Stock Code: 2546

KEDGE CONSTRUCTION CO., LTD
and Subsidiaries

Consolidated Financial Statements and Independent Auditors' Report

Year 2019 and Year 2018

Address: 6F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City, Taiwan (R.O.C.)
Tel: (02)23786789

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.

Table of Contents

Statement of Declaration

In 2019 (from January 1, 2019 to December 31, 2019), pursuant to the Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations, the entities that must be included in preparing the consolidated financial statements covering affiliated enterprises are entirely the same as those that the International Financial Reporting Standards (IFRS) 10, endorsed by the Financial Supervisory Commission (FSC), requires to be included in preparing the consolidated financial report comprising the parent and its subsidiaries, and if the required disclosures to be made in the consolidated financial statements covering affiliated enterprises are already made in the consolidated financial report comprising the parent and its subsidiaries, then the consolidated financial statements covering affiliated enterprises need not be prepared.

Hereby declared

Company Name: Kedge Construction Co., Ltd.,

Chairman: Miriam Ma

Date: March 23, 2020

Independent Auditors' Report

To the Board of Directors of Kedge Construction Co., Ltd.,

Audit Opinion

We have audited the consolidated balance sheets of Kedge Construction Co., Ltd., and its subsidiaries ("the Kedge Group") as of December 31, 2019, and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the year 2019 and 2018 from January 1 to December 31, and notes to consolidated financial statements (including a summary on material accounting policies) for the years then ended.

In our opinion, the above consolidated financial report in all material aspects are in compliance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations and Interpretation Announcements endorsed and released effective by the Financial Supervisory Commission (FSC), and are sufficient to present the consolidated financial position of the Kedge Group as of December 31, 2019, and 2018, and its consolidated financial performance and consolidated cash flows for the year 2019 and 2018 from January 1, to December 31.

Foundation of Audit Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and Generally Accepted Auditing Standards. Our responsibility under those standards will be further described in the section titled "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements". Following the code of professional ethics of accountants, the persons subject to the independence standards of our affiliated accounting firm have maintained their independence from the Kedge Group and fulfilled other responsibilities of the standards. We are convinced that we have acquired enough and appropriate audit evidence to serve as the foundation of the audit opinion.

Key Audit Matters

In our professional judgment, key audit matters refer to the most substantial matters in the audit of the consolidated financial statements of the Kedge Group for the year ended December 31, 2019. These matters were addressed in our audit of the consolidated financial report as a whole and forming our audit opinion. We do not express a separate opinion on these matters. In our judgment, key audit matters that shall be communicated in the audit report are as follows:

I. Construction Contracts

For accounting policies regarding construction contracts, please refer to Note 4 (14) of the consolidated financial statements for revenue recognition. For accounting estimates and hypothetical uncertainties of estimated total contract costs for construction contracts, please refer to Note 5 of the consolidated financial statements. For details of revenue recognition, please refer to Note 6 (16) of the consolidated financial statements for revenue from customer contracts.

Description of Key Audit Matters:

The change of the total contract price of the construction contract, such as the addition and reduction of the construction and the price index subsidy, involves a high degree of judgment by management. The miscalculation of gross contract revenue may cause significant changes in profit and loss during the financial reporting period, and therefore there are significant risks. Also, the Kedge Group recognizes the revenue and cost of contracts under construction according to the percentage of completion method, while the degree of completion is calculated based on the proportion of the incurred contract cost to the estimated total contract cost as of the financial reporting date. The total cost of the construction contract involves a high degree of estimation and judgment of the management, and the miscalculations disclosed above may cause significant differences in the timing of recognition for profit and loss and the current financial statements.

Corresponding Audit Procedures:

Our main audit procedures regarding the aforementioned key audit matters included the following:

- Test the internal control and implementation effectiveness of the contract and collection; obtain the detail list of addition and reduction of the total contract price of each construction for the current period; randomly check the external documents such as the contract, agreement, owner's communication or site coordination meeting minutes, as well as the valuation information of each period the condition of the owner's acceptance.
- Test and evaluate the effectiveness of the internal control system and implementation of procurement contracting and construction budgeting operations; randomly check external documents such as construction price lists, contracts, daily construction reports, invoices, and construction budgets, and check with construction budgets to verify the appropriateness of collection and accumulation of the construction type; randomly evaluate the preparation process of the construction budget of the management team and checks the pricing information of each period to calculate the percentage of completion of the construction; randomly check and execute the cut-off point test of the construction in progress for the period before and after the balance sheet date.

