December 2018 and 2017  
(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

(Expressed in thousands of New Taiwan Dollars)

Code	Items	Notes	2018		2017	
			Amount	%	Amount	%
4000	Operating Revenue	4 & 6(10),(21) &7	\$14,294,770	100	\$12,270,182	100
5000	Operating Cost	4 & 6(7),(9),(10),(23),(24) &7	(10,576,571)	(74)	(9,683,371)	(79)
5900	Gross Margin		3,718,199	26	2,586,811	21
6000	Operating Expense	4 & 6(9),(10),(23),(24) &7				
6200	Administrative Expense		(1,485,484)	(10)	(1,245,036)	(10)
6450	Expected credit loss	4 & 6(22)	(4,482)	-	-	-
	Total Operating Expense		(1,489,966)	(10)	(1,245,036)	(10)
6900	Operating Income		2,228,233	16	1,341,775	11
7000	Non-Operating Income and Expenses	4 & 6(25) & 7				
7010	Other Revenues		281,597	2	231,578	2
7020	Other Gain or Loss	6(29)	2,146,096	15	(133,588)	(1)
7050	Finance Costs		(133,801)	(1)	(245,368)	(2)
7060	Investment Income on Equity-Method Investees	4 & 6(8)	(13,145)	-	(2,919)	-
	Total Non-Operating Income and Expenses		2,280,747	16	(150,297)	(1)
7900	Income before Income Tax		4,508,980	32	1,191,478	10
7950	Income Tax (Expense) Benefit	4 & 6(27)	(267,183)	(2)	50,147	-
8200	Net income		4,241,797	30	1,241,625	10
8300	Other Comprehensive Income	6(26),(27)				
8310	Not to be reclassified to profit or loss in subsequent periods					
8311	Remeasurements of defined benefit plans		5,369	-	(5,717)	-
8316	Unrealized losses on equity instruments at fair value through other comprehensive income		(493,136)	(4)	-	-
8349	Income taxes relating to not to be reclassified to profit or loss in subsequent periods		(1,766)	-	972	-
8360	To be reclassified to profit or loss in subsequent periods					
8361	Exchange differences resulting from translating the financial statements of foreign operations		228,874	2	76,162	1
8362	Unrealized valuation gains from available-for-sale financial assets		-	-	34,807	-
8370	Share of the other comprehensive income of associates and joint ventures accounted for using the equity method – to be reclassified to profit or loss in subsequent periods		(287)	-	(2,504)	-
	Other comprehensive (losses) income, net of tax		(260,946)	(2)	103,720	1
8500	Total comprehensive (losses) income		\$3,980,851	28	\$1,345,345	11
8600	Net income (losses) attributable to:					
8610	Equity holders of the parent		\$3,609,611	25	\$1,444,638	12
8620	Non-controlling interests		632,186	5	(203,013)	(2)
			\$4,241,797	30	\$1,241,625	10
8700	Total comprehensive income (losses) attributable to:					
8710	Equity holders of the parent		\$3,273,857	23	\$1,521,629	12
8720	Non-controlling interests		706,994	5	(176,284)	(1)
			\$3,980,851	28	\$1,345,345	11
	Basic Earnings Per Share (In dollars)	6(28)	After Taxes		After Taxes	
9750	Basic Earnings Per Share		\$3.11		\$1.25	

(The accompanying notes are an integral part of these consolidated financial statements)

English Translation of Financial Statements Originally Issued in Chinese  
CATHAY REAL ESTATE DEVELOPMENT CO., LTD.  
Consolidated Statements of Changes In Equity  
As at 31 December 2018 and 31 December 2017

(Expressed in thousands of New Taiwan Dollars)

Code	Items	Controlling Interests												Non-Controlling Interests	Total
		Capital Stock	Capital Surplus	Retained Earnings				Other Equity				Total			
				Legal Capital Reserve	Special Capital Reserve	Unappropriated Retained Earnings	Total	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized (losses) gains from financial assets at fair value through other comprehensive income	Unrealized valuation (losses) gains from available-for-sale financial assets	Remeasurements of defined benefit plans				
		3100	3200	3310	3320	3350		3410	3420	3425	3445	31XX	36XX	3XXX	
A1	Balance on 1 January 2017	\$11,595,611	\$10,407	\$3,545,241	\$504,189	\$7,015,437	\$11,064,867	\$(110,975)	\$-	\$393,562	\$25,087	\$22,978,559	\$600,968	\$23,579,527	
B1	Appropriation and distribution of earnings for the year 2016														
B5	Legal Capital Reserve	-	-	301,791	-	(301,791)	-	-	-	-	-	-	-	-	
	Cash dividends on common stock	-	-	-	-	(1,739,342)	(1,739,342)	-	-	-	-	(1,739,342)	-	(1,739,342)	
C17	Changes in other capital surplus	-	7,656	-	-	-	-	-	-	-	-	7,656	-	7,656	
D1	Net income for the year ended 31 December 2017	-	-	-	-	1,444,638	1,444,638	-	-	-	-	1,444,638	(203,013)	1,241,625	
D3	Other comprehensive income for the year ended 31 December 2017	-	-	-	-	-	-	46,950	-	34,807	(4,766)	76,991	26,729	103,720	
D5	Total comprehensive income for the year ended 31 December 2017	-	-	-	-	1,444,638	1,444,638	46,950	-	34,807	(4,766)	1,521,629	(176,284)	1,345,345	
O1	Changes In Non-Controlling Interests	-	-	-	-	-	-	-	-	-	-	-	30,976	30,976	
Z1	Balance on 31 December 2017	<u>\$11,595,611</u>	<u>\$18,063</u>	<u>\$3,847,032</u>	<u>\$504,189</u>	<u>\$6,418,942</u>	<u>\$10,770,163</u>	<u>\$(64,025)</u>	<u>\$-</u>	<u>\$428,369</u>	<u>\$20,321</u>	<u>\$22,768,502</u>	<u>\$455,660</u>	<u>\$23,224,162</u>	
A1	Balance on 1 January 2018	\$11,595,611	\$18,063	\$3,847,032	\$504,189	\$6,418,942	\$10,770,163	\$(64,025)	\$-	\$428,369	\$20,321	\$22,768,502	\$455,660	\$23,224,162	
A3	Effects on retrospective application and restatement	-	-	-	-	384,970	384,970	-	459,529	(428,369)	-	416,130	-	416,130	
A5	Balance on 1 January 2018 (Adjusted)	<u>11,595,611</u>	<u>18,063</u>	<u>3,847,032</u>	<u>504,189</u>	<u>6,803,912</u>	<u>11,155,133</u>	<u>(64,025)</u>	<u>459,529</u>	<u>-</u>	<u>20,321</u>	<u>23,184,632</u>	<u>455,660</u>	<u>23,640,292</u>	
B1	Appropriation and distribution of earnings for the year 2017														
B5	Legal Capital Reserve	-	-	144,464	-	(144,464)	-	-	-	-	-	-	-	-	
	Cash dividends on common stock	-	-	-	-	(1,391,473)	(1,391,473)	-	-	-	-	(1,391,473)	-	(1,391,473)	
C17	Changes in other capital surplus	-	7,720	-	-	-	-	-	-	-	-	7,720	-	7,720	
D1	Net income for the year ended 31 December 2018	-	-	-	-	3,609,611	3,609,611	-	-	-	-	3,609,611	632,186	4,241,797	
D3	Other comprehensive income for the year ended 31 December 2018	-	-	-	-	-	-	153,763	(493,136)	-	3,619	(335,754)	74,808	(260,946)	
D5	Total comprehensive income for the year ended 31 December 2018	-	-	-	-	3,609,611	3,609,611	153,763	(493,136)	-	3,619	3,273,857	706,994	3,980,851	
O1	Changes In Non-Controlling Interests	-	-	-	-	-	-	-	-	-	-	-	(895,841)	(895,841)	
Z1	Balance on 31 December 2018	<u>\$11,595,611</u>	<u>\$25,783</u>	<u>\$3,991,496</u>	<u>\$504,189</u>	<u>\$8,877,586</u>	<u>\$13,373,271</u>	<u>\$89,738</u>	<u>\$(33,607)</u>	<u>\$-</u>	<u>\$23,940</u>	<u>\$25,074,736</u>	<u>\$266,813</u>	<u>\$25,341,549</u>	

(The accompanying notes are an integral part of these consolidated financial statements)

English Translation of Financial Statements Originally Issued in Chinese

CATHAY REAL ESTATE DEVELOPMENT CO., LTD.

Consolidated Statements of Cash Flows

For the years ended 31 December 2018 and 2017

(Expressed in thousands of New Taiwan Dollars)

Code	Items	2018	2017
		Amount	Amount
AAAA	Cash flows from operating activities		
A10000	Net income before tax	\$4,508,980	\$1,191,478
A20000	Adjustments:		
A20100	Depreciation	417,546	520,851
A20200	Amortization	15,786	17,503
A20300	Provision for bad debt expenses	4,482	-
A20900	Interest Expenses	133,801	245,368
A21200	Interest Income	(7,297)	(4,338)
A21300	Dividend Income	(152,719)	(119,656)
A22300	Share of other comprehensive income of subsidiaries, associates and joint ventures	13,145	2,919
A22500	Loss (gain) on disposal of property, plant and equipment	898	(449)
A23100	Loss (gain) on disposal of investments	(2,128,213)	847
A29900	Cost on disposal of investment property	173,324	275,552
A30000	Changes in operating assets and liabilities:		
A31130	Decrease (increase) in notes receivable	(88)	2,547
A31150	Decrease (increase) in account receivable	(226,351)	(74,629)
A31180	Decrease (increase) in other receivable	(18,760)	(651)
A31200	Decrease (increase) in inventories	635,559	1,201,766
A31230	Decrease (increase) in prepayments	63,775	(122,887)
A31240	Decrease (increase) in other current assets	(276,961)	(24,149)
A31270	Decrease (increase) in revenue from contracts with customers	(27,086)	-
A32125	Increase (decrease) in contract liability	(853,274)	-
A32130	Increase (decrease) in notes payable	61,831	(15,484)
A32150	Increase (decrease) in accounts payable	(66,428)	(496,111)
A32160	Increase (decrease) in accounts payable to related parties	330,155	(87,139)
A32180	Increase (decrease) in other payables	84,044	79,033
A32210	Increase (decrease) in advances receipts	-	(1,278,962)
A32230	Increase (decrease) in other current liabilities	83,001	(3,962)
A33000	Cash inflow (outflow) generated from operations	2,769,150	1,309,447
A33100	Interest received	7,302	4,363
A33500	Income taxes paid	(247,008)	(352,841)
AAAA	Net cash flows from (used in) operating activities	2,529,444	960,969
BBBB	Cash flow from investing activities		
B00400	Proceeds from disposal of available-for-sale financial assets	-	4,001
B02300	Disposal of subsidiary	2,775,858	-
B02700	Acquisition of property, plant and equipment	(881,664)	(164,281)
B02800	Disposal of property, plant and equipment	7,539	5,356
B04500	Acquisition of intangible assets	(3,194)	(17,942)
B05500	Disposal of investment property	570	-
B06700	Increase in other non-current assets	(90,296)	-
B06800	Decrease in other non-current assets	-	95,869
B07600	Dividends received	152,719	119,656
BBBB	Net cash flows from (used in) investing activities	1,961,532	42,659
CCCC	Cash flow from financing activities		
C00100	Increase in short-term loans	2,936,000	1,963,000
C00600	Decrease in short-term notes payable	(619,529)	(89,912)
C01700	Decrease in long-term loans	(3,785,554)	(1,246,391)
C04400	Decrease in other non-current liabilities	(17,332)	(25,823)
C04500	Payment of cash dividends	(1,391,473)	(1,739,342)
C05600	Interest paid	(348,207)	(466,718)
C05800	Change in non-controlling interests of equity	(895,841)	30,976
CCCC	Net cash flows from (used in) financing activities	(4,121,936)	(1,574,210)
DDDD	Effect of currency exchange rate on cash and cash equivalents	23,652	126,382
EEEE	Net increase (decrease) in cash and cash equivalents	392,692	(444,200)
E00100	Cash and cash equivalents, beginning of period	1,227,465	1,671,665
E00200	Cash and cash equivalents, end of period	\$1,620,157	\$1,227,465

(The accompanying notes are an integral part of these consolidated financial statements)

**English Translation of Consolidated Financial Statements Originally Issued in Chinese**

**Cathay Real Estate Development Co., Ltd.  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)  
(Audited)**

**1. HISTORY AND ORGANIZATION**

Cathay Real Estate Development Co., Ltd. (the “Company”) was incorporated on December 1, 1964. The main businesses of the company are entrusting the manufacturer to build residential and commercial buildings for leasing and selling.

The Company is located at 2F., No. 218, Sec. 2, Dunhua S. Rd., Da-an Dist., Taipei City 106, Taiwan (R.O.C.) and has been listed on Taiwan Stock Exchange (TWSE) since October 1967.

**2. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE**

The consolidated financial statements of the Company and its subsidiaries (“the Group”) for the years ended December 31, 2018 and 2017 were authorized for issue in accordance with a resolution of the Board of Directors on March 21, 2019.

**3. APPLICATION OF NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS**

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ( “IFRSs” ) as endorsed by the Financial Supervisory Commission ( “FSC” ) :

Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, “IFRSs”) endorsed and issued into effect from 2018 by the Financial Supervisory Commission (FSC) did not have a significant effect on the Group except below:

*A. IFRS 15 “Revenue from Contracts with Customers” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (January 1, 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

## **English Translation of Financial Statements Originally Issued in Chinese**

The Group's principal activities consist of the sale of goods and rendering of services. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

- (a) Please refer to Note 4.18 for the accounting policies before or after January 1, 2018.
- (b) Before January 1, 2018, the Group's presold house transaction contracts of buyer only have the limited influence on the design of the real property, or on specify only minor changes to the basic design. In accordance with IAS 18, the Group's presold house transaction contracts, a merchandise sales agreement, were recognized when the product is delivered; after January 1, 2018, the income is recognized when the Group transfers the promised merchandise to the customer and fulfill the performance obligation in accordance with IFRS 15. For part of presold house contracts, the Group charges a part of the consideration at the time of signing and has obligation to provide the goods in the follow-up. Before January 1, 2018, the previous consideration was recognized as other current liabilities; after January 1, 2018, the consideration is recognized as a contractual liability in accordance with IFRS 15. On 1 January 2018, the amount of the Group reclassification from other current liabilities to contract liabilities was NT\$4,473,657 thousand. Compared with the requirements of IAS 18, other current liabilities decrease NT\$3,626,329 thousand and contract liabilities increase NT\$3,626,329 thousand as of 31 December 2018.
- (c) Before January 1, 2018, the Group recognized the service revenue when the service is completed; after January 1, 2018, the revenue recognized when the Group transfers the promised service to the customer and fulfill the performance obligation in accordance with IFRS 15. For part of service contracts, the Group charges a part of the consideration at the time of signing and has obligation to provide the service in the follow-up. Before January 1, 2018, the previous consideration was recognized as other current liabilities; after January 1, 2018, the consideration is recognized as a contractual liability in accordance with IFRS 15. On 1 January 2018, the amount of the Group reclassification from other current liabilities to contract liabilities. the was NT\$31,229 thousand. Compared with the applicable IAS 18, other current liabilities decrease NT\$25,283 thousand and contract liabilities increase NT\$25,283 thousand as of 31 December 2018.
- (d) Before January 1, 2018, the Group's sales commission for construction was recognized as a current expense when the customer signed a presold house contract; after January 1, 2018, the income is recognized when the Group transfers the promised commodities to the customer and fulfills the performance obligations in accordance with IFRS 15. For some contracts applied IFRS 15, the sales commission for the construction is the incremental cost of the expected recoverable contract, the Group recognize the incremental contract cost. The Group's reclassification from retained earnings and deferred income tax assets to the incremental contract costs on 1 January 2018, was NT\$454,510 thousand.
- (e) Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