Other Matters

Kedge Construction Co., Ltd. has prepared the individual financial statements for the years ended in 2019 and 2018, for which we have already issued an audit report with an unqualified opinion for reference.

Responsibilities of the Management and Governing Body for the Consolidated Financial Report

It is the management's responsibility to fairly present the consolidated financial statements in compliance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations and Interpretation Announcements endorsed and released effective by the Financial Supervisory Commission (FSC) and to sustain essential internal controls respecting the preparation of the consolidated financial statements so as to ensure that there is no material misrepresentation in the consolidated financial statements due to fraud or error.

In the preparation of the consolidated financial statements, the responsibility of management also includes the assessment of the sustainability of the Kedge Group, disclosure of relevant matters, as well as the adoption of the accounting base for continuing operations, unless the management intends to liquidate the Kedge Group or terminate the business, or there is no practicable measure other than liquidation or termination of the business.

The governing body (including Supervisors) of the Kedge Group is responsible for supervising the financial reporting process.

Auditor's Responsibility for Auditing Consolidated Financial Statements

The purpose of our audit of the consolidated financial statements is to obtain reasonable assurance as to whether the consolidated financial statements as a whole contains any material untruthful expression that may lead to fraud or error, and to issue an independent auditors' report. Reasonable assurance is a high degree of assurance but is not a guarantee that an audit conducted in accordance with the Generally Accepted Auditing Standards will always detect the existence of any material misrepresentation in the consolidated financial statements. Misrepresentation may be due to fraud or error. It is considered to be material if the misrepresented individual amount or the aggregated total can be reasonably expected to affect the economic decisions made by the users of the consolidated financial statements.

When auditing in accordance with Generally Accepted Auditing Standards, we practice professional judgment and maintains professional suspicion. We also perform the following tasks:

1. Identify and assess the risks of material misrepresentation in the consolidated financial statements due to fraud or error. Design and implement applicable countermeasures for the assessed risks, as well as obtain sufficient and appropriate audit evidence as to the basis of audit opinions. Because fraud may involve collusion, forgery, intentional omission, untrue declaration or the override of internal control, the risk of not detecting the material misrepresentation caused by fraud is higher than that caused by the error.
2. To acquire the necessary understanding of internal control relevant to audit so as to design appropriate audit procedures under the circumstances, but its purpose is not to express opinions on the effectiveness of internal control of the Kedge Group.
3. Evaluate the appropriateness of accounting policies adopted and the reasonableness of accounting estimates and relevant disclosures made by management.
4. Based on the audit evidence obtained, conclude on the appropriateness of the accounting base for continuing operations adopted by the management and whether there is a material uncertainty in the events or circumstances that may cause material doubts about the sustainability of the Kedge Group for continuing operations. If we believe that there is a material uncertainty in such events or circumstances, we shall remind the users of the consolidated financial statements to pay attention to the relevant disclosure of the consolidated financial statements in the audit report or we shall amend the audit opinion when such disclosure is inadequate. Our conclusions are based on the audit evidence obtained as of the audit report date. However, future events or circumstances may result in the Kedge Group no longer having the ability to going concerned.

5. Evaluate the overall presentation, structure, and content of the consolidated financial statements (including relevant notes), and whether the consolidated financial statements fairly represent the underlying transactions and events.
6. Obtain sufficient and appropriate audit evidence concerning the financial information of entities within the Group to express opinions on the consolidated financial statements. We are responsible for the guidance, supervision, and implementation of the Group's audit cases, and for forming the Group's audit opinions.

The matters we communicate with the governance body include the planned audit scope and time, as well as material audit findings (including a significant lack of internal control identified in the audit process).

We also provide the governance body with a declaration that the persons subject to the independence standards of our affiliated accounting firm have complied with the code of professional ethics of accountants, and communicate with the governance body all relations and other matters (including relevant protective measures) that may affect the independence of CPAs.

From the matters communicated with the governance body, we conclude the key audit matters for the audit of the Kedge Group's consolidated financial statements for 2019. We state such matters in the audit report unless the law or regulation does not allow public disclosure of specific matters. Or in rare circumstances, we determine not to communicate specific matters in the audit report due to the reasonable probability that the negative impact of such communication is greater than the public interest.

KPMG

Taipei,Taiwan

Republic of China

March 23, 2020

Notices to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance 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 applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese language independent auditors' report and consolidated financial statements shall prevail.

KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries
Consolidated Balance Sheets
December 31, 2019 and 2018

Unit: NT$ thousands

Code	Assets	2019.12.31 Amount	%	2018.12.31 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Notes 6 (1) and (19))	$ 2,526,409	31	1,333,037	19
1110	Financial assets at fair value through profit or loss - current (Note 6 (2) and (19))	74,118	1	67,175	1
1140	Contract assets - current (Note 6 (16) and 7)	1,594,708	19	1,209,724	17
1170	Notes and accounts receivable - net amount (Note 6 (4), (16) and (19))	1,127,588	14	757,261	11
1180	Notes and accounts receivable - related parties net amount (Note 6 (16), (19) and 7)	1,913,375	23	2,636,648	38
1410	Prepayments	205,683	2	178,300	3
1470	Other current assets	22,524	1	20,731	-
1476	Other financial assets - current (Note 6 (19) and 8)	243,636	3	341,866	5
	-	7,708,041	94	6,544,742	94
	Non-current assets:				
1550	Investments accounted for using equity method (Note 6 (5))	20,506	-	20,505	1
1517	Financial assets measured at fair value through other comprehensive income - non-current (Note 6 (3) and (19))	344,872	4	221,861	3
1600	Property, plant and equipment (Note 6 (6) and 8)	63,116	1	63,438	1
1755	Right-of-use assets (Note 6 (8) and (11))	4,393	-	-	-
1760	Net investment property (Note 6 (7) and 8)	102,544	1	103,010	1
1840	Deferred tax assets (Note 6 (13))	24,060	-	20,985	-
1975	Net defined benefit assets - non-current (Note 6 (12))	1,361	-	-	-
1980	Other financial assets - non-current (Note 6 (19))	7,955	-	9,242	-
		568,807	6	439,041	6
	Total assets	**$ 8,276,848**	**100**	**6,983,783**	**100**

Code	Liabilities and equity	2019.12.31 Amount	%	2018.12.31 Amount	%
	Current liabilities:				
2100	Short-term loans (Note 6 (9), (19) and 8)	$ 150,000	2	-	-
2130	Contract liabilities - current (Note 6 (16))	988,111	12	960,840	14
2150	Notes payable (Note 6 (19))	361,911	4	394,924	6
2170	Accounts payable (Note 6 (19))	3,599,351	43	2,656,398	38
2200	Other payables (Note 6 (13) and (19))	258,940	3	246,844	4
2230	Current tax liabilities	50,362	1	86,775	1
2300	Other current liabilities (Note 6 (19))	18,850	-	23,045	-
	-	5,427,525	65	4,368,826	63
	Non-current liabilities:				
2552	Warranted long-term provisions (Note 6 (10))	102,482	1	79,261	1
2600	Other non-current liabilities (Note 6 (19))	5,719	-	2,719	-
2640	Net defined benefit liabilities - non-current (Note 6 (12))	-	-	55	-
	-	108,201	1	82,035	1
	Total Liabilities	5,535,726	66	4,450,861	64
	Equities attributable to owners of parent company (Note 6 (14)):				
3100	Share capital	1,060,357	13	1,060,357	15
3200	Capital surplus	518,241	6	518,208	7
3300	Retained earnings	1,036,204	13	951,056	14
3400	Other equity	126,159	2	3,177	-
	Total equity attributable to owners of parent company	2,740,961	34	2,532,798	36
36XX	Uncontrolled equity	161	-	124	-
	Total equity	2,741,122	34	2,532,922	36
	Total liabilities and equity	**$ 8,276,848**	**100**	**6,983,783**	**100**

(Please refer to the attached notes for the consolidated financial statements)

KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries
Consolidated Statements of Comprehensive Income
January 1 to December 31, 2019 and 2018

Unit: NT$ thousands

		2019		2018	
		Amount	**%**	**Amount**	**%**
4000	**Operating revenue (Note 6 (11), (16) and 7)**	$ 11,462,442	100	11,429,192	100
5000	**Operating costs (Note 6 (12) and 12)**	10,744,281	94	10,700,319	94
	Gross profit	718,161	6	728,873	6
	Operating expense:				
6200	**Administrative expenses (Note 6 (11), (12), (17), 7 and 12)**	247,780	2	226,054	2
	Net operating profit	470,381	4	502,819	4
	Non-operating income and expenses:				
7010	**Other incomes (Note 6 (18))**	24,635	1	26,715	1
7020	Other gains and losses (Note 6 (18))	7,027	-	(10,341)	-
7050	Financial Costs (Note 6 (18))	(2,130)	-	(2,002)	-
7060	Share of profit and loss of associates and joint ventures using equity method recognition (Note 6 (5))	1	-	8	-
		29,533	1	14,380	1
	Profit before tax from continuing operating department	499,914	5	517,199	5
7950	**Less: Income tax expense (Note 6 (13))**	97,558	1	109,686	1
	Net income	402,356	4	407,513	4
8300	**Other comprehensive income:**				
8310	**Items that will not be reclassified to profit or loss**				
8311	Remeasurement of defined benefit plans	907	-	571	-
8316	Unrealized profits and losses from investments in equity instruments measured at fair value through other comprehensive income	123,011	1	(897)	-
8300	**Other comprehensive income (net amount after tax)**	123,918	1	(326)	-
	Total comprehensive income (loss)	**$ 526,274**	**5**	**407,187**	**4**
	Net income attributable to:				
	Owners of the parent company	$ 402,348	4	407,506	4
8620	Non-controlling interest	8	-	7	-
		$ 402,356	**4**	**407,513**	**4**
	Total comprehensive income attributable to:				
	Owners of the parent company	$ 526,237	5	407,180	4
	Non-controlling interests	37	-	7	-
		$ 526,274	**5**	**407,187**	**4**
	Earnings per share (NT$) (Note 6 (15))				
9750	**Basic earnings per share (NT$)**	**$**	**3.79**		**3.84**
9850	**Diluted earnings per share (NT$)**	**$**	**3.79**		**3.83**

(Please refer to the attached notes for the consolidated financial statements)

KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries
Consolidated Statements of Changes in Equity
January 1 to December 31, 2019 and 2018

Unit: NT$ thousands

	Equity attributable to the owner of the parent company									
	Equity		Retained earnings			Other equity items				
	Share capital - ordinary share	Capital surplus	Legal capital surplus	Undistributed earnings	Total	Unrealized profit or loss of financial assets measured at fair value through other comprehensive income	Unrealized profit or loss of available-for-sale financial assets	Total equity attributable to owners of the parent	Non-controlling interest	Total equity
Balance as of January 1, 2018	$ 1,060,357	518,031	171,703	592,677	764,380	-	11,710	2,354,478	117	2,354,595
Adjustment for retrospective application of new standards	-	-	-	7,636	7,636	4,074	(11,710)	-	-	-
Balance after restatement as of January 1, 2018	1,060,357	518,031	171,703	600,313	772,016	4,074	-	2,354,478	117	2,354,595
Net income	-	-	-	407,506	407,506	-	-	407,506	7	407,513
Other comprehensive income	-	-	-	571	571	(897)	-	(326)	-	(326)
Total comprehensive income	-	-	-	408,077	408,077	(897)	-	407,180	7	407,187
Earnings appropriation and distribution:										
Provision for legal capital reserve	-	-	29,532	(29,532)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(229,037)	(229,037)	-	-	(229,037)	-	(229,037)
Past due cash dividends	-	177	-	-	-	-	-	177	-	177
Balance as of December 31, 2018	1,060,357	518,208	201,235	749,821	951,056	3,177	-	2,532,798	124	2,532,922
Net income	-	-	-	402,348	402,348	-	-	402,348	8	402,356
Other comprehensive income	-	-	-	907	907	122,982	-	123,889	29	123,918
Total comprehensive income	-	-	-	403,255	403,255	122,982	-	526,237	37	526,274
Earnings appropriation and distribution:										
Provision for legal capital surplus	-	-	40,751	(40,751)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(318,107)	(318,107)	-	-	(318,107)	-	(318,107)
Past due cash dividends	-	33	-	-	-	-	-	33	-	33
Balance as of December 31, 2019	**$ 1,060,357**	**518,241**	**241,986**	**794,218**	**1,036,204**	**126,159**	**-**	**2,740,961**	**161**	**2,741,122**

(Please refer to the attached notes for the consolidated financial statements)

KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries

Consolidated Statements of Cash Flows

January 1 to December 31, 2019 and 2018

Unit: NT$ thousands

	2019	2018
Cash flows from operating activities:		
Profit before tax	$ 499,914	517,199
Adjustments:		
Income and expenses item		
Depreciation expense	941	829
Net (profit) loss on financial assets or liabilities at fair value through profit or loss	(7,027)	6,455
Interest expense	2,130	2,002
Interest revenue	(6,289)	(13,606)
Dividend income	(12,870)	(7,728)
Share of profit of associates and joint ventures using equity method recognition	(1)	(8)
Total income and expense items	(23,116)	(12,056)
Movement of assets/liabilities relating to operating activities		
Net movement of assets relating to operating activities:		
Reduction of financial assets enforced at fair value through profit or loss	84	322
Decrease (increase) in contract asset	(384,984)	279,886
Increase in notes and accounts receivable	(370,327)	(107,887)
Notes and accounts receivable - decrease (increase) in related parties	723,273	(1,135,546)
Decrease (increase) in prepayments	(27,383)	21,802
Increase in other current assets	(1,793)	(4,414)
Decrease (increase) in other financial assets	98,707	(9,716)
Increase in non-current net defined benefit assets-	(1,361)	-
Total net movement of assets relating to operating activities	36,216	(955,553)
Total net movement of liabilities relating to operating activities		
Increase in contract liabilities	27,271	19,140
Increase (decrease) in notes payable	(33,013)	76,636
Increase in accounts payable	942,953	231,216
Increase in other payables	12,129	7,327
Increase in liability reserve	23,221	20,176
Increase (decrease) in other current liabilities	(4,317)	1,569
Increases (decreases) in net defined benefit liabilities	852	(576)
Increase (decrease) in other non-current liabilities	(1,305)	1,197
Total net movement of liabilities relating to operating activities	967,791	356,685
Total net movement of assets and liabilities relating to operating activities	1,004,007	(598,868)
Total adjustment items	980,891	(610,924)
Cash inflow (outflow) generated from operation	1,480,805	(93,725)
Interest collection	5,813	13,495
Dividends collection	12,870	7,728
Interest payment	(2,130)	(2,002)
Income tax payment	(137,046)	(67,464)
Net cash inflow (outflow) from operating activities	1,360,312	(141,968)
Cash flows from investing activities		
Decrease in other financial assets	1,287	2,907
Net cash inflow from investing activities	1,287	2,907
Cash flows from financing activities		
Increase in short-term loans	321,000	436,000
Decrease in short-term loans	(171,000)	(586,000)
Increase in short-term promissory notes payable	90,000	50,000
Decrease in short-term promissory notes payable	(90,000)	(100,000)
Repayment of lease principal amount	(120)	-
Cash dividend distribution	(318,107)	(229,037)
Net cash outflow from financing activities	(168,227)	(429,037)
Increase (decrease) in cash and cash equivalents	1,193,372	(568,098)
Opening balance of cash and cash equivalents of the period	1,333,037	1,901,135
Ending balance of cash and cash equivalents of the period	$ 2,526,409	1,333,037

(Please refer to the attached notes for the consolidated financial statements)

KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries
Notes to Consolidated Financial Statements
Year 2019 and Year 2018
(Unless otherwise stated, the unit for all amounts is in NT$ thousands.)

I. Company Overview

Kedge Construction Co., Ltd. (hereinafter referred to as "the Company") was established on April 13, 1982, with the approval of the Ministry of Economic Affairs, and its registered address is 6F., No. 131, Sec. 3, Heping E. Rd., Taipei City, Taiwan. The main business items of the Company and its subsidiaries (hereinafter referred to as "the Consolidated Company") are comprehensive construction and the development, lease, sale, etc. of housing and building.

II. The Approval Date and Procedures of the Financial Report

The consolidated financial statements have been approved and released by the Board of Directors on March 23, 2020.

III. Application of Newly Issued and Revised Standards and Interpretations

(I) The Impact of Adopting Newly Released and Revised Standards and Interpretations Endorsed by the Financial Supervisory Commission

The Consolidated Company has fully adopted the International Financial Reporting Standards (IFRS) endorsed by the Financial Supervisory Commission (hereinafter referred to as the "FSC") and effective in 2019 to prepare the consolidated financial statements since 2019. Relevant newly issued, amended, and revised standards and interpretations are summarized as follows:

Newly issued, amended, and revised standards and interpretations	The effective date of International Accounting Standards (IAS) issued by the Board of Directors
IFRS 16 "Lease"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
Annual Improvements to IFRS 20152017-	January 1, 2019

Except for the following items, the application of the newly endorsed IFRSs will not result in a material impact on the consolidated financial statements. The nature and impact of material changes are as follows:

IFRS 16 "Lease"

IFRS 16 "Leases" (hereinafter referred to as IFRS 16) replaces existing IAS 17 "Leases" (hereinafter referred to as IAS 17), the International Financial Reporting Interpretations Committee (IFRIC) 4 “Determining whether an Arrangement Contains a Lease” (hereinafter referred to as IFRIC 4), IFRIC 15 "Operating Leases: Incentives” and IFRIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease."