## English Translation of Financial Statements Originally Issued in Chinese

### B. IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (January 1, 2018). The adoption of IFRS 9 has the following impacts on the Group:

- (a) The Group adopted IFRS 9 since January 1, 2018 and it adopted IAS 39 before January 1, 2018. Please refer to Note 4 for more details on accounting policies.
- (b) In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at January 1, 2018. The classifications and carrying amounts of financial assets as at January 1, 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through other comprehensive income		Fair value through other comprehensive income	\$4,751,974
Available-for-sale financial assets (including \$212,200 thousand measured at cost)	\$4,720,814		
At amortized cost		At amortized cost (including cash and cash equivalents, notes receivable, accounts receivable and other receivables)	
Loans and receivables (including cash and cash equivalents, notes receivable, accounts receivable and other receivables)	1,541,914		1,541,914
Total	<u>\$6,262,728</u>	Total	<u>\$6,293,888</u>

- (c) The transition from IAS 39 to IFRS 9 as at January 1, 2018, the changes in the classifications of financial assets and financial liabilities are as follows:

IAS 39		IFRS 9		Difference	Retained earnings adjusted amounts	Other components of equity adjusted amounts
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts			
Available-for-sale financial assets — Stocks (including \$212,000 thousand measured at cost) (Note 1)	\$4,720,814	Measured at fair value through other comprehensive income (equity instruments)	\$4,751,974	\$(31,160)	\$-	\$(31,160)
Loans and receivables (Note 2)						
Cash and cash equivalents	1,225,921	Cash and cash equivalents	1,225,921	-	-	-
Notes receivables, net	24,121	Notes receivables, net	24,121	-	-	-
Accounts receivable, net	267,884	Accounts receivable, net	267,884	-	-	-
Other receivables	23,988	Other receivables	23,988	-	-	-
Total	<u>\$6,262,728</u>	Total	<u>\$6,293,888</u>		<u>\$-</u>	<u>\$(31,160)</u>

Notes:

- (1) In accordance with of IAS 39, available-for-sale financial assets include investments in funds, stocks of listed companies and stocks of unlisted companies. Details are described as follows:

a. Stocks (including listed and unlisted companies)

Based on the facts and circumstances that existed as at January 1, 2018, as these equity investments are not held-for-trading, the Group elected to designate them as financial assets measured at fair value through other comprehensive income. As at January 1, 2018, the Group reclassified available-for-sale financial assets (including measured at cost) to financial assets measured at fair value through other comprehensive income of NT\$4,751,974 thousand. Other related adjustments are described as follows:

- (a) The stocks of unlisted companies previously measured at cost in accordance with IAS 39. However, in accordance with IFRS 9, there is not only no need to recognize the loss on impairment, but also the stocks of unlisted companies must be measured at fair value. The fair value of the stocks of unlisted companies was NT\$1,768,625 thousand as at January 1, 2018. The Group adjusted the carrying amount of financial assets measured at fair value through other comprehensive income by NT\$1,737,465 thousand and adjusted other equity by NT\$31,160 thousand.
- (b) The stocks of listed companies of NT\$2,983,349 thousand were measured at fair value. As at January 1, 2018, they were reclassified from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income and the fair value changes were adjusted within other equity accounts.

- (2) In accordance with IAS 39, the cash flow characteristics for held-to-maturity investments and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at January 1, 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arise from the assessment of impairment losses for the assets as at January 1, 2018. Therefore, there is no impact on the carrying amount as at January 1, 2018.

## **English Translation of Financial Statements Originally Issued in Chinese**

- (d) Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

### **C. IFRIC 22 “Foreign Currency Transactions and Advance Consideration”**

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Group originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Group elected to apply this interpretation prospectively on 1 January 2018. This change in accounting principle did not significantly impact the Group's recognition and measurement.

### **D. Disclosure Initiative (Amendment to IAS7 “Statements of Cash Flows”)**

Add the reconciliation information of beginning and ending balance of the Group's financing activities related to liabilities. Please refer to Note 12 for more details.

- (2) Standards or interpretations issued, revised or amended, by IASB and endorsed by FSC but not yet adopted at the date of issuance of the Group's financial statements are listed below.

No.	Standards or interpretations issued, revised or amended	Effective date issued by IASB
a	IFRS 16“Leases”	January 1, 2019
b	IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019
c	IAS 28“Investment in Associates and Joint Ventures” — Amendments to IAS 28	January 1, 2019
d	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019
e	Improvements to International Financial Reporting Standards (2015-2017 cycle)	January 1, 2019
f	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019



## **English Translation of Financial Statements Originally Issued in Chinese**

### *A. IFRS 16 “Leases”*

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors’ classification remains unchanged as operating or finance leases, but additional disclosure information is required.

### *B. IFRIC 23 “Uncertainty Over Income Tax Treatments”*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments.

### *C. IAS 28 “Investment in Associates and Joint Ventures” — Amendments to IAS 28*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

### *D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

### *E. Improvements to International Financial Reporting Standards (2015-2017 cycle):*

#### *IFRS 3 “Business Combinations”*

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

#### *IFRS 11 “Joint Arrangements”*

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

#### *IAS 12 “Income Taxes”*

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

## **English Translation of Financial Statements Originally Issued in Chinese**

### *IAS 23 “Borrowing Costs”*

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

### *F. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2019. As the Group is still currently determining the potential impact of the standards and interpretations listed under (A), it is not practicable to estimate their impact on the Group now. All other standards and interpretations have no material impact on the Group.

### *A. IFRS 16 “Leases”*

IFRS 16 “Leases” replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases - Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

- (a) For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (January 1, 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

- (i) Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted by the lessee’s incremental borrowing rate on January 1, 2019 and; the Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

**English Translation of Financial Statements Originally Issued in Chinese**

- i. its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted by the lessee's incremental borrowing rate on January 1, 2019; or
- ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

The Group expects the right-of-use asset will increase by NT\$4,987,656 thousand and the lease liability will increase by NT\$4,987,656 thousand on January 1, 2019.

- (b) The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.
- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

No.	Standards or interpretations issued, revised or amended	Effective date issued by IASB
a	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 "Insurance Contracts"	January 1, 2021
c	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
d	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020

*A. IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

## **English Translation of Financial Statements Originally Issued in Chinese**

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

### **B. IFRS 17 “*Insurance Contracts*”**

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (a) estimates of future cash flows;
- (b) discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (c) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

### **C. *Definition of a Business* (Amendments to IFRS 3)**

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

*D. Definition of a Material* (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.”

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under (A) and (D), it is not practicable to estimate their impact on the Group now. The remaining standards and interpretations have no material impact on the Group.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(1) Statement of compliance**

The consolidated financial statements of the Group for the year ended December 31, 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and International Financial Reporting Standards, International Accounting Standards, Interpretations issued by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC (“TIFRS”).

**(2) Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars (“NT\$”) unless otherwise stated.

**(3) Basis of consolidation**

**A. Preparation principle of consolidated financial statements**

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

## **English Translation of Financial Statements Originally Issued in Chinese**

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group's voting rights and potential voting rights

The Group re-assesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Group loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

**English Translation of Financial Statements Originally Issued in Chinese**

B. The consolidated entities are listed as follows:

Investor	Subsidiaries	Main business	Percentage of ownership (%)	
			December 31, 2018	December 31, 2017
The Company	Cathay Real Estate Management CO., LTD	Construction management	100%	100%
The Company	Cathay Healthcare Management CO., LTD	Consultancy	85%	85%
The Company	Cathay Hospitality Management CO., LTD	Service industry	100%	100%
The Company	Cathay Hospitality Consulting CO., LTD	Consultancy	100%	-
The Company	Cathay Real Estate Holding Corporation	General trade & investing	100%	100%
Cathay Healthcare Management CO., LTD	Cathay Healthcare Management Limited(BVI)	General trade & investing	100%	100%
Cathay Real Estate Holding Corporation	CCH Commercial Company Limited	Investing	66.67%	66.67%
CCH Commercial Company Limited	Lotus Investment Company Limited	Investing	-	100.00%
CCH Commercial Company Limited	Golden Gate Investment Company Limited	Investing	-	100.00%
Lotus Investment Company Limited	Lotus Pacific Company Limited	Business management	-	100.00%
Golden Gate Investment Company Limited	Golden Gate Pacific Company Limited	Business management	-	100.00%
Cathay Healthcare Management Limited (BVI)	Cathay Healthcare Management Limited (Cayman)	Business management	100.00%	100.00%
Lotus Pacific Company Limited	Jiaheng (Shanghai) Real Estate Limited	Investing	-	100.00%
Golden Gate Pacific Company Limited	Shanghai Lujing Real Estate Limited	Investing	-	100.00%
Cathay Healthcare Management Limited (Cayman)	Hangzhou Kunning Health Consulting Limited	Consultancy	100.00%	100.00%

C. The changing of the subsidiaries as of December 31, 2018:

New adding in 2018: Cathay Hospitality Consulting Co., Ltd.

Reducing in 2018: Lotus Investment Company Limited、Golden Gate Investment Company Limited、Lotus Pacific Company Limited、Golden Gate Pacific Company Limited、Jiaheng (Shanghai) Real Estate Limited and Shanghai Lujing Real Estate Limited；All of the above companies lost control due to the sale in the current period.

**(4) Foreign currency transactions**

The Group's consolidated financial statements are presented in NT\$, which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. Foreign currency items within the scope of IFRS 9 *Financial Instruments* (Before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

**(5) Translation of financial statements in foreign currency**

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Group: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.



## **English Translation of Financial Statements Originally Issued in Chinese**

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

### **(6) Current and non-current distinction**

An asset is classified as current when:

- A. The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
- B. The Group holds the asset primarily for the purpose of trading
- C. The Group expects to realize the asset within twelve months after the reporting period
- D. The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

### **(7) Cash and cash equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with maturing of less than 12 months).

**(8) Financial instruments**

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* (Before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

**A. Financial instruments: Recognition and Measurement**

The accounting policy from January 1, 2018 is as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income on the basis of both:

- (a) the Group's business model for managing the financial assets and
- (b) the contractual cash flow characteristics of the financial asset.

*Financial assets measured at amortized cost*

A financial asset is measured at amortized cost if both of the following conditions are met and presented as notes receivable, accounts receivable, financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

## **English Translation of Financial Statements Originally Issued in Chinese**

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

### **Financial asset measured at fair value through other comprehensive income**

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income should be reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue calculated by using the effective interest method (effective interest rate times the carrying amount of the financial asset) or the method stated below should be recognized in profit or loss.
  - (i) For purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset.
  - (ii) For financial assets that are not purchased or originated credit-impaired financial assets but subsequently become credit-impaired financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

## **English Translation of Financial Statements Originally Issued in Chinese**

Besides, for certain equity investments within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable election to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on the balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

The accounting policy before January 1, 2018 is as follows:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

### **Available-for-sale financial assets**

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables.

Foreign exchange gains and losses and interest calculated using the effective interest method relating to monetary available-for-sale financial assets, or dividends on an available-for-sale equity instrument, are recognized in profit or loss. Subsequent measurement of available-for-sale financial assets at fair value is recognized in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss.

If equity instrument investments do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

## **English Translation of Financial Statements Originally Issued in Chinese**

Loans and receivables are separately presented on the balance sheet as receivables or bond investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by considering any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

### **B. Impairment of financial assets**

The accounting policy from January 1, 2018 is as follows:

The Group recognizes a loss allowance for expected credit losses on financial asset measured at amortized cost.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance for a financial asset at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that condition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has been increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

## **English Translation of Financial Statements Originally Issued in Chinese**

The accounting policy before January 1, 2018 is as follows:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment because of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced using an allowance account is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (a) significant financial difficulty of the issuer or obligor
- (b) a breach of contract, such as a default or delinquency in interest or principal payments
- (c) is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- (d) the disappearance of an active market for that financial asset because of financial difficulties

For loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a company of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. However, if the loan using floating rate, the discount rate used to measure the impairment loss is the effective interest rate. Interest income is based on the reduced carrying amount of the asset and is continuously estimated using the same discount rate to measure the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

## **English Translation of Financial Statements Originally Issued in Chinese**

In the case of equity investments classified as available-for-sale, where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

### **C. Derecognition of financial assets**

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

### **D. Financial liabilities and equity**

#### **Classification between liabilities or equity**

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

#### **Financial liabilities**

Financial liabilities within the scope of IFRS 9 Financial Instruments (Before January 1, 2018: IAS 39 Financial Instruments: Recognition and Measurement) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost.

## **English Translation of Financial Statements Originally Issued in Chinese**

### **Financial liabilities at amortized cost**

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through amortization process of the effective interest rate method.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or transaction costs.

### **Derecognition of financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### **E. Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

## **(9) Fair value**

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- A. in the principal market for the asset or liability; or
- B. in the absence of a principal market, in the most advantageous market for the asset or liability.



## **English Translation of Financial Statements Originally Issued in Chinese**

The main or the most advantageous market must enter by the Group to conduct transaction.

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group adopts the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximize the use of relevant observable inputs and minimize unobservable inputs.

### **(10) Inventories**

Inventories, including construction land, construction in progress and property for sale, are stated at the cost in the basis of the account. The construction land transfer to property under construction during actively developed and capitalize financial cost during actively developed or construction period.

Inventories are valued at lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Group's contract incremental cost is the commission generated by the acquisition of the presold house contract. The customer's signing of the presold contract has not fulfilled the performance obligation because the goods promised to have not been transferred to the customer. According IFRS 15, the sales commission is the incremental cost of acquiring the presold house contract. When the house is transferred to the customer and fulfill the performance obligation, the incremental cost of obtaining the contract is be amortized.

Starting from January 1, 2018, rendering of services is accounted in accordance with IFRS 15 but not within the scoping of inventories.

### **(11) Construction Contract**

The Group's presold house transaction contracts of buyer only have the limited influence on the design of the real property, or to specify only minor changes to the basic design. In accordance with IFRS 15 "Revenue of Customer Contracts", the Group's presold house contract is a commodity sales agreement and the is recognized as sales revenue.

**(12) Investments accounted for using the equity method**

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture means the Group has rights to the net assets of the joint agreement.

Under the equity method, the investment in the associate is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate. After the interest in the associate is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's related interest in the associate.

When changes in the net assets of an associate occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate on a prorate basis.

When the associate issues new stock, and the Group's interest in an associate is reduced or increased as the Group fails to acquire shares newly issued in the associate proportionately to its original ownership interest, the increase or decrease in the interest in the associate is recognized in additional paid in capital and investment in associate. When the interest in the associate is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a prorate basis when the Group disposes of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired in accordance with IAS 28 *Investments in Associates and Joint Ventures* (before January 1, 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

## **English Translation of Financial Statements Originally Issued in Chinese**

- A. Its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment.
- B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. The Group recognizes its interest in the jointly controlled entities using the equity method continuously.

### **(13) Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in gain or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings: 5~50 years

Leased assets: 5 years

Other equipment: 2~26 years

Leasehold improvements: The shorter of lease terms or economic useful lives

## **English Translation of Financial Statements Originally Issued in Chinese**

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

### **(14) Investment property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. After initial recognition, investment properties are measured using the cost model in accordance with the requirements of *IAS 16* for that model, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5~50 years
-----------	------------

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The Group decide to transfer properties to or from investment properties according to actual use.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

### **(15) Leases**

#### **Group as a lessee**

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in profit or loss.

## **English Translation of Financial Statements Originally Issued in Chinese**

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

### **Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Rental revenue generated from operating leases was recognized over the lease term using the straight-line method. Contingent rents are recognized as revenue in the period in which they are earned.

## **(16) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

## **English Translation of Financial Statements Originally Issued in Chinese**

### **Computer software**

The cost of computer software is amortized on a straight-line basis over the estimated useful life (1 to 6 years).

### **Trademark**

The cost of trademark is amortized on a straight-line basis over the estimated useful life which is prescribed by law.

## **(17) Impairment of non-financial assets**

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata based on the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

**(18) Revenue recognition**

The accounting policy from January 1, 2018 is as follows:

The Group's revenue arising from contracts with customers mainly include sale of buildings and land. The accounting policies for the Group's types of revenue are explained as follows:

Construction income

As explained in Note 4 (11) construction contracts, the Group entrusts construction companies in construction and planning of public housing is recognized as sales revenue in accordance with the IFRS 15 about the regulation of sales of goods. Therefore, the Group recognize profit and loss when the ownership transferred.

Before the recognition of the income, the down payment and installment received for the sale of the premises are recognized as contract liabilities in the current liabilities of the balance sheet.

Sales of goods

The Group recognized the sales revenue when the merchandise transport to the customer and the control of merchandise transfer to the customers (The customers owns the right to control the merchandise and the residual benefit to the merchandise.)

The Group recognized the account receivable when the merchandise's control transfer to the customers and has the right to charge, the account receivable usually has a short period to recover and do not have a significant financial component.

Rendering of services

The Group's service revenue mainly generated from offering healthy examination. The revenue recognized when the service completed. The cost of the service recognized when the transaction occurred ; the expenses recognized in the current period in accordance with accrual basis.

The accounting policy from January 1, 2017 is as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

## **English Translation of Financial Statements Originally Issued in Chinese**

### **Construction income**

As explained in Note 4 (11) construction contracts, the entrusting construction Group in construction and planning of public housing is recognized as sales revenue in accordance with the IAS18 about the regulation of sales of goods. Therefore, the Group recognize profit and loss when the ownership transferred.

Before the recognition of the income, the down payment and installment received for the sale of the premises are recognized as prepayments in the current liabilities of the balance sheet.

### **Sales of goods**

Sales are recognized when all the following conditions have been satisfied:

- A. the significant risk and benefits of the ownership is transferred to the buyers
- B. the Group hasn't involved in management continuously and lose control of the the products that have been sold.
- C. amount of the revenue can be measured reliably.
- D. the economic benefits generated by the transaction may flow into the Group.
- E. the cost related to the transaction can be measured reliably.

### **Rendering of services**

The Group's service revenue mainly generated from offering healthy examination. The revenue recognized when the service completed. The cost of the service recognized when the transaction occurred ; the expenses recognized in the current period in accordance with accrual basis.

### **Dividends**

Revenue is recognized when the Group has the right to receive the payment.

### **Rental income**

Revenue generated by operating leasing is recognized on a straight-line basis over the leasing period.

## **(19) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs relating to the borrowing of funds.



**(20) Retirement benefits plans**

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employee's subject to the plan. The Company and its subsidiaries recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs or termination benefits costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period because of contribution and benefit payment.

**(21) Income taxes**

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

**Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the shareholders' meeting.

## **English Translation of Financial Statements Originally Issued in Chinese**

### **Deferred tax**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the way the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

## **English Translation of Financial Statements Originally Issued in Chinese**

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liabilities affected in future periods.

#### **(1) Judgement**

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Financing lease commitment—Group as the lessor

The Group has signed real estate leases for investment real property portfolios. Based on the assessment of its agreed terms, the Group still retains the significant risks and rewards of ownership of these properties and treats them as operating leases.

#### **(2) Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### **A. Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the income approach (for example the discounted cash flows model) or market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12 for more details.

**B. Impairment of non-financial assets**

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

**C. Retirement benefits plans**

The cost of retirement employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

**D. Income tax**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group's domicile.

## **English Translation of Financial Statements Originally Issued in Chinese**

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. As of December 31, 2018, the deferred income tax assets that the Group has not recognize, please refer to Note 6 for more details.

### **E. Evaluation of Inventory**

The Group must use the judgment and estimates to determine the net realizable value of the inventory at the balance sheet date, as the inventories are measured at the lower of the cost and the net realizable value. The Group assesses the amount of inventory at the balance sheet date due to market changes or no market sales value, and reduces the inventory cost to the net realizable value. This inventory evaluation is mainly based on the product demand in the specific period in the future, so it may cause significant changes. Please refer to Note 6 for more details.

### **F. Accounts receivables—estimation of impairment loss**

#### **Starting from January 1, 2018:**

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

#### **Before January 1, 2018:**

The Group considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

**English Translation of Financial Statements Originally Issued in Chinese**

**6. CONTENTS OF SIGNIFICANT ACCOUNTS**

**(1) Cash and cash equivalents**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Cash on hand and petty cash	\$4,385	\$3,714
Checking accounts and demand deposit	1,480,247	1,147,051
Time deposits	85,550	76,700
Cash equivalents — short-term bills	49,975	-
Total	<u>\$1,620,157</u>	<u>\$1,227,465</u>

As of 31 December 2018 and 2017, cash and cash equivalents were not pledged as collateral or restricted for uses.

**(2) Financial assets at fair value through profit or loss**

	As of	
	December 31, 2018	December 31, 2017 (Note)
	NTD	NTD
Equity instruments investments measured at fair value through other comprehensive income — current:		
Listed companies' stocks	<u>\$2,620,886</u>	
Equity instruments investments measured at fair value through other comprehensive income — non-current:		
Unlisted companies' stocks	<u>\$1,637,951</u>	
Current	<u>\$2,620,886</u>	
Non-current	<u>\$1,637,951</u>	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

As of 31 December 2018, financial assets at fair value through over comprehensive income were not pledged.

**English Translation of Financial Statements Originally Issued in Chinese**

**(3) Financial assets in available-for-sale**

	As of	
	December 31, 2018 (Note)	December 31, 2017
	NTD	NTD
Stocks		\$4,080,246
Add: Valuation adjustments		428,368
Total		<u>\$4,508,614</u>

  

	As of	
	December 31, 2018 (Note)	December 31, 2017
	NTD	NTD
Current		\$2,983,349
Non-current		1,525,265
Total		<u>\$4,508,614</u>

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before January 1, 2018 and classified certain financial assets as available-for-sale financial assets.

Available-for-sale financial assets were not pledged.

**(4) Financial assets measured at cost — Non-current**

	As at	
	31 Dec. 2018 (Note)	31 Dec. 2017
Stocks		<u>\$212,200</u>

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

The Group adopted IAS 39 before 1 January 2018. The above investments in the equity instruments of unlisted entities are measured at cost as the fair value of these investments are not reliably measurable since the variability in the range of reasonable fair value measurements is significant for that investment and that the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value.

Financial assets measured at cost were not pledged.

**English Translation of Financial Statements Originally Issued in Chinese**

**(5) Notes receivable**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Notes receivable arising from operating activities	\$24,209	\$24,121
Less: Loss allowance	-	-
Notes receivable, net	\$24,209	\$24,121

Notes receivables were not pledged.

The Group adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 6.22 for more details on accumulated impairment. Please refer to Note 12 for more details on credit risk.

**(6) Accounts receivable and Accounts receivable -related parties**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Accounts receivable	\$455,961	\$266,410
Less: Loss allowance	(12)	-
Subtotal	455,949	266,410
Accounts receivable — related parties	5,984	1,474
Less: Loss allowance	-	-
Total	\$461,933	\$267,884

Accounts receivables and accounts receivables – related parties were not pledged.

Accounts receivable are generally on 30-365-day terms. The Group adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 6.22 for more details on impairment of accounts receivable. The Group adopted IAS 39 for impairment assessment before 1 January 2018. The ageing analysis of accounts receivable and accounts receivable-related parties for the year ended 31 December 2017 are as follows: (Please refer to Note 12 for more details on credit risk management.)

The Group's trade receivables mainly consist of housing loans from the bank, the rental of buildings and equipment, and the credit card payments for hotel accommodation. The Trading partners are mainly creditworthy financial institutions and customers with good credit rating.

Accounts receivable and accounts receivable from related parties, net — the aging analysis is as follows:

		Past due					
	Neither past due	Within 30 days	31-60 days	61-90 days	91-120 days	Over 121 days	Total
2017.12.31	\$243,458	\$2,224	\$2,198	\$2,400	\$2,484	\$15,120	\$267,884



**English Translation of Financial Statements Originally Issued in Chinese**

**(7) Inventories**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Land held for construction site	\$8,154,901	\$8,895,746
Construction in progress	15,058,866	16,032,714
Buildings and land held for sale	2,052,299	3,572,983
Others	12,293	12,365
Subtotal	25,278,359	28,513,808
Prepayment for land purchases	725,078	336,835
Total	\$26,003,437	\$28,850,643

A. Some of the construction in progress above was contracted by the related company San-Ching Engineering Co., Ltd., and the relevant transactions are detailed in Note 7.

B. The net realizable value of the construction land held by the Group is based on the land development analysis method. The the land profit is calculated by the legal use and intensity of the land, and the total sales amount after development or construction is estimated, deducting the direct costs, indirect costs, capital interest during the development period.

C. Significant Construction project as follow:

Construction Project	Amount	Percentage of Completion
Minsheng Jingguo Building	3,840,098	100.00%
Landmark Twin Towers	1,486,551	99.00%
Cathay Fu Tu	1,989,160	90.00%
Chief Executive Officer	1,535,800	78.00%
Cathay O2 Fu Building	1,149,124	42.00%
Cathay Ho	1,441,749	17.00%
Yung Hua Road	1,315,905	9.00%
Park Beautiful Mansion	1,010,000	0.00%

D. The total interest capitalizes of the inventories mentioned above was found to be NT\$ 230,859 thousand and NT\$230,071 thousand for the year ended December 31, 2018 and 2017, respectively. The interest expense before capitalizing were NT\$364,660 thousand and NT\$475,439 thousand, respectively.

The interest rate of capitalized loan for inventories were 0.0859 %~0.1902% in 2018 and 0.0915%~0.1766% in 2017.

**English Translation of Financial Statements Originally Issued in Chinese**

E. To successfully construct and deliver the building and housing to the customers, the company using trust accounts for the construction in progress are as follows:

Construction Project (Amount)	Trustee	Period
Chief Executive Officer (NT\$1,710 thousand)	Cathay United Bank	From April 8, 2014 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay Fu Tu (NT\$17,075 thousand)	China Trust Commercial Bank	From February 12, 2015 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay O2 Fu Building (NT\$5,811 thousand)	Cathay United Bank	From December 9, 2015 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay New Village (NT\$1,961 thousand)	Cathay United Bank	From April 13, 2017 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay Ho (NT\$144,189 thousand)	Cathay United Bank	From April 13, 2017 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay Shui Hsiu (NT\$844 thousand)	Cathay United Bank	From October 18, 2017 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Cathay Plus+ (NT\$226,161 thousand)	Cathay United Bank	From October 18, 2017 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
Park Beautiful Mansion (NT\$95,657 thousand)	Cathay United Bank	From June 6, 2018 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
TREE. RIVER. CATHAY'S HOME I (NT\$144,431 thousand)	Cathay United Bank	From June 13, 2018 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.
HYGGE (NT\$92,420 thousand)	Cathay United Bank	From July 30, 2018 to the completion of the project, the license was obtained, and the first registration of the ownership was completed.

As of December 31, 2018, the Group has established a deed of trust with the bank for the construction of the case, and has handled the fund management of the presold customers. The trust period ended until the project is completed and the first time the ownership registration of the completed property is completed. The balance of the funds managed by the Group in accordance with the above trust deed is NT\$730,259 thousand, which is equal to the price of the presold contract. There is no delay in the delivery of the trust account.

F. The cost of inventories recognized in expenses amounts to NT\$9,225,088 thousand and NT\$7,930,117 thousand for the years ended to December 31, 2018 and 2017, including the loss of inventory price falling NT\$132,671 thousand for the years ended to December 31, 2018.

G. Please refer to note 8 for more details on inventory under pledged.

**English Translation of Financial Statements Originally Issued in Chinese**

H. Incremental cost of the contract

The cost occurred for the acquisition of the customer's contract is the incremental cost of the contract. The incremental cost of the contract fulfills its obligation when the house hand over the the customers, and the incremental cost of the contract is amortized.

**(8) Investments accounted for using the equity method**

The following table lists the investments accounted (Investments in joint venture entities of the Group.) for using the equity method of the Group:

CCH REIM Company Limited (registered in Cayman) is mainly engaged in investment in real estate management financial advisory services in the mainland. The Group invests in the company by joint agreement based on cross-regional management considerations. In addition, the company is a non-public offering company and has not been listed on any securities exchange, so there is no fair value of the open market price.

The consolidated financial information and adjustments to the investment amount of the investment are as follows:

	2018.12.31	2017.12.31
Current assets	\$752	\$8,941
Non-current assets	(4,874)	13,385
Current liabilities	154	150
Non-current liabilities	-	-
Equities	(4,276)	22,176
Shareholding ratio of The Group	50%	50%
Carrying Amount of investment	<u>\$(2,138)</u>	<u>\$11,088</u>

	2018.12.31	2017.12.31
Cash and cash equivalent	\$376	\$4,471
Current financial liabilities (excluding accounts payable, other payables and debt preparation)	-	-
Current financial liabilities (excluding accounts payable, other payables and debt preparation)	-	-

	2018	2017
Operating revenue	\$7,705	\$30,632
Operating expense	(525)	(1,282)
Interest income	-	-
Non-operating income and expenses	(20,238)	(32,273)
Profit or loss from continuing operations	(13,058)	(2,923)
Other comprehensive income	(168)	(6,602)
Total comprehensive income	(13,226)	(9,525)

The joint venture had no contingent liabilities or capital commitments as at 31 December 2018, and 2017. The company cannot distribute its profits until it obtains the consent from the two venture partners.

**English Translation of Financial Statements Originally Issued in Chinese**

**(9) Property, plant and equipment**

	Land	Buildings	Leased assets	Leasehold Improvement	Other equipment	Construction in progress and equipment awaiting examination	Total
Cost							
2018.1.1	\$1,346	\$1,829	\$106,260	\$813,370	\$744,291	\$141,035	\$1,808,131
Additions	-	-	22,268	456,914	24,364	378,118	881,664
Disposals	-	-	(20,853)	(2,026)	(11,524)	-	(34,403)
Transfer	-	-	-	450	838	(1,288)	-
Loss of control (Note)	-	-	-	-	(6,524)	-	(6,524)
Exchange differences	-	-	-	-	104	-	104
2018.12.31	\$1,346	\$1,829	\$107,675	\$1,268,708	\$751,549	\$517,865	\$2,648,972
2017.1.1	\$1,346	\$1,829	\$114,327	\$796,683	\$717,807	\$27,767	\$1,659,759
Additions	-	-	4,761	15,171	27,623	116,726	164,281
Disposals	-	-	(12,828)	-	(1,302)	-	(14,130)
Transfer	-	-	-	1,516	185	(3,458)	(1,757)
Exchange differences	-	-	-	-	(22)	-	(22)
2017.12.31	\$1,346	\$1,829	\$106,260	\$813,370	\$744,291	\$141,035	\$1,808,131
Depreciation and impairment:							
2018.1.1	\$-	\$305	\$48,523	\$278,559	\$344,325	\$-	\$671,712
Depreciation	-	36	16,203	60,949	69,926	-	147,114
Disposals	-	-	(17,761)	(2,018)	(6,187)	-	(25,966)
Loss of control (Note)	-	-	-	-	(2,422)	-	(2,422)
Exchange differences	-	-	-	-	40	-	40
2018.12.31	\$-	\$341	\$46,965	\$337,490	\$405,682	\$-	\$790,478
2017.1.1	\$-	\$269	\$40,543	\$215,787	\$271,621	\$-	\$528,220
Depreciation	-	36	16,135	62,772	73,750	-	152,693
Disposals	-	-	(8,155)	-	(1,068)	-	(9,223)
Exchange differences	-	-	-	-	22	-	22
2017.12.31	\$-	\$305	\$48,523	\$278,559	\$344,325	\$-	\$671,712
Net carrying amount as of:							
2018.12.31	\$1,346	\$1,488	\$60,710	\$931,218	\$345,867	\$517,865	\$1,858,494
2017.12.31	\$1,346	\$1,524	\$57,737	\$534,811	\$399,966	\$141,035	\$1,136,419

Note: The disposal of subsidiaries, please refer to 6.29

(1) The major components of the Group's buildings are mainly buildings, air-conditioning equipment and elevators, and are depreciated according to their durability years of 50, 5 and 15 years respectively.