The Consolidated Company adopts the amended retrospective method to transition to IFRS 16 and adjusts the accumulated effects for the first time to the retained earnings on January 1, 2019. The nature and impact of changes in relevant accounting policies are as follows:

(1) Definition of Lease

The Consolidated Company has previously judged whether an agreement belongs to or includes a lease on the contract start date by IFRIC 4. After the change of accounting policy, the lease definition of IFRS 16 is applied to evaluate whether the contract belongs to or includes a lease. See note 4 (11) for details of relevant accounting policies.

At the time of transition to IFRS 16, the Consolidated Company chooses to adopt the expedient approach to exempt from evaluating whether the transaction before the initial application date is a lease, that is, to directly apply the provisions of IFRS 16 to the contract previously identified as a lease. Contracts that have previously been identified as non-lease under IAS 17 and IFRIC 4 will not be reevaluated as leases. Therefore, the definition of a lease under IFRS 16 only applies to contracts signed or changed on and after the initial application date.

(2) Lessee

The transaction in which the Consolidated Company is the lessee was previously classified according to whether the tenancy agreement has transferred almost all risks and remuneration attached to the ownership of the underlying asset. Under IFRS 16, the right-of-use assets and lease liabilities are recognized on the balance sheet for tenancy agreements.

The Consolidated Company chooses to apply for the exemption from the recognition of short-term lease, which was previously classified as an operating lease under IAS 17. During the transition period, the lease liability is measured by the surplus lease benefit at present value and discounted using the Incremental borrowing rate of interest of the Consolidated Company on the initial application date. The right-of-use asset is measured by the amount of the lease liabilities, and the amount of all prepaid or payable lease payments related to the lease is adjusted. The Consolidated Company applies this method to all leases other than those mentioned above.

Also, the Consolidated Company adopts the following expedient approach to transition to IFRS 16:

a. A single discount rate is adopted for the lease portfolio with similar characteristics.

b. For lease term ended within 12 months after the initial application date, the exemption is applicable without recognizing right-of-use assets and lease liabilities.

c. The original direct cost is not included in the measurement of right-of-use assets on the initial application date.

d. When a tenancy agreement contains the option for extension or termination, the hindsight is adopted in determining the lease term.

(3) Lessor

Except for subleasing, the Consolidated Company does not need to make any adjustment on the transition under IFRS 16 for the transaction, in which it is the lessor, but applies IFRS 16 to process its lease transaction from the initial application date.

Under IFRS 16, the classification of subletting should be evaluated based on right-of-use assets rather than underlying assets. Under IFRS 16, the classification of sublease should be evaluated based on right-of-use assets rather than underlying assets.

(4) Impact on Financial Statements

When transitioning to IFRS 16, the amount of right-of-use assets and lease liabilities recognized by the Consolidated Companies on the initial application date is $ 4,546,000. The lease liabilities are to discount the lease benefit at the incremental borrowing rate of interest on the initial application date of the Consolidated Company. The weighted average of the interest rate used is 1.69%.

The commitment amount of operating lease disclosed in the year before the initial application date and the amount of the lease liabilities recognized on the initial application date are reconciled as follows:

	2019.1.1
The commitment amount of operating lease disclosed in the consolidated financial statements as of Dec. 31, 2018	$ 2,425
The exercise of an option to extend or terminate the lease can be reasonably determined	3,395
	5,820
Amount discounted at incremental borrowing rate of interest as of Jan.1, 2019	$ 4,546
Amount of financial lease obligations recognized as of Dec. 31, 2018	-
Amount of lease liabilities recognized as of Jan.1, 2019	**$ 4,546**

(II) Impacts for yet to adopt IFRS Endorsed by FSC

According to the Financial-Supervisory-Securities-Auditing Order No. 1080323028 of FSC on July 29, 2019, the aforementioned public offering companies shall fully adopt the IFRS endorsed by FSC and effective in 2020. Relevant newly issued, amended, and revised standards and interpretations are summarized as follows:

Newly issued, amended, and revised standards and interpretations	Effective date of issuance by the Board
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
IFRS 9, Amendments to IAS 39 and IFRS 7 "Interest Rate Index Reform"	January 1, 2020
Amendment to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Consolidated Company has assessed that the application of the above newly endorsed IFRS will not result in material variations to the consolidated financial statements.