(2) The Group's Property, plant and equipment are not capitalized from financial costs.

(3) No Property, plant and equipment were pledged.

**English Translation of Financial Statements Originally Issued in Chinese**

**(10) Investment property**

	Land	Buildings	Total
Cost:			
As at 1 Jan. 2018	\$5,591,358	\$10,246,622	\$15,837,980
Additions from subsequent expenditure	-	-	-
Disposals	(62,446)	(195,351)	(254,797)
Transfers	1,654,877	789,629	2,442,506
Loss of control (Note)	-	(4,654,871)	(4,654,871)
Exchange differences	-	83,016	83,016
As at 31 Dec. 2018	<u>\$7,183,789</u>	<u>\$6,270,045</u>	<u>\$13,453,834</u>
As at 1 Jan. 2017	<u>\$5,668,839</u>	<u>\$10,608,234</u>	<u>\$16,277,073</u>
Additions from subsequent expenditure	-	-	-
Disposals	(77,481)	(314,516)	(391,997)
Transfers	-	-	-
Exchange differences	-	(47,096)	(47,096)
As at 31 Dec. 2017	<u>\$5,591,358</u>	<u>\$10,246,622</u>	<u>\$15,837,980</u>
Depreciation and impairment:			
As at 1 Jan. 2018	\$-	\$2,854,599	\$2,854,599
Depreciation	-	270,432	270,432
Disposals	-	(80,903)	(80,903)
Loss of control (Note)	-	(736,091)	(736,091)
Exchange differences	-	13,631	13,631
As at 31 Dec. 2018	<u>\$-</u>	<u>\$2,321,668</u>	<u>\$2,321,668</u>
As at 1 Jan. 2017	<u>\$-</u>	<u>\$2,603,907</u>	<u>\$2,603,907</u>
Depreciation	-	368,158	368,158
Disposals	-	(116,445)	(116,445)
Exchange differences	-	(1,021)	(1,021)
As at 31 Dec. 2017	<u>\$-</u>	<u>\$2,854,599</u>	<u>\$2,854,599</u>
Net carrying amount as at:			
31 Dec. 2018	<u>\$7,183,789</u>	<u>\$3,948,377</u>	<u>\$11,132,166</u>
31 Dec. 2017	<u>\$5,591,358</u>	<u>\$7,392,023</u>	<u>\$12,983,381</u>

Note: The disposal of the subsidiaries, please refer to 6.29

	31 Dec. 2018	31 Dec. 2017
Rental income from investment property	\$422,151	\$585,375
Less:		
Direct operating expenses from investment property generating rental income	(222,169)	(303,347)
Direct operating expenses from investment property not generating rental income	(24,724)	(38,666)
Total	<u>\$175,258</u>	<u>\$243,362</u>

**English Translation of Financial Statements Originally Issued in Chinese**

The fair value of the investment properties held by the Group were NT\$19,169,793 thousand and NT\$24,380,592 thousand as of December 31, 2018 and 2017, respectively.

The fair value of the investment properties was NT\$12,077,223 thousand and NT\$24,356,578 thousand as of December 31, 2018 and 2017, respectively, which were valued by an independent external appraisal expert and based on the actual deal price or the market transaction price of the real estate nearby; the fair value of investment property was valued by the Group were NT\$7,092,570 thousand and NT\$24,014 thousand as of December 31, 2018 and 2017, respectively. It was determined based on the market evidence, and the evaluation method was the comparison method.

Please refer to Note 8 for more details on property, plant and equipment under pledge.

**(11) Intangible assets**

	Computer softwares	Trademark	Total
Cost:			
As at 1 Jan. 2018	\$122,883	\$4,382	\$127,265
Addition-acquired separately	3,120	74	3,194
Disposals	-	-	-
Transfers	-	-	-
As at 31 Dec. 2018	\$126,003	\$4,456	\$130,459
As at 1 Jan. 2017	\$105,886	\$3,908	\$109,794
Addition-acquired separately	17,468	474	17,942
Disposals	(2,104)	-	(2,104)
Transfers	1,633	-	1,633
As at 31 Dec. 2017	\$122,883	\$4,382	\$127,265
Amortization and impairment:			
As at 1 Jan. 2018	\$91,547	\$2,710	\$94,257
Amortization	14,707	1,079	15,786
Disposals	-	-	-
Exchange differences	-	-	-
As at 31 Dec. 2018	\$106,254	\$3,789	\$110,043
As at 1 Jan. 2017	\$77,365	\$1,493	\$78,858
Amortization	16,286	1,217	17,503
Disposals	(2,104)	-	(2,104)
Exchange differences	-	-	-
As at 31 Dec. 2017	\$91,547	\$2,710	\$94,257
Net carrying amount as at:			
31 Dec. 2018	\$19,749	\$667	\$20,416
31 Dec. 2017	\$31,336	\$1,672	\$33,008

**English Translation of Financial Statements Originally Issued in Chinese**

Amortization expense of intangible assets were as follow:

	31 Dec. 2018	31 Dec. 2017
Operating expenses	\$10,361	\$12,670
Operating costs	\$5,425	\$4,833

**(12) Other non-current assets**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Land Held for Construction Site	\$18,425	\$18,425
Prepaid expense — land and equipment	9,814	-
Refundable deposits	1,030,681	936,079
Long-term prepaid rent	-	2,049,047
Other non-current assets - other	17,302	85,084
Total	\$1,076,222	\$3,088,635

A. As of December 31, 2018, and 2017, the above land was temporarily registered under a third party's name, both at cost amounting to NT\$18,425 thousand:

Items	2018.12.31	2017.12.31	Type	Purpose	Securities
NO.137-2 etc., Northern shi-zhi of Hou-tso section, San-zhi township, New Taipei City	\$18,425	\$18,425	Purchases / Sales	Development	Mortgage setting and Commitment

**B. Long-term prepaid rent**

	2018.12.31	2017.12.31
Using rights of Lands	\$-	\$2,049,047

This right has been leased for 34 years from June 5, 2007, and the rent has been paid. The right due in one year have been classified as prepayments under current assets.

**(13) Short-term loans**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Unsecured bank loans	\$8,715,000	\$5,779,000
Interest Rate	0.78%~1.40%	0.89%~1.46%

The Group's unused short-term lines of credits amounted to NT\$15,663,405 thousand, and NT\$15,056,020 thousand as of December 31, 2018 and 2017, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

**(14) Short-term notes payable**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Short-term notes and bills payable	\$260,000	\$880,000
Less: unamortized discount	-	(471)
Short-term notes and bills payable	\$260,000	\$879,529
Interest Rate	1.338%	0.43%~1.34%

**(15) Bonds payable**

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Domestic secured bonds	\$3,000,000	\$3,000,000
Less: current portion	-	-
Long-term bonds payable	\$3,000,000	\$3,000,000

On July 24, 2015 the Company issued the first domestic guaranteed corporate bonds with a total denomination of NT\$3,000,000 thousand. The issuance period is five-year. The interest on this corporate bond is a fixed annual interest rate of 1.4%, paying interest once a year, and repaying the loan due day.

**(16) Long-term loans**

As of December 31, 2018, and 2017, details of long-term loans are as follows:

	As at 31 Dec. 2018	Interest Rate (%)	Maturity date and terms of repayment
Bank credit loans	\$4,910,000	1.15%~1.28%	From October 2016 to December 2021, repayments due day.
Long-term notes payable	695,285	0.62%~1.42%	From August 2018 to September 2021, repayments due day.
Subtotal	5,605,285		
Less: current portion	4,200,000		
Total	\$1,405,285		



**English Translation of Financial Statements Originally Issued in Chinese**

	As at 31 Dec. 2017	Interest Rate (%)	Maturity date and terms of repayment
Bank credit loans	\$8,500,000	1.15%~1.31%	From December 2015 to April 2020, repayment due day.
Bank secured loans	5,340,526	1.20%~5.70%	Including two of foreign borrowings of USD 16,200 thousand and USD34,000 thousand, respectively, from August 2017 to August 2021 and June 2017 to June 2021, repayment due day; two overseas loans of €16,880 thousand and €33,676 thousand, from August 2017 to August 2021 and from June 2017 to June 2021, repayment due day; two overseas loans of CNY 104,000 thousand and CNY 269,429 thousand, respectively, from July 2017 to July 2022 and from June 2014 to June 2021, the average of the principal amount of RMB 1,500 thousand was repaid in the semi-annual period from January 31, 2018, separate to nine period and repay at the tenth. The principal amount; from June 30, 2017, the principal of the principal is repaid at an average of RMB 5,000 thousand for eight periods, and the remaining amount of the principal is repaid in the ninth period.
Long-term notes payable	694,749	0.62%~1.42%	From August 2017 to April 2020, repayment due day.
Subtotal	14,535,275		
Less: current portion	59,566		
Total	<u>\$14,475,709</u>		

The mortgage first order is the partial inventory. Please refer to Note 8 of the pledged assets.

**(17) Retirement employment benefits**

**A. Defined contribution plan**

The defined contribution plan of the Group's Employee Retirement Plan is regulated according to the provisions of the Labor Pension Act. In accordance with the Act, contributions made by the employer cannot be lower than 6% of the participant's monthly wages. Therefore, The Group makes 6% contributions of the monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance on a regular basis.

## **English Translation of Financial Statements Originally Issued in Chinese**

Subsidiaries in China are required to pay pension insurance premiums according to the local government's laws and regulations, paying a certain proportion of the total salary of the employees. A Certain proportion of the total salary of the employees is paid to the relevant government department, and saved in separate accounts of each employee.

Other foreign subsidiaries of the Group provide pensions to relevant pension management undertakings in accordance with local laws and regulations.

For the years ended December 31, 2018 and 2017, the expenses related to defined contribution plan amounted to NT\$20,478 thousand and NT\$20,335 thousand respectively.

### **B. Defined benefits plan**

The defined benefit plan of the Group's Employee Retirement Plan is regulated according to the Labor Standards Act. 2. Retirement benefits are based on such factors as the employee's length of service and final pensionable salary. In accordance with the Act, 2 bases are given for each full year on the first 15 years of service and 1 base is given for each full year after 15 years of service. The total bases given shall not exceed 45. Under the retirement plan, the Group contributes monthly an amount equal to 2% of gross salary to the pension reserve fund, which is deposited into a designated depository account with the Bank of Taiwan. At the end of each year, if the balance in the designated labor pension reserve funds is inadequate to cover the benefit estimated to be paid in the following year, the Group should make up the difference before the end of March in the following year.

Safeguard and Utilization of the Labor Retirement Fund is regulated by the Ministry of Labor. Investment of the fund is made by outsourcing and self-management. A long-term investment strategy is adopted with both initiative and passive approach. Considering market risk, creditability and liquidity etc., the Ministry of labor has set limit for fund risk and risk management plan so that the target rate of return can be reached without excess exposure to risk. Because the Group is not authorized to manage the Fund, it cannot disclose the classification of the fair value of the plan asset according to IAS 19. As of December 31, 2018, the amount of contribution expected to be made in the following accounting year is NT\$9,825 thousand.

As at December 31, 2018 and 2017, the defined benefit plan of the Group was expected to be expired in 2033 and 2034.

Amounts to be recognized in profit or loss for the years ended 2018 and 2017 are summarized as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Current period service cost	\$9,330	\$9,896
Net interest on the net defined benefit liability (asset)	1,264	1,770
Subtotal	<u>\$10,594</u>	<u>\$11,666</u>

**English Translation of Financial Statements Originally Issued in Chinese**

Reconciliation of the present value of the defined benefit obligation and fair value of plan assets of the defined benefit plan is as follows:

	As of		
	December 31, 2018	December 31, 2017	January 1, 2017
Present value of defined benefit obligation	\$182,065	\$208,431	\$203,678
Fair value of plan assets	(89,715)	(87,021)	(66,131)
Other non-current liabilities — Accrued pension liabilities recognized on the balance sheets	\$92,350	\$121,410	\$137,547

Reconciliation of net defined benefit liabilities/assets:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liabilities (assets)
2017.01.01	\$203,678	\$(66,131)	\$137,547
Current service cost	9,896	-	9,896
Interest expense (income)	2,439	(669)	1,770
Subtotal	12,335	(669)	11,666
Remeasurement of defined benefit liabilities/assets			
Actual gains and losses arising from changes in financial assumptions	5,099	-	5,099
Experience adjustment	-	-	-
Return on plan assets	-	618	618
Subtotal	5,099	618	5,717
Payments from the plan	(12,681)	7,933	(4,748)
Contributions by employer	-	(28,772)	(28,772)
2017.12.31	208,431	(87,021)	121,410
Current service cost	9,330	-	9,330
Interest expense (income)	2,085	(821)	1,264
Subtotal	11,415	(821)	10,594
Remeasurement of defined benefit liabilities/assets			
Actual gains and losses arising from changes in financial assumptions	2,204	-	2,204
Experience adjustment	556	-	556
Return on plan assets	-	(8,129)	(8,129)
Subtotal	2,760	(8,129)	(5,369)
Payments from the plan	(40,541)	16,087	(24,454)
Contributions by employer	-	(9,831)	(9,831)
2018.12.31	\$182,065	\$(89,715)	\$92,350

## **English Translation of Financial Statements Originally Issued in Chinese**

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	December 31, 2018	December 31, 2017
Discount rate	0.84%~1.10%	0.91%~1.25%
Expected rate of salary increases	1.00%~2.50%	1.00%~2.50%

A sensitivity analysis for significant assumption as at December 31, 2018 and 2017 is, as shown below:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	\$-	\$8,196	\$-	\$10,476
Discount rate decrease by 0.5%	9,551	-	11,318	-
Future salary increase by 0.5%	9,192	-	10,710	-
Future salary decrease by 0.5%	-	7,855	-	10,071

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

### **(18) Common stock**

The Group had NT\$2,000,000 thousand authorized shares of which NT\$1,159,561 thousand shares were both issued as of December 31, 2018 and 2017, respectively, at par value of NT\$10. Each share has one vote and the right to receive dividends.

**English Translation of Financial Statements Originally Issued in Chinese**

**(19) Capital surplus**

	As of	
	December 31,	December 31,
	2018	2017
	NTD	NTD
Treasury share transactions	\$10,407	\$10,407
Others — Overdue dividends	15,376	7,656
Total	\$25,783	\$18,063

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

**(20) Retained earnings and non-controlling interests**

**A. Legal reserve**

According to the Company Act, the Company needs to set aside 10% amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

**B. Special reserve**

After the adoption of International Financial Reporting Standards, in accordance with Letter FSC No. 1010012865 issued by FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate a corresponding amount to special reserve same as the IFRS adjustment, in which case an entity elects to use exemption application specified in IFRS 1 and resets unrealized revaluation increment and cumulative translation differences under shareholders' equity to zero, and its retained earnings is being increased accordingly. However, if the retained earnings' arising from IFRS adjustment at the first-time adoption is insufficient, special reserve shall be appropriated by the amount that retained earnings increase from the IFRS adjustment.

## **English Translation of Financial Statements Originally Issued in Chinese**

At the first-time adoption of IFRSs, special reserve set aside by the company was NT\$504,189 thousand. As of 31 December 2018, there were no use, disposition or reclassification of related assets and there is no need to revolving special reserve to retained earnings.

### **C. Retained earnings and dividend policies**

Pursuant to the Company's Articles of Incorporation, current year's earnings, if any, shall be appropriated in the following order:

- (a) Payments of all taxes, if any
- (b) To offset prior year's deficit, if any
- (c) To set aside 10% of the remaining amount as legal reserve after deducting items (a) and
- (d) To set aside special reserve, if required
- (e) The remaining amount (the "appropriable after-dividend earnings"), if any, combination with prior year's accumulated unappropriated earnings is appropriated based on the appropriation of shareholders' bonuses plan drafted by the board of directors under the ordinary shareholders' meeting.

In response to the changes in the economy and the markets, the company is developing towards diversified investment to increase profitability. Considering long-term financial planning and cash flows, the dividend policy adopts the residual dividend policy for stable growth and sustainable operation. According to the company's operating plan, capital investment and the shareholders' demand for cash inflows, and avoiding excessive inflationary capital, the surplus distribution is given priority by cash dividends, and the stock dividends are also issued, but the cash dividend distribution ratio cannot less than 50% of the total dividend.

D. For the years ended 2017 and 2016, the details of earnings distribution and dividends per share resolved by the shareholder's meeting on June 8, 2018 and resolved by the shareholder's meeting on June 16, 2017, were as follows:

	Appropriation of earnings		Dividend per share	
	2017	2016	2017	2016
Legal reserve	\$144,464	\$301,791		
Common stock — cash dividend	1,391,473	1,739,342	\$1.2	\$1.5

E. Please refer to Note 6.24 for details of bonus to employees and directors.

**English Translation of Financial Statements Originally Issued in Chinese**

F. Non-controlling interests

	For the year ended December 31,2018	For the year ended December 31,2017
	NTD	NTD
Beginning balance	\$455,660	\$600,968
Net income (losses) attributed to the non-controlling interest	632,186	(203,013)
Other comprehensive income attributed to the non-controlling interest:		
Exchange differences resulting from translating the financial statements of a foreign operation	74,823	26,708
Remeasurements of defined benefit plans	(18)	21
Income tax (benefit) expense relating to items that will not be reclassified	3	-
Rights offering by subsidiary	4,982	38,401
Reduction of capital by subsidiary	(890,674)	-
Dividends distributing by subsidiary	(10,149)	(7,425)
Ending balance	\$266,813	\$455,660

**(21) Operating revenues**

	For the year ended December 31, 2018(Note)	For the year ended December 31, 2017
	NTD	NTD
Revenue from contracts with customers		
Rental income	\$642,772	\$711,877
Sales of buildings and land	12,400,858	10,191,672
Service income	1,147,342	1,242,683
Others	103,798	123,950
Total	\$14,294,770	\$12,270,182

Note: The Group has adopted IFRS 15 from 1 January 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

**English Translation of Financial Statements Originally Issued in Chinese**

The Group has adopted IFRS 15 from January 1, 2018. Analysis of revenue from contracts with customers during the year is as follows:

**A. Disaggregation of revenue**

For the year ended December 31, 2018

	Property and real estate Investment development department	Others	Total
Rental income	\$386,193	\$256,579	\$642,772
Sales of buildings and lands	12,400,858	-	12,400,858
Sales of goods	-	69,813	69,813
Service income	-	1,147,342	1,147,342
Others	-	33,985	33,985
Total	<u>\$12,787,051</u>	<u>\$1,507,719</u>	<u>\$14,294,770</u>
Revenue recognition point:			
At a point in time	\$12,400,858	\$1,251,140	\$13,651,998
Over time	386,193	256,579	642,772
	<u>\$12,787,051</u>	<u>\$1,507,719</u>	<u>\$14,294,770</u>

**B. Contract balances**

Contract liabilities — current

	Amount at beginning of period	Amount at end of period	Difference
Sales of goods	\$4,473,657	\$3,626,329	\$(847,328)
Service	31,229	25,283	(5,946)
Total	<u>\$4,504,886</u>	<u>\$3,651,612</u>	<u>\$(853,274)</u>

During the period, contract liabilities significantly decreased as performance obligations are partially satisfied and NT\$11,458,500 thousand included in the contract liability balance at the beginning of the period was recognized as revenue during the period, the remaining changing was the increase of unearned revenue during the period.

**C. Assets recognized from the revenue from contracts with customers**

	Amount at beginning of period	Amount at end of period	Difference
Sales of goods	<u>\$454,510</u>	<u>\$481,597</u>	<u>\$27,087</u>

The amortized amount of the incremental cost of the Group's acquisition of the contract on December 31, 2018 was NT\$213,332 thousand.



**English Translation of Financial Statements Originally Issued in Chinese**

**(22) Expected credit losses/ (gains)**

	For the year ended December 31, 2018	For the year ended December 31, 2017 (Note)
Operating expenses— Expected credit losses/ (gains)		
Accounts receivable	\$4,482	

Note: The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for information of credit risks.

The Group measures the loss allowance of receivables (including notes and accounts receivable) at an amount equal to lifetime expected credit losses. The explanation of the loss allowance measured for the the year ended December 31, 2018 is as follows:

The Group considers the grouping of accounts receivable by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix, details are as follow:

Group 1	Neither past due (Note 1)	Past due					Total
	Within 30 days	31-90 days	91-270 days	271- 365days	Over 365 days		
Gross carrying amount	\$468,017	\$4,377	\$3,474	\$9,531	\$-	\$-	\$485,399
Loss ratio	-	0.01%	0.05%	0.10%	0.15%	0.20%	
Lifetime expected credit losses	-	-	2	10	-	-	12
Subtotal	468,017	4,377	3,472	9,521	-	-	485,387
Group 2	Neither past due (Note 1)	Past due					Total
	Within 30 days	31-90 days	91-270 days	271- 365days	Over 365 days		
Gross carrying amount	18,591	-	-	4,218	5,537	4,625	32,971
Loss ratio	-	-	-	10%	30%	50%	
Lifetime expected credit losses	-	-	-	422	1,661	2,312	4,395
Subtotal	18,591	-	-	3,796	3,876	2,313	28,576
Loss of control (Note 2)	(17,836)	-	-	(3,796)	(3,876)	(2,313)	(27,821)
Total	\$468,772	\$4,377	\$3,472	\$9,521	\$-	\$-	\$486,142

Note 1: The Group's notes receivable is not overdue.

Note 2: The disposal of subsidiaries, please refer to 6.29

**English Translation of Financial Statements Originally Issued in Chinese**

For the year ended December 31, 2018, the movement in the provision for impairment of notes receivable and accounts receivable is as follows:

	<u>Receivables</u>
Beginning balance (in accordance with IAS 39)	\$-
Beginning adjusted retained earnings	-
Beginning balance (in accordance with IFRS 9)	-
Addition/(reversal) for the current period	4,482
Write off	-
Loss of control (Note)	(4,395)
Exchange differences	<u>(75)</u>
Ending balance	<u><u>\$12</u></u>

Note: The disposal of subsidiaries, please refer to 6.29

**(23) Operating lease**

A. Operating lease commitments – Group as lessee

The Group has rent an office by operating lease.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018, and 2017 are as follows:

	<u>For the year ended December 31, 2018</u>	<u>For the year ended December 31, 2017</u>
Not later than one year	\$444,043	\$375,110
Later than one year and not later than five years	1,602,781	1,335,147
Later than five years	<u>4,862,147</u>	<u>3,102,319</u>
Total	<u><u>\$6,908,971</u></u>	<u><u>\$4,812,576</u></u>

Operating lease expenses recognized are as follows:

	<u>For the year ended December 31, 2018</u>	<u>For the year ended December 31, 2017</u>
Minimum lease payments	<u><u>\$341,314</u></u>	<u><u>\$326,355</u></u>

**English Translation of Financial Statements Originally Issued in Chinese**

**B. Operating lease commitments – Group as lessor**

The Group has entered commercial property leases with remaining terms of between five and twenty years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Not later than one year	\$374,340	\$661,140
Later than one year and not later than five years	1,451,539	2,416,884
Later than five years	602,216	1,790,204
Total	<u>\$2,428,095</u>	<u>\$4,868,228</u>

**(24) Summary statement of employee benefits, depreciation and amortization expenses by function is as follows:**

Function Description	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Employee benefits expense						
Salaries and wages	\$259,528	\$294,720	\$554,248	\$250,751	\$274,088	\$524,839
Labor and health insurance	21,294	24,243	45,537	21,899	23,631	45,530
Pension	11,482	19,590	31,072	11,910	20,091	32,001
Other employee benefits expense	14,371	16,533	30,904	12,696	14,623	27,319
Depreciation and depletion	324,005	93,541	417,546	421,888	98,963	520,851
Amortization	5,425	10,361	15,786	4,833	12,670	17,503

According to the Company's Articles of Incorporation, 0.1% to 1% and lower than 1% of the profit of the period should be distributed as compensation for employees and directors' remuneration. However, if there is accumulated deficit, the deficit should be covered first. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition, there to a report of such distribution is submitted to the shareholders' meeting. Information on the board of directors' resolution regarding the employee compensation can be obtained from the "Market Observation Post System" on the website of the TWSE.

**English Translation of Financial Statements Originally Issued in Chinese**

The Company's employees' compensation and directors' remuneration was NT\$3,841 thousand and NT\$2,400 thousand, estimated as 0.1% to and lower than 1% of the Company's net profit and recognized as compensation for employees and directors' remuneration for the year ended December 31, 2018. The Company's the board of director's meeting on March 21, 2019, resolved to distribute NT\$3,841 thousand and NT\$2,400 thousand of employee's and director's compensation in cash.

The actual distribution of the employee compensation and remuneration to directors were NT\$1,376 thousand and NT\$2,400 thousand for the year ended 31 December 2017. There are no material differences exist between the estimated amount and the actual distribution.

**(25) Non-operating income and expenses**

**A. Other income**

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Interest income	\$7,297	\$4,338
Dividend income	152,719	119,656
Others	121,581	107,584
Total	<u>\$281,597</u>	<u>\$231,578</u>

**B. Other gains and losses**

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Gains (losses) on disposal and abandon of property, plant and equipment	\$(898)	\$449
Gains (losses) on disposal of investment	2,128,213	(847)
Foreign exchange gains (losses), net	43,310	(79,799)
Others	(24,529)	(53,391)
Total	<u>\$2,146,096</u>	<u>\$(133,588)</u>

**C. Finance costs**

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Interest on borrowings from bank	<u>\$133,801</u>	<u>\$245,368</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**(26) Components of other comprehensive income**

For the year ended December 31, 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans	\$5,369	\$-	\$5,369	\$(1,766)	\$3,603
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(493,136)	-	(493,136)	-	(493,136)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from translation of foreign operations	93,307	135,567	228,874	-	228,874
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(287)	-	(287)	-	(287)
Total of other comprehensive income	<u>\$ (394,747)</u>	<u>\$ 135,567</u>	<u>\$ (259,180)</u>	<u>\$ (1,766)</u>	<u>\$ (260,946)</u>

For the year ended December 31, 2017

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans	\$(5,717)	\$-	\$(5,717)	\$972	\$(4,745)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from translation of foreign operations	76,162	-	76,162	-	76,162
Unrealized gains (losses) from financial assets in available-for- sale	35,156	(349)	34,807	-	34,807
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(2,504)	-	(2,504)	-	(2,504)
Total of other comprehensive income	<u>\$ 103,097</u>	<u>\$ (349)</u>	<u>\$ 102,748</u>	<u>\$ 972</u>	<u>\$ 103,720</u>

**(27) Income taxes**

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

**English Translation of Financial Statements Originally Issued in Chinese**

The major components of income tax expense (income) were as follows:

Income tax expense (income) recognized in profit or loss

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Current income tax expense (income):		
Current income tax charge	\$40,155	\$123,589
Current land value increment tax charge	125,253	108,589
Adjustments in respect of current income tax of prior periods	44	2,651
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	191,589	(284,976)
Deferred tax expense (income) relating to changes in tax rate	(89,858)	-
Total income tax expense (income)	<u>\$267,183</u>	<u>\$(50,147)</u>

Income tax relating to components of other comprehensive income

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Deferred tax expense (income):		
Remeasurements of defined benefit plans	\$(1,074)	\$972
Deferred tax expense (income) relating to changes in tax rate	(692)	-
Total	<u>\$(1,766)</u>	<u>\$972</u>

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates was as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Accounting profit (loss) before tax from continuing operations	<u>\$4,508,980</u>	<u>\$1,191,478</u>
The parent company statutory income tax rate (tax rate of 20% per in 2018 ; tax rate of 17% per in 2017)	\$798,553	\$255,648
Tax effect of revenues exempt from taxation	(798,111)	(372,498)
Tax effect of non-deductible expense	20,025	15,268
Tax effect of deferred tax assets/liabilities	211,277	(157,672)
10% surtax on undistributed retain earnings	-	97,867
Adjustments in respect of current income tax of prior periods	44	2,651
Current land value increment tax	125,253	108,589
Deferred tax expense (income) relating to changes in tax rate	(89,858)	-
Total income tax expense (income) recognized in profit or loss	<u>\$267,183</u>	<u>\$(50,147)</u>

**English Translation of Financial Statements Originally Issued in Chinese**

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2018

		Deferred tax		
		Deferred tax	income (expense)	
		income (expense)	recognized in other	
	Beginning balance	recognized in	comprehensive	Ending balance as
	as at 1 Jan. 2018	profit or loss	income	at 31 Dec. 2018
Temporary differences				
Revaluations of investment property to fair value as deem cost at				
the date of transition to IFRS — land value increment tax	\$ (8,542)	\$ (1,507)	\$ -	\$ (10,049)
Revaluations of investment property to fair value as deem cost at				
the date of transition to IFRS	74,011	22,735	-	96,746
Depreciation difference for tax purpose — investment property	77,677	23,862	-	101,539
Depreciation difference for tax purpose of property, plants and				
Equipment — interest capitalization	1,933	496	-	2,429
Investments Accounted for Using Equity Method	245,427	(162,361)	-	83,066
Unrealized intragroup profits and losses	98	22	-	120
Allowance for loss	1,071	329	-	1,400
Allowance for loss of inventories price falling	1,630	27,035	-	28,665
Non-current liability – Defined benefit Liability	15,125	790	(1,766)	14,149
Accrued expenses over two years transfer to revenue	5	2	-	7
Unrealized advertising fee	84,658	10,594	-	95,252
Unrealized commission fee (Note)	12,176	(12,176)	-	-
Unrealized repairing fee	524	-	-	524
Unused tax credits	103,890	(11,554)	-	92,336
Deferred tax income/ (expense)		<u>\$ (101,733)</u>	<u>\$ (1,766)</u>	
Net deferred tax assets/(liabilities)	<u>\$ 609,683</u>			<u>\$ 506,184</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$ 618,225</u>			<u>\$ 516,233</u>
Deferred tax liabilities	<u>\$ (8,542)</u>			<u>\$ (10,049)</u>

Note: The Group has applied the IFRS15 from January 1, 2018 to adjust the beginning balance of deferred income tax assets of NT\$ 69,540 thousand. Please refer to Note 3 for details.