(III) The Newly Released and Revised Standards and Interpretations Have not yet Endorsed by FSC.

The following table lists the standards and interpretations released and revised by the International Accounting Standards Board (hereinafter referred to as the Board) but not yet approved by the FSC:

Newly issued, amended, and revised standards and interpretations	Effective date of issuance by the Board
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be decided by the Board
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classify Liabilities as Current or Non-current"	January 1, 2022

The Consolidated Company is in the process of evaluating the impact of the above standards and interpretations on its financial condition and operating performance, and it will disclose relevant impacts when the evaluation is completed.

IV. Summary of Material Accounting Policies

The summary of material accounting policies adopted in the consolidated financial statements is as follows. Other than the description of accounting variations in note 3, the following accounting policies have been consistently applied to all stated periods in the consolidated financial statements.

(I) Compliance Declaration

The consolidated financial statements are prepared following the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the "Preparation Regulations") and the IFRS, IAS, Interpretation and Interpretation Announcements endorsed and released by the FSC (hereinafter referred to as the "IFRS endorsed by the FSC").

(II) Foundation of Preparation

1. Foundation of Measurement

Apart from the essential items in the following balance sheet, the consolidated financial statements are prepared on the foundation of historical cost:

(1) Financial assets measured at fair value through profit or loss;

(2) Financial assets measured at fair value (available-for-sale) through other comprehensive income; and

(3) Net defined benefit liabilities (or assets) are measured by the fair value of

pension fund assets minus the present value of the defined benefit obligations and the cap effects measurement mentioned in note 4 (12).

2. Functional Currency and Presentation Currency

Each entity of the Consolidated Company takes the currency of the main economic environment in which each business operates as its functional currency. The consolidated financial statements present the NT dollar as the functional currency. All financial information represented in NT dollar is in the unit of NT$ thousands.

(III) Foundation of Consolidation

1. Preparation Principle of Consolidated Financial Statements

The preparation subjects of the consolidated financial statements include the Company and individuals controlled by the Company (i.e. subsidiaries). The Company controls an individual entity when it is exposed to, or has rights to, variable remuneration from its participation in that individual and can influence that remuneration through its power over that individual.

From the date of attaining control over the subsidiary, its financial statements shall be included in the consolidated financial statements until the date of losing control. The transactions, balances and, any unrealized income and expenses between the consolidated companies have been eliminated in full at the time of preparing the consolidated financial statements. The total comprehensive income of subsidiaries is attributable to the owners and non-controlling interests of the Company, even if the non-controlling interests become the deficit balance.

The financial statements of the subsidiaries have been appropriately adjusted to facilitate their accounting policies are consistent with those used by the Consolidated Company.

Where the change of the ownership interest and interests of the Consolidated Company to a subsidiary does not result in the loss of control over the subsidiary, it shall be treated as an equity transaction with the owner. The difference between the adjustment amount of non-controlling interests and the fair value of the consideration paid or received shall be directly recognized in equity attributable to the owners of the Company.

2. Subsidiaries Included in the Consolidated Financial Statements

Name of investment company	Name of the subsidiary	Nature of business	Percentage of equity held		Description
			2019.12.31	2018.12.31	
Kedge Construction Co., Ltd.	Guanqing Electromechanical Co., Ltd. (hereinafter referred to as Guanqing Electromechanical	Electrical equipment installation and fire safety equipment installation, etc.	99.96%	99.96%	A subsidiary company that directly holds more than 50% of the total issued voting rights
Kedge Construction Co., Ltd.	Jiequn Investment Co., Ltd. (hereinafter referred to as Jiequn Investment)	General investment	99.98%	99.98%	Subordinate companies directly holding more than 50% of the total issued voting shares
Jointly held by Guanqing Electromechanical and Jiequn Investment	Dingtian Construction Co., Ltd. (hereinafter referred to as Dingtian Construction)	Comprehensive construction industry, etc.	100.00%	100.00%	Subordinate companies directly holding more than 50% of the total issued voting shares

3. Subsidiaries not Included in the Consolidated Financial Statements: None.

(IV) Classification Standard for Distinguishing Current and Non-current Assets and Liabilities

Assets that meet one of the following conditions are classified as current assets, and all other assets that are not current assets are classified as non-current assets:

1. The asset is expected to be realized within its normal operating cycle, or it is intended to be sold or depleted;
2. The asset is held mainly for trading purposes;
3. The asset is expected to be realized within twelve months after the reporting period; or
4. The asset is cash or cash equivalent, but it will be used for the exchange of assets or settlement of liabilities at least twelve months after the reporting period, unless otherwise limited.