**English Translation of Financial Statements Originally Issued in Chinese**

For the year ended December 31, 2017

		Deferred tax		
		Deferred tax	income (expense)	
		income (expense)	recognized in other	
	Beginning balance	recognized in	comprehensive	Ending balance as
	as at 1 Jan. 2017	profit or loss	income	at 31 Dec. 2017
Temporary differences				
Revaluations of investment property to fair value as deem cost at				
the date of transition to IFRS — land value increment tax	\$ (8,542)	\$-	\$-	\$ (8,542)
Revaluations of investment property to fair value as deem cost at				
the date of transition to IFRS	41,117	32,894	-	74,011
Depreciation difference for tax purpose — investment property	43,154	34,523	-	77,677
Depreciation difference for tax purpose of property, plants and				
Equipment — interest capitalization	1,116	817	-	1,933
Investments Accounted for Using Equity Method	97,191	148,236	-	245,427
Unrealized intragroup profits and losses	58	40	-	98
Allowance for loss	595	476	-	1,071
Allowance for loss of inventories price falling	905	725	-	1,630
Non-current liability – Defined benefit Liability	9,065	5,088	972	15,125
Accrued expenses over two years transfer to revenue	3	2	-	5
Unrealized advertising fee	45,573	39,085	-	84,658
Unrealized commission fee	58,626	23,090	-	81,716
Unrealized repairing fee	524	-	-	524
Unused tax credits	103,890	-	-	103,890
Deferred tax income/ (expense)		\$284,976	\$972	
Net deferred tax assets/(liabilities)	\$393,275			\$679,223
Reflected in balance sheet as follows:				
Deferred tax assets	\$401,817			\$687,765
Deferred tax liabilities	\$ (8,542)			\$ (8,542)



## **English Translation of Financial Statements Originally Issued in Chinese**

The following table contains information of the unused tax losses of the Group:

Year	Tax losses for the period	Unused tax losses as of		Expiration year
		December 31, 2018	December 31, 2017	
		NTD	NTD	
2012	\$44,470	\$16,888	\$16,888	2022
2013	166,924	65,058	166,924	2023
2014	98,169	77,749	98,169	2024
2015	328,187	183,168	328,187	2025
2016	554,085	268,254	554,085	2026
2017	773,790	458,042	773,790	2027
2018	1,236,315	1,236,315	-	2028
		<u>\$2,305,474</u>	<u>\$1,938,043</u>	

### Unrecognized deferred tax assets

As of 31 December 2018, and 2017, deferred tax assets have not been recognized in respect of unused tax losses, unused tax credits and deductible temporary differences amounting to NT\$374,969 thousand and NT\$363,119 thousand, respectively, as the future taxable profit may not be available.

### Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's overseas subsidiaries, as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future. As of December 31, 2018, and 2017, the Group didn't have the taxable temporary differences associated with unrecognized deferred tax liabilities relating to the investment in subsidiaries.

### The assessment of income tax returns

As of December 31, 2018, the assessment of the income tax returns of the Company and its subsidiaries was as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2016
Subsidiary-Cathay Real Estate Management Co.,Ltd	Assessed and approved up to 2016
Subsidiary-Cathay Healthcare Management Co., Ltd	Assessed and approved up to 2016
Subsidiary-Cathay Hospitality Management Co.,Ltd	Assessed and approved up to 2016

**English Translation of Financial Statements Originally Issued in Chinese**

**(28) Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

In view of the companies did not issue a potential ordinary share with dilution, the Group doesn't have to dilute the amount of the basic earnings per share.

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Basic earnings per share		
Profit attributable to ordinary equity holders of the Company (in thousands)	\$3,609,611	\$1,444,638
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousand)	1,159,561	1,159,561
Basic earnings per share	\$3.11	\$1.25

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

**(29) Changes in parent's interest in subsidiaries**

Disposal shares of the subsidiaries

As of December 31, 2018:

For the whole business strategy and company financial planning considerations, the Group disposed of the entire shares of Golden Gate Investment Company Limited and Lotus Investment Company Limited on July 6; and jointly lost its control of Golden Gate Pacific Company Limited, Lotus Pacific Company Limited, Shanghai Lujing Real Estate Co., Ltd. and Jiaheng (Shanghai) Real Estate Co., Ltd. The sale price is US\$112,310 thousand (equivalent to NT\$3,403,779 thousand) and US\$70,222 thousand (equivalent to NT\$2,128,213 thousand) as the gain from disposal of investment. The exchange difference of the financial statements of foreign operating institutions is US\$4,473, thousand (equivalent to NT\$135,567 thousand), which is reclassified to the current profit and loss. As of December 31, 2018, the amount of accounts receivable and unpaid fees was US\$13,470 thousand (equivalent to NT\$408,235 thousand) and US\$7,600 thousand (equivalent to NT\$230,333 thousand).

## English Translation of Financial Statements Originally Issued in Chinese

In addition, the details of the carrying amount of assets and liabilities of Golden Gate Investment Company Limited and Lotus Investment Company Limited on July 6, 2018 are as follows:

	Book value
	Golden Gate Investment Company Limited
Cash and cash equivalent	\$10
Investments Accounted for Using Equity Method	707,689
Other payables — related parties	(811)
Net assets	<u>\$706,888</u>

  

	Book value
	Lotus Investment Company Limited
Cash and cash equivalent	\$35
Investments Accounted for Using Equity Method	202,943
Other payables	(200)
Net assets	<u>\$202,778</u>

## 7. RELATED PARTY TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

### Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
CCH REIM Company Limited (CCH REIM)	Associate
Tailin Management Consulting Limited (Tailin Consulting)	Associate
Cathay Life Insurance Co., Ltd. (Cathay Life Insurance)	Others
Cathay United Bank Co., Ltd. (Cathay United Bank)	Others
San Ching Engineering Co., Ltd. (San Ching Engineering)	Others
Lin Yuan Property Management Co., Ltd. (Lin Yuan Property)	Others
Cathay Century Insurance Co., Ltd. (Cathay Century Insurance)	Others
Symphox Information Co., Ltd. (Symphox Information)	Others
Seaward Card Co., Ltd. (Seaward Card)	Others
Nangang International One Co., Ltd. (Nangang One)	Others
Nangang International Two Co., Ltd. (Nangang Two)	Others
Individual	Others

**English Translation of Financial Statements Originally Issued in Chinese**

**Significant transactions with the related parties**

The Group's related party transactions amount, less than 3 million, don't be disclosed.

**(1) Cash in banks and short-term loan**

		As of Dec. 31, 2018			
Name of the related parties	Type	Maximum amount	Year ended balance	Interest rate (%)	Interest income (expenses)
Cathay United Bank	Demand deposit	\$8,822,992	\$1,076,036	0.05%	\$1,187
	Checking accounts	1,425,684	97,966	-	-
	Securities accounts	1,170,662	52,269	0.01%	7
	Time deposits	109,150	85,550	0.75%~1.02%	767
	Short-term loan	400,000	210,000	1.00%	-
		As of Dec. 31, 2017			
Name of the related parties	Type	Maximum amount	Year ended balance	Interest rate (%)	Interest income (expenses)
Cathay United Bank	Demand deposit	\$2,650,472	\$525,375	0.05%~0.23%	\$287
	Checking accounts	1,128,597	40,203	-	-
	Securities accounts	770,609	46,322	0.01%	8
	Time deposits	82,600	76,700	0.87%~1.12%	729
	Short-term loan	130,000	-	0.02%	(36)

**(2) Purchase**

		As of	
Name of the related parties	Type	Dec. 31, 2018	Dec. 31, 2017
San Ching Engineering	Building constructing or expansion	\$2,430,896	\$2,664,862
Cathay United Bank	Management fee of trust service	2,856	11,227
		<u>\$2,433,752</u>	<u>\$2,676,089</u>

A. The sales price to the above related parties was determined through agreement based on the market rates.

B. The total price of the commissioned construction and consultancy contracts signed by The Group and San Ching Engineering was NT\$11,899,255 thousand and NT\$ 11,069,132 thousand, respectively, for the year ended of 2018 and 2017.

**English Translation of Financial Statements Originally Issued in Chinese**

**(3) Sales**

A. Sales revenue

Name of the related parties	Type	As of	
		Dec. 31, 2018	Dec. 31, 2017
Individual	Sales of buildings and land	\$36,851	\$-

The transaction price and collection conditions above don't have significantly different from those of the general customers.

B. Rental Income

Name of the related parties	Type	As of	
		Dec. 31, 2018	Dec. 31, 2017
Cathay Life Insurance	Office and vehicles rental	\$8,056	\$8,739
Cathay United Bank	Office and vehicles rental	18,813	19,236
Total		\$26,869	\$27,975

The rental period is 2 to 5 years and collect rent monthly which were ruled by the contract.

C. Service revenue

Name of the related parties	As of	
	Dec. 31, 2018	Dec. 31, 2017
Cathay Life Insurance	\$34,866	\$27,368
Cathay United Bank	26,084	18,895
Symphox Information	9,315	9,430
Total	\$70,265	\$55,693

The subsidiary company Cathay Healthcare Management provides health inspection services and Cathay Hospitality provides housing services.

**(4) Accounts payable – related parties**

The debt between the Group and the related parties (Both uninterested) are as follows:

Name of the related parties	As of	
	Dec. 31, 2018	Dec. 31, 2017
San Ching Engineering	\$590,101	\$263,394
Cathay Life Insurance	4,556	1,569
Total	\$594,657	\$264,963

**English Translation of Financial Statements Originally Issued in Chinese**

**(5) Others**

A. Refundable deposits

Name of the related parties	Type	As of	
		Dec. 31, 2018	Dec. 31, 2017
Cathay Life Insurance	Rent deposit	\$23,468	\$18,902

B. Guarantee deposit received

Name of the related parties	Type	As of	
		Dec. 31, 2018	Dec. 31, 2017
Cathay United Bank	Rent deposit	\$4,608	\$4,549

C. Construction in progress

As of December 31, 2018, the case for the Minsheng Jingguo Building, the payment to the Cathay Life Insurance Co., Ltd. is NT\$67,486 thousand, the account is listed under the inventory construction in progress.

**(6) Other income**

Name of the related parties	Items	As of	
		Dec. 31, 2018	Dec. 31, 2017
Cathay Life Insurance	Management fee and planning fee	\$3,688	\$3,927
Cathay United Bank	Management fee and planning fee	4,839	4,909
Nangang One	Consultancy service	14,080	7,040
Nangang Two	Consultancy service	17,920	8,960
Total		\$40,527	\$24,836

**(7) Operating costs**

Name of the related parties	Items	As of	
		Dec. 31, 2018	Dec. 31, 2017
Lin Yuan Property	Management and repairing fee	\$45,976	\$41,100
Cathay Century Insurance	Insurance fee	6,383	4,313
Cathay Life Insurance	Rental expenses	180,551	181,243
Cathay Life Insurance	Management fee	60,528	59,584
Symphox Information	Others	3,452	3,534
Tailin Consulting	Consultancy fee	9,573	15,804
Total		\$306,463	\$305,578

**English Translation of Financial Statements Originally Issued in Chinese**

**(8) Rental expenses**

Name of the related parties	Type	As of	
		Dec. 31, 2018	Dec. 31, 2017
Cathay Life Insurance	Office renting	\$55,058	\$54,812

**(9) Operating expenses**

Name of the related parties	Items	As of	
		Dec. 31, 2018	Dec. 31, 2017
CCH REIM	Service fee	\$15,410	\$61,264
Seaward Card	Temporary worker service	3,094	3,596
Cathay Life Insurance	Insurance and selling expenses	10,866	6,563
San Ching Engineering	Service fee	6,173	381
Total		\$35,543	\$71,804

**(10) Property transactions**

Details of the company and its subsidiaries transacting equipment to related parties are as follows:

For the year ended Dec. 31, 2018			
Date	Name of the related parties	Subject matter	Purchasing price
August, 2018	Cathay Life Insurance	Business facilities for building	\$452,540

For the year ended Dec. 31, 2017			
Date	Name of the related parties	Subject matter	Purchasing price
		None	

**(11) Key management personnel compensation**

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Short-term employee benefits	\$52,063	\$45,332
Post-employment benefits	1,034	886
	\$53,097	\$46,218

**English Translation of Financial Statements Originally Issued in Chinese**

**8. PLEDGED ASSETS**

The following assets were pledged to banks as collaterals for bank loans:

Items	As of		Secured liabilities
	December 31, 2018	December 31, 2017	
	NTD	NTD	
Inventories	\$5,320,359	\$7,053,639	Long-term loan
Investment property	8,057,172	11,319,737	Long-term loan
Total	<u>\$13,377,531</u>	<u>\$18,373,376</u>	

Pledged or mortgaged assets are expressed in dollars.

**9. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES**

**(1) Significant contract**

Except for Note 7.2. as of December 31, 2018, the total contract price of the construction contracts signed by the Group and non-related parties was NT\$6,808,888 thousand, and the total amount of NT\$3,567,761 thousand was not paid.

**(2) Others**

Guarantee notes issued for borrowings (financing) were NT\$42,436,890 thousand as of December 31, 2018.

**10. SIGNIFICANT DISASTER LOSSES**

None.

**11. SIGNIFICANT SUBSEQUENT EVENTS**

None.

**12. OTHERS**

**(1) Categories of financial instruments**

Financial Assets	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Financial assets at fair value through other comprehensive income	\$4,258,837	(Note 1)
Available-for-sale financial assets (Note 2)	(Note 1)	\$4,720,814
Financial assets at amortised cost (Note 3)	2,529,129	(Note 1)
Loans and receivables (Note 4)	(Note 1)	1,541,914
Total	<u>\$6,787,966</u>	<u>\$6,262,728</u>



**English Translation of Financial Statements Originally Issued in Chinese**

Financial Liabilities	As of	
	December 31,	December 31,
	2018	2017
	NTD	NTD
Financial liabilities at amortized cost:		
Short-term borrowings	\$8,715,000	\$5,779,000
Short-term notes and bills payable	260,000	879,529
Accounts payables	1,801,378	1,343,220
Bonds payable	3,000,000	3,000,000
Long-term borrowings (including current portion)	5,605,285	14,535,275
Guarantee deposit received	142,239	202,291
Total	\$19,523,902	\$25,739,315

Note:

1. The Group adopted IFRS 9 since January 1, 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.
2. Balances as at December 31, 2017 both include financial assets measured at cost.
3. Including cash and cash equivalents, notes receivable, accounts receivable and other receivables.
4. Including cash and cash equivalents, notes receivable, accounts receivable and other receivables.

**(2) Financial risk management objectives and policies**

The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the above-mentioned risks based on the Group's policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies always.

**(3) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market price. Market risk comprises currency risk, interest rate risk and other price risk (such as equity instrument).

## **English Translation of Financial Statements Originally Issued in Chinese**

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, and there are usually interdependencies between risk variables. However, the sensitivity analysis disclosed below does not consider the interdependencies between risk variables.

### **Foreign currency risk**

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investments in foreign subsidiaries. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as at the end of the reporting period. The Group's foreign currency risk is mainly related to the volatility in the exchange rates for a foreign currency: US dollars and CNY. The information of the sensitivity analysis is as follows:

- A. When NTD strengthens/weakens against US dollars by 5%, the equity for the year ended December 31, 2018 and 2017 is decreased/increased by NT\$110 thousand and NT\$1,463 thousand, respectively.
- B. When NTD strengthens/weakens against CNY by 5%, the equity for the year ended December 31, 2018 and 2017 is decreased/increased by NT\$0 thousand and NT\$16 thousand, respectively.
- C. When NTD strengthens/weakens against EUR by 5%, the equity for the year ended December 31, 2018 and 2017 is decreased/increased by NT\$0 thousand and NT\$89,964 thousand, respectively.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's investments with bank borrowings with variable interest rates.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit to decrease/increase by NT\$8,975 thousand and NT\$6,659 thousand for the years ended December 31, 2018 and 2017, respectively.

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed equity securities and unlisted equity securities are classified under held for financial assets at fair value through other comprehensive income. (available-for-sale financial assets as of December 31, 2017) The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments.

When the price of the listed equity securities at fair value through other comprehensive income increases/decreases 5%, it could have impacts of NT\$101,834 thousand for the year ended December 31, 2018, on the profit/loss or equity attributable to the Group. When the price of the unlisted equity securities at fair value through other comprehensive income increases/decreases 10%, it could have impacts of NT\$5,262 thousand for the year ended December 31, 2018, on the equity attributable to the Group.

When the price of the unlisted equity securities classified as available-for-sale decreases 10%, it could have impacts of NT\$4,424 thousand for the year ended December 31, 2017, on the equity attributable to the Group. When the price of the listed equity securities classified as available-for-sale decrease 5%, it could have impacts of NT\$101,834 thousand for the year ended December 31, 2017, on the profit/loss or equity attributable to the Group. An increase of 5% in the value of the listed securities would only impact equity but would not influence profit or loss.

**(4) Credit risk management**

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain counter parties' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2018, and 2017, accounts receivable from top ten customers represented low percentage of the total accounts receivable of the Group, respectively. The credit concentration risk of other accounts receivable is insignificant.

**English Translation of Financial Statements Originally Issued in Chinese**

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury department in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counterparties.

**(5) Liquidity risk management**

The Group's objective is to maintain a balance between continuity of funding and flexibility using cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

**Non-derivative financial instruments**

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
December 31, 2018					
Borrowings	\$13,224,350	\$1,413,817	\$-	\$-	\$14,638,167
Accounts payable	1,801,378	-	-	-	1,801,378
Bonds payable	-	3,042,000	-	-	3,042,000
Guarantee deposits	34,516	30,156	16,980	60,587	142,239
	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
December 31, 2017					
Borrowings	\$6,718,095	\$9,744,896	\$5,053,676	\$-	\$21,516,667
Accounts payable	1,343,220	-	-	-	1,343,220
Bonds payable	-	3,042,000	-	-	3,042,000
Guarantee deposits	113,382	21,395	16,174	51,340	202,291

**(6) Reconciliations of the liabilities from financing activities**

Reconciliations of the liabilities for the year ended December 31, 2018:

	<u>Short-term loans</u>	<u>Short-term notes and bills payable</u>	<u>Long-term loans (including current portion)</u>	<u>Total liabilities from financing activities</u>
2018.1.1	\$5,779,000	\$879,529	\$14,535,275	\$21,193,804
Cash flows	2,936,000	(619,529)	(3,785,554)	(1,469,083)
Loss of control	-	-	(5,144,436)	(5,144,436)
2018.12.31	<u>\$8,715,000</u>	<u>\$260,000</u>	<u>\$5,605,285</u>	<u>\$14,580,285</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

Reconciliations of the liabilities for the year ended December 31, 2017:

Not applicable.

### **(7) Fair values of financial instruments**

A. The methods and assumptions applied in determining the fair value of financial instruments:

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- (a) The carrying amount of cash and cash equivalents, accounts receivables, accounts payables and other current liabilities approximate their fair value because of its shorter maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds) at the reporting date.
- (c) Fair value of other financial assets and liabilities are determined based on the discounted cash flow analysis. The assumption of interest rate and discount rate were based on relevant information of similar instrument and using interest rate yield curve for the contract period

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets (including loans and receivables) and liabilities measured at amortized cost approximate their fair value.

C. Fair value hierarchy

The following table provides financial instrument analysis information measured at fair value after the original recognition, and divide the fair value into the following three levels of disclosure:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liabilities.

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Stocks	<u>\$2,620,886</u>	<u>\$1,318,200</u>	<u>\$319,751</u>	<u>\$4,258,837</u>

## **English Translation of Financial Statements Originally Issued in Chinese**

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale financial assets				
Stocks	\$2,983,349	\$1,516,019	\$9,246	\$4,508,614

The group had no recurring assets and liabilities transfer between level 1 input and level 2 input for the year ended December 31, 2018 and 2017.

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

	Asset
	At fair value through other comprehensive income
	Stocks
2018.1.1	\$343,174
Amount recognized in OCI	(23,423)
Transfer from the level 3	-
2018.12.31	\$319,751
	Asset
	Available for-sale
	Stocks
2017.1.1	\$8,337
Amount recognized in OCI	909
Transfer from the level 3	-
2017.12.31	\$9,246

Total gains and losses recognized in profit or loss for the year ended 31 December 2018 and 2017 is the amount of NT\$(23,423) thousand and NT\$909 thousand, respectively.

### **Information on significant unobservable inputs to valuation**

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

## English Translation of Financial Statements Originally Issued in Chinese

As at December 31, 2018:

	Valuation technique	Material unobservable inputs	Quantitative information	Inputs and the fair value relationship	Inputs and the fair value relationship's sensitivity analysis value relationship
Financial assets :					
Financial assets at fair value through other comprehensive income					
Stocks	Market approach	Discount for lack of marketability	0%~30%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability would result in decrease (increase) in the Group's equity by NT\$22,309 thousand
Stocks	Assets approach	P/E ratio of similar entities	0%~30%	The higher the P/E ratio of similar entities, the higher the fair value of the stocks	10% increase (decrease) in the P/E ratio of similar entities would result in increase (decrease) in the Group's equity by NT\$16,401 thousand

As at December 31, 2017:

	Valuation technique	Material unobservable inputs	Quantitative information	Inputs and the fair value relationship	Inputs and the fair value relationship's sensitivity analysis value relationship
Financial assets :					
Available for-sale					
Stocks	Assets approach	P/E ratio of similar entities	0%~30%	The higher the P/E ratio of similar entities, the higher the fair value of the stocks	10% increase (decrease) in the P/E ratio of similar entities would result in increase (decrease) in the Group's equity by NT\$925 thousand

### **(8) Significant assets and liabilities denominated in foreign currencies**

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
Monetary items:						
USD	\$71	30.838	\$2,204	\$976	29.968	\$29,254
CNY	-	-	-	70	4.582	322
Financial liabilities						
Monetary items:						
EUR	-	-	-	50,556	35.59	1,799,276

**(9) Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value. The Group manages its capital structure and adjusts it, considering changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

**13. OTHER DISCLOSURE**

**(1) Significant transaction information**

- A. Financings provided to others: None.
- B. Endorsement/guarantee provided to others: Please refer to schedule 1.
- C. Securities held as of December 31, 2018 (not including subsidiaries, associates and joint ventures): Please refer to schedule 2.
- D. Individual securities acquired or disposed of with accumulated amount exceeding NT\$300 million or 20 % of the Company's capital stock: None.
- E. Acquisition of property with the amount exceeding NT\$300 million or 20% of the Company's paid-in capital: Please refer to schedule 3.
- F. Disposal of property with amount exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- G. Purchases or sales of goods from or to related parties exceeding NT\$100 million or 20% of the Company's paid-in capital or more: Please refer to schedule 4.
- H. Receivables from related parties with amounts exceeding NT\$100 million or 20% of the Company's paid-in capital: None.
- I. Derivative financial instruments undertaken: None.
- J. Significant intercompany transactions between consolidated entities: Please refer to schedule 5.



**(2) Investee information**

- A. Financings provided to others: None.
- B. Endorsement/guarantee provided to others: Please refer to schedule 1.
- C. Securities held as of December 31, 2018 (Investee information): Please refer to schedule 6.
- D. Individual securities acquired or disposed of with accumulated amount exceeding NT\$300 million or 20 % of the capital stock: Please refer to schedule 7.
- E. Acquisition of property with the amount exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- F. Disposal of property with amount exceeding NT\$300 million or 20% of the Company's paid-in capital: None.
- G. Purchases or sales of goods from or to related parties exceeding NT\$100 million or 20% of the Company's paid-in capital or more: None.
- H. Receivables from related parties with amounts exceeding NT\$100 million or 20% of the Company's paid-in capital: None.
- I. Derivative financial instruments undertaken: None.
- J. Names, locations and related information of investee companies: Please refer to schedule 8.

**(3) Investment in Mainland China as of December 31, 2018**

Please refer to schedule 9.

**14. OPERATING SEGMENT INFORMATION**

**(1) Information about reportable segment profit or loss, assets and liabilities**

For management purposes, the Group is organized into business units based on its products and services and has two reportable segments as follows:

Movable property and real estate development department: The main businesses of the department are entrusted the manufacturer to build residential and commercial buildings for leasing or selling.

**English Translation of Financial Statements Originally Issued in Chinese**

The operating segment information does not summarize more than one operating segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, income taxes are managed on a group basis and are not allocated to operating segments.

The transfer prices between operating segments are on an arm's length basis in a manner like transactions with third parties.

Information for the year ended December 31, 2018

	Movable property and real estate development department	Others	Adjustment and eliminations	Consolidated Amount
Revenue				
External customer	\$12,787,051	\$1,507,719	\$-	\$14,294,770
Inter-segment	25,474	4,559	(30,033)	-
Total revenue	<u>\$12,812,525</u>	<u>\$1,512,278</u>	<u>\$(30,033)</u>	<u>\$14,294,770</u>
Interest expense	\$1,905	\$131,896	\$-	\$133,801
Depreciation and Amortization	191,330	242,043	(41)	433,332
Loss (gain) of investments accounted for using equity method	1,218,883	897,398	(2,129,426)	(13,145)
Other material non-cash items:				
Loss (gain) on disposal of investments	-	2,128,213	-	2,128,213
Dividend income	152,719	-	-	152,719
Segment profit	<u>\$3,834,808</u>	<u>\$2,803,598</u>	<u>\$(2,129,426)</u>	<u>\$4,508,980</u>
Assets				
Capital expenditure of non-current assets	\$11,190,073	\$1,834,418	\$(13,415)	\$13,011,076
Segment assets	<u>\$46,692,101</u>	<u>\$4,134,558</u>	<u>\$(2,055,271)</u>	<u>\$48,771,388</u>
Liabilities				
Investment Accounted for Using Equity Method(Credit)	\$(1,652,433)	\$(378,558)	\$2,033,129	\$2,138
Segment liabilities	<u>\$21,617,365</u>	<u>\$1,824,633</u>	<u>\$(12,159)</u>	<u>\$23,429,839</u>

**English Translation of Financial Statements Originally Issued in Chinese**

Information for the year ended December 31, 2017

	Movable property and real estate development department	Others	Adjustment and eliminations	Consolidated Amount
Revenue				
External customer	\$10,586,205	\$1,683,977	\$-	\$12,270,182
Inter-segment	23,879	8,559	(32,438)	-
Total revenue	<u>\$10,610,084</u>	<u>\$1,692,536</u>	<u>\$(32,438)</u>	<u>\$12,270,182</u>
Interest expense	\$5,342	\$240,026	\$-	\$245,368
Depreciation and Depletion	196,390	342,005	(41)	538,354
Loss (gain) of investments accounted for using equity method	(510,151)	(1,973,309)	2,480,541	(2,919)
Other material non-cash items:				
Loss (gain) on disposal of investments	(847)	-	-	(847)
Dividend income	119,656	-	-	119,656
Segment profit	<u>\$1,371,872</u>	<u>\$(2,660,935)</u>	<u>\$2,480,541</u>	<u>\$1,191,478</u>
Assets				
investments accounted for using equity method	\$1,505,488	\$6,025,587	\$(7,519,987)	\$11,088
Capital expenditure of non-current assets	9,092,905	5,073,359	(13,456)	14,152,808
Segment assets	<u>\$46,687,745</u>	<u>\$14,616,472</u>	<u>\$(7,543,029)</u>	<u>\$53,761,188</u>
Segment liabilities	<u>\$23,919,243</u>	<u>\$6,640,826</u>	<u>\$(23,043)</u>	<u>\$30,537,026</u>

Inter-segment revenues are eliminated upon consolidation and reflected in the ‘adjustments and eliminations’ section. All other adjustments and eliminations are part of detailed reconciliations presented further below.

**(2) Information on reconciliations of revenue, profit or loss, assets, liabilities and other material items of reportable segments:**

**A. Revenue:**

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Total revenue from reportable segments	\$12,812,525	\$10,610,084
Other revenue	1,512,278	1,692,536
Elimination of inter-segment revenue	(30,033)	(32,438)
Total revenue	<u>\$14,294,770</u>	<u>\$12,270,182</u>

**English Translation of Financial Statements Originally Issued in Chinese**

B. Profit or loss:

	For the year ended December 31, 2018	For the year ended December 31, 2017
	NTD	NTD
Net income from reportable segments	\$3,834,808	\$1,371,872
Other profit	2,803,598	(2,660,935)
Elimination of inter-segment profit	(2,129,426)	2,480,541
Net income from continuing operations	<u>\$4,508,980</u>	<u>\$1,191,478</u>

C. Assets:

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Total assets of reportable segments	\$46,692,101	\$46,687,745
Other assets	4,134,558	14,616,472
Adjustment and elimination	(2,055,271)	(7,543,029)
Segment assets	<u>\$48,771,388</u>	<u>\$53,761,188</u>

D. Liabilities:

	As of	
	December 31, 2018	December 31, 2017
	NTD	NTD
Total liabilities of reportable segments	\$21,617,365	\$23,919,243
Other liabilities	1,824,633	6,640,826
Adjustment and elimination	(12,159)	(23,043)
Segment liabilities	<u>\$23,429,839</u>	<u>\$30,537,026</u>

E. Other material items:

For the year ended December 31, 2018

	Reportable segments	Others	Adjustment	Consolidated
Interest revenue	\$734	\$6,563	\$-	\$7,297
Interest expense	1,905	131,896	-	133,801
Capital expenditure for non-current assets	11,190,073	1,834,418	(13,415)	13,011,076
Depreciation and Amortization	191,330	242,043	(41)	433,332

**English Translation of Financial Statements Originally Issued in Chinese**

For the year ended December 31, 2017

	Reportable segments	Others	Adjustment	Consolidated
Interest revenue	\$1,556	\$2,782	\$-	\$4,338
Interest expense	5,342	240,026	-	245,368
Capital expenditure for non- current assets	9,092,905	5,073,359	(13,456)	14,152,808
Depreciation and Amortization	196,390	342,005	(41)	538,354

The reconciling item to adjust capital expenditures for non-current assets is the amount incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are material.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule1: Endorsement/guarantee provided to others

No. (Note1)	Endorser/ Guarantor	Receiving Party		Limit of the Endorsement / Guarantee Amount for Receiving Party	Maximum Balance for the Period	Ending Balance	Actual Amount Borrowed	Amount of Collateral	Percentage	Limit on the Endorsement/Gu arantee Amount	Parent Company Endorsed / Guaranteed for the Subsidiaries	Subsidiaries Endorsed/ Guaranteed for the Parent Company	Endorsement or Guarantee for Entities in China
		Company Name	Relationship (Note2)										
0	The company	Golden Gate Pacific Company Limited	3	\$7,522,421	1,714,465	\$-	\$-	\$-	-	\$15,044,842	Y	N	N
0	The company	Shanghai Lujing Real Estate Limited	3	7,522,421	880,372	-	-	-	-	15,044,842	Y	N	Y
1	Cathay healthcare management co.,Ltd	Hangzhou Kunning Health Consulting Limited	3	7,522,421	61,466	61,466	-	-	0.25%	15,044,842	Y	N	Y
A. Limit of the Endorsement / Guarantee Amount for Receiving Party : NT\$25,074,736 thousand *30%													
B. Limit on the Endorsement/Guarantee Amount : NT\$25,074,736 thousand*60%													

Note1 : The Company and its subsidiaries are coded as follows:

- (1) The Company is coded "0".
- (2) The subsidiaries are coded starting from "1" in the order.

Note2 : Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (1) Having business relationship.
- (2) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (3) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (4) The endorser/guarantor company and endorsed/guaranteed company both are owned directly or indirectly more than 50% voting shares by the company.
- (5) Mutual guarantee of the trade as required by the construction contract.
- (6) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

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

Schedule2: Securities held as of December 31, 2018 (not including subsidiaries, associates and joint ventures)

Company	Type and Name of the Securities (Note1)	Relationship	Financial Statement Account	As of December 31, 2018				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value	
The Company	Stock — Cathay Financial holdings Co., Ltd	Others	Financial assets at fair value through other comprehensive income—current	55,763,541	\$2,620,886	0.44%	\$2,620,886	
"	Stock — Lin Yuan Property Management Co., Ltd.	Others	Financial assets at fair value through other comprehensive income—non- current	300,000	8,904	10.00%	8,904	
"	Stock — Symphox Information Co., Ltd	Others	"	5,489,000	90,733	11.00%	90,733	
"	Stock — Taiwan Star Telecom Co., Ltd	None	"	195,000,000	1,318,200	4.63%	1,318,200	
"	Stock — Gong Cheng Industrial Co.	None	"	1,580,083	-	3.23%	-	
"	Stock — Gian Feng Investment Co., Ltd.	None	"	2,000,000	9,040	10.00%	9,040	
"	Stock — MetroWalk international Co., Ltd	None	"	3,448,276	55,966	1.72%	55,966	
"	Stock — Budworth Investments Limited	None	"	191,880	4,977	3.33%	4,977	
"	Stock — Nangang International One Co., Ltd.	Others	"	7,485,000	74,973	4.99%	74,973	
"	Stock — Nangang International Two Co., Ltd.	Others	"	7,485,000	74,858	4.99%	74,858	

Note1 : Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities, as defined in IFRS 9 "Financial Instruments".

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule3 Acquisition of property with the amount exceeding NT\$300 million or 20% of the Company's paid-in capital:

Unit : NT\$1,000

Company	Property Name	Transaction Date	Transaction Amount	Status of Payment	Counterparty	Relationship with the company	Disclosure of Information on Previous Transfer of Property is Required for Related Parties who are also the Counterparty				References for Determining Price	Purpose of Acquisition and Current Condition	Others
							Owner	Relationship with the Company	Date of Transfer	Amount			
The Company	No. 106, SihXin Section, Xindian District, New Taipei City	2018.05.17	\$1,763,914	Installment by agreement	New Taipei City Government	None	-	-	-	\$-	Internal assessment and approved by chairman	Construction	None
The Company	No. 25, Pingshi Section, Eastern District, Tainan City	2018.05.29	928,396	Installment by agreement	Tainan City Government	None	-	-	-	-	Internal assessment and approved by chairman	Construction	None
The Company	No. 212, Zhuxing Section, Beitun District, Taichung City	2018.11.22	844,083	Installment by agreement	Individual	None	-	-	-	-	Negotiation by two parties	Construction	None



English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule4: Purchases or sales of goods from or to related parties exceeding NT\$100 million or 20% of paid-in capital or more

Unit : NT\$1,000

Purchaser / Seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts payable		Note
			Purchases (Sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts payable	
The Company	San Ching Engineering Co., Ltd	Associate	Construction-in- progress	\$2,430,896	27.56%	N/A	\$-	-	\$590,101	51.43%	Residential building

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule 5: Significant intercompany transactions between consolidated entities

Unit : NT\$1,000

No. (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				Account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	The Company	Catahy Real Estate Management Co., Ltd	1	Deferred Credits-Gains on Inter-Affiliate Accounts	\$13,415	Regular	0.03%
0	The Company	Catahy Real Estate Management Co., Ltd	1	Realized gain from inter-affiliate accounts	41	Regular	-
0	The Company	Catahy Real Estate Management Co., Ltd	1	Cost of rental sales	4,200	Regular	0.03%
0	The Company	Catahy Healthcare Management Co., Ltd	1	Rent income	385	Regular	-
0	The Company	Catahy Healthcare Management Co., Ltd	1	Advertisement	49	Regular	-
0	The Company	Cathay Hospitality Management Co., Ltd	1	Rent income	25,041	Regular	0.18%
0	The Company	Cathay Hospitality Management Co., Ltd	1	Entertainment	309	Regular	-
0	The Company	Cathay Hospitality Consulting Co., Ltd	1	Rent income	49	Regular	-
0	The Company	Cathay Hospitality Consulting Co., Ltd	1	Accounts receivable — related parties	9	Regular	-
1	Catahy Real Estate Management Co., Ltd	The Company	2	Investment property — land	12,813	Regular	0.03%
1	Catahy Real Estate Management Co., Ltd	The Company	2	Investment property — buildings	847	Regular	-
1	Catahy Real Estate Management Co., Ltd	The Company	2	Accumulated Depreciation — Investment property	245	Regular	-
1	Catahy Real Estate Management Co., Ltd	The Company	2	Cost of rental sales	41	Regular	-
1	Catahy Real Estate Management Co., Ltd	The Company	2	Service income	4,200	Regular	0.03%
2	Catahy Healthcare Management Co., Ltd	The Company	2	Rent	385	Regular	-
2	Catahy Healthcare Management Co., Ltd	The Company	2	Service income	49	Regular	-
3	Cathay Hospitality Management Co., Ltd	The Company	2	Rent	4,580	Regular	0.03%
3	Cathay Hospitality Management Co., Ltd	The Company	2	Service income	309	Regular	-
3	Cathay Hospitality Management Co., Ltd	The Company	2	Guest room costs	20,461	Regular	0.15%
4	Cathay Hospitality Consulting Co., Ltd	The Company	2	Rent	49	Regular	-
4	Cathay Hospitality Consulting Co., Ltd	The Company	2	Other accrued expenses	9	Regular	-
3	Cathay Hospitality Management Co., Ltd	Cathay Hospitality Consulting Co., Ltd	3	Accounts receivable	874	Regular	-
4	Cathay Hospitality Consulting Co., Ltd	Cathay Hospitality Management Co., Ltd	3	Other accrued expenses	874	Regular	-

Note1 : The Company and its subsidiaries are coded as follows :

- (1) The Company is coded "0".
- (2) The subsidiaries are coded starting from "1" in the order.

Note2 : The Types of the transactions are coded as follows:

- (1) The Company to subsidiaries is coded "1".
- (2) Subsidiaries to The Company is coded "2".
- (3) Subsidiaries to Subsidiaries is coded "3".

Note3 : The calculation for the Percentage of consolidated total operating revenues or total assets, if it recognized to assets or liabilities and it should be calculated by the ending balance for the consolidated assets.  
If it recognized to profit or loss and it should be calculated by the ending balance for the consolidated revenue.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Real Estate Development Corporation Limited

Notes To Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

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

Schedule6: Securities held as of December 31, 2018 (Investee information)

Unit : NT\$1,000

Holding Company	Type and Name of the Securities(Note)	Relationship	Financial Statement Account	As of December,31 2018				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value	
Cathay hospitality management Co., Ltd	Stocks Nangang International One Co., Ltd.	Others	Financial assets at fair value through other comprehensive income–non-current	15,000	\$150	0.01%	\$150	
"	Stocks Nangang International Two Co., Ltd.	Others	"	15,000	150	0.01%	150	

Note : Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities, as defined in IFRS 9 “Financial Instruments”.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017

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

Schedule7: Individual securities acquired or disposed of with accumulated amount exceeding NT\$300 million or 20% of paid-in capital:

Unit : NT\$1,000

Company	Securities Category (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	As January 1, 2018		Purchase (Note 3)		Sell(Note 3)				As December 31, 2018	
					Shares	Amount	Shares	Amount	Shares	Price	Book Cost	Gain / Loss	Shares	Amount
CCH Commercial Company Limited	Lotus Investment Company Limited/ Stocks	Investments Accounted for Using Equity Method	New Oriental Retail Holdings Limited	None.	5	\$295,996 (USD 9,877)	-	\$-	5	\$3,403,779	\$202,778	\$2,128,213	-	\$-
	Golden Gate Investment Company Limited/ Stocks				5	783,477 (USD 26,144)	-	-	5		706,888		-	-

Note 1 : Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2 : If the securities listed above are investments accounted for using the equity method, fill in the second column.

Note 3 : The accumulated consideration of acquisition or sale should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4 : The Company's paid-in capital means the parent's paid-in capital. If the stock has no par value or the par value do not equal to NT\$10, according to the regulation of 20% paid-in capital transaction amount, the par value will be calculated by 10% of the total parent equity.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule8: Names, locations and related information of investee companies as of December 31, 2018 (excluding Mainland China)

Unit : NT\$1,000 ; USD\$1,000

Investor	Investee	Region	Main Business	Original cost		At the end of period			Investees company net income	Share of Profits/Losses	Note
				Balance at December 31, 2018	Balance at December 31, 2017	Number of shares	Percentage	Amount			
The Company	Cathay Real Estate Holding Corporation	British Virgin Islands	General trade and investing	\$597,409 (USD 21,052)	\$2,383,107 (USD 79,052)	21,051,891	100.00%	\$335,914	\$1,226,952	\$1,226,952	Subsidiary
The Company	Catahy Real Estate Management Co., Ltd	ROC	Construction management	50,000	50,000	5,000,000	100.00%	119,792	40,552	40,552	Subsidiary
The Company	Cathay Healthcare Management Co., Ltd	ROC	Consultancy	467,500	467,500	46,750,000	85.00%	553,758	86,972	73,927	Subsidiary
The Company	Cathay Hospitality Management Co., Ltd	ROC	Service industry	400,000	800,000	40,000,000	100.00%	239,895	(75,622)	(75,622)	Subsidiary
The Company	Cathay Hospitality Consulting Co., Ltd	ROC	Service industry	450,000	-	45,000,000	100.00%	403,074	(46,926)	(46,926)	Subsidiary
Cathay healthcare Management Co., Ltd	Cathay Healthcare Management Limited(BVI)	British Virgin Islands	General trade and investing	78,469 (USD 2,600)	63,115 (USD 2,100)	130,000	100.00%	14,156 (USD 459)	(40,892) USD (1,355)	-	Sub-subsiidiary
Cathay Real Estate Holding Corporation	CCH REIM Company Limited	Cayman Islands	Investing	20,120 (USD 687)	20,120 (USD 687)	100,000	50.00%	(2,138) USD (69)	(26,116) USD (865)	-	Joint venture
Cathay Real Estate Holding Corporation	CCH Commercial Company Limited	Cayman Islands	Investing	574,206 (USD 19,580)	2,355,734 (USD 77,580)	7,758	66.67%	338,233 (USD 10,968)	1,857,607 (USD 61,553)	-	Sub-subsiidiary
CCH Commercial Company Limited	Lotus Investment Company Limited	Cayman Islands	Investing	- (USD -)	1,198,888 (USD 40,331)	-	0.00%	- (USD -)	(107,583) USD (3,565)	-	Third-tier subsidiary
CCH Commercial Company Limited	Golden Gate Investment Company Limited	Cayman Islands	Investing	- (USD -)	1,817,517 (USD 60,900)	-	0.00%	- (USD -)	(97,663) USD (3,236)	-	Third-tier subsidiary
Golden Gate Investment Company Limited	Golden Gate Pacific Company Limited	Hong Kong	Business management	- (USD -)	1,817,414 (USD 60,897)	-	0.00%	- (USD -)	(97,593) USD (3,234)	-	Fourth-tier subsidiary
CCH REIM Company Limited	CCH REIM (HK) Company Limited	Hong Kong	Investing	474,138 (USD 15,187)	452,164 (USD 14,437)	10,722,620	100.00%	(4,874) USD (158)	(40,482) USD (1,341)	-	Joint venture
Lotus Investment Company Limited	Lotus Pacific Company Limited	Hong Kong	Business management	- (USD -)	1,196,804 (USD 40,301)	-	0.00%	- (USD -)	(107,510) USD (3,562)	-	Fourth-tier subsidiary
Cathay Healthcare Management Limited(BVI)	Cathay Healthcare Management Limited(Cayman)	Cayman Islands	Business management	78,469 (USD 2,600)	63,115 (USD 2,100)	130,000	100.00%	14,154 (USD 459)	(40,892) USD (1,355)	-	Third-tier subsidiary

Note 1: If a public company has holding company in other country and had issued consolidated financial statement under local regulations, about these investee could disclosed their holding company's relevant information.

Note 2: If not belong to Note 1, filled in by the following rules:

- (1) In "Investee", "Region", "Main Business", "Original cost" and "At the end of period" columns should filled in in order follow the company invest directly or invest indirectly and explain each relationship in "Note" column.
- (2) In "Investees company net income" column should filled in each investee net income.
- (3) In "Share of Profits/Losses" column only need to filled in the company recognized each subsidiaries and the company under equity method's profits or loss.

Make sure it had contained each subsidiaries had contained their investee profit or loss in their net income.

English Translation of Financial Statements Originally Issued in Chinese  
Cathay Real Estate Development Corporation Limited  
Notes To Consolidated Financial Statements  
For the Years Ended December 31, 2018 and 2017  
(Amounts expressed in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Schedule9: Investment in Mainland China as of December 31, 2018

Unit : NT\$1,000 ; USD\$1,000

Investee company	Main Businesses	Total Amount of Paid-in Capital	Method of Investment (Note1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Investees company net income	Percentage of Ownership	Share of Profits/Losses (Note2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow (Note3)						
Tailin Management Consulting (Shanghai) Limited	Business management	\$225,604 (USD 7,300)	(2) CCH REIM (HK) Company Limited	\$8,945 (USD 300)	\$-	\$-	\$8,945 (USD 300)	\$(40,023)	50%	\$(20,012) (b).(2)	\$(114,036)	-
Jiaheng (Shanghai) Real Estate Limited	Investing	1,971,132 (USD 66,628)	(2) Lotus Pacific Company Limited	1,314,088 (USD 44,419)	-	1,156,397 (USD 39,089)	157,691 (USD 5,330)	(101,368)	66.67%	(67,582) (b).(2)	-	-
Shanghai Lujing Real Estate Limited	Investing	2,064,902 (USD 69,057)	(2) Golden Gate Pacific Company Limited	2,370,121 (USD 79,583)	-	2,085,706 (USD 70,033)	284,415 (USD 9,550)	(63,326)	66.67%	(42,219) (b).(2)	-	-
Hangzhou Kunning Health Consulting Limited.	Consultancy	78,469 (USD 2,600)	(2) Cathay Healthcare Management Limited(Cayman)	63,115 (USD 2,100)	15,354 (USD 500)	-	78,469 (USD 2,600)	(40,892)	85%	(34,758) (b).(2)	12,031	-

Accumulated Investment in Mainland China	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$529,520 (USD17,780)	\$4,746,030 (USD 153,902)	\$15,044,842

Note1: The methods for engaging in investment in Mainland China include the following:

- (1) Directly invested in China
- (2) Investment in Mainland China companies through a company invested and established in a third region
- (3) Other method

Note2: Investees company net income:

- (a) If the investees is under preparation, should take note.
- (b) If the investees' net income is base on these three condition, should take note.
  - (1) The investes' finance statement has certification by the CPA firm in Taiwan which has partnership with international CPA firm.
  - (2) The investes' finance statement has certification by the parent company in Taiwan.
  - (3) Others.

Note3: Jiaheng (Shanghai) Real Estate Limited and Shanghai Lujing Real Estate Limited was loss of control due to the disposal of Lotus Investment Company Limited and Golden Gate Investment Company Limited by CCH Commercial Company Limited. Please refer 6.(29) for more details.