Liabilities that meet one of the following conditions are classified as current liabilities, and all other liabilities that are not current liabilities are classified as non-current liabilities:

1. The liability is expected to be settled within its normal operating cycle;
2. The liabilities held are primarily for the trading purpose;
3. The liabilities are expected to settle the obligation within twelve months after the reporting period; or
4. The liabilities have no unconditional right to defer the settlement for at least twelve months after the reporting period. The liabilities provisions may be settled by issuing equity instruments at the option of the counterparty, and will not impact its classification.

(V) Cash and Cash equivalents

Cash includes cash on hand and demand deposit. Cash equivalents refer to the short-term and highly liquidity investment that can be converted into quota cash at any time with little risk of value change. Time deposits are classified as cash equivalents only when they satisfy the aforementioned definition, and the purpose of holding is to meet the short-term cash commitments rather than investment or other purposes.

(VI) Financial Instruments

The accounts receivable and debt securities issued are primitively recognized at the time of generation. All other financial assets and financial liabilities are primitively recognized when the Consolidated Company became a party to the terms of the financial instrument contract. Financial assets not measured at fair value through profit or loss (other than accounts receivable excluding material financial components) or financial liabilities primitively at fair value may be measured directly attributable to the transaction cost of the acquisition or issuance. The accounts receivable excluding material financial components are primitively measured at transaction prices.

1. Financial Assets

Where the purchase or sale of financial assets is in line with conventional trading practices, the accounting treatment of all purchases and sales of financial assets classified in the same way by the Consolidated Company shall be consistently on the trade date or the settlement date.

Financial assets at the time of initial recognition are classified as financial assets measured at amortized cost, equity instrument investment measured at fair value through other comprehensive profit and loss, or financial assets measured at fair value through profit and loss. The Consolidated Company shall reclassify all the affected financial assets from the first day of the next reporting period only when changing the business model for managing financial assets.

(1) Financial Assets Measured at Amortized Cost

When financial assets meet the following conditions and not designated at fair value through profit or loss, they are measured at amortized cost:

- It refers to the holding of the financial assets under the business model for the purpose of receiving contractual cash flow.
- The contractual terms of the financial asset generate the cash flow on a specific date, which is fully used to pay for the outstanding principal amount and interest of the principal.

Such assets are subsequently amortized by the initial amount recognized plus or minus the accumulated amortization amount calculated by the effective interest method, and the amortized cost measurement of any allowance loss is adjusted. Interest income, foreign exchange profit or loss, and impairment loss are recognized in profit and loss. When derecognition, gain or loss is recognized in profit and loss.

(2) Financial Assets at Fair Value through Other Comprehensive Income

At the time of initial recognition, the Consolidated Company may make an irrevocable choice and report the subsequent changes at the fair value of equity instrument investment not held for trading to other comprehensive income. The aforementioned choice is made on the item by item basis.

Equity instrument investors shall be measured at fair value subsequently. Dividend income (unless it clearly represents the recovery of part of the investment cost) is recognized in profit and loss. The remaining net profit or loss is recognized as other comprehensive income and is not reclassified to profit and loss.

The dividend income of equity investment shall be recognized on the date when the Consolidated Company is entitled to receive dividends (usually the ex-dividend date).

(3) Financial Assets Measured at Fair Value through Profit or Loss

Financial assets not measured at the aforementioned amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss, including derivative financial assets. At the time of initial recognition, to eliminate or materially reduce accounting mismatches, the Consolidated Company may irrevocably designate financial assets that meet the criteria of measuring at amortized cost or at fair value through other comprehensive income as financial assets measured at fair value through profit or loss.

Such assets are subsequently measured at fair value, and their net profit or loss (including any dividend and interest income) is recognized as profit or loss.

(4) Impairment of Financial Assets

Regarding the financial assets measured through amortized cost (including cash and equivalent cash, financial assets measured by amortized cost, notes receivable and accounts receivable, other receivables, refundable deposits, and other financial assets, etc.) and contract assets, the Consolidated Company shall recognize loss allowance for expected credit losses.

The loss allowance of the following financial assets are measured based on the expected credit losses amount in 12 months, and the remaining are measured based on the lifetime expected credit loss amount:

- Determine that the debt securities have low credit risk on the reporting date; and
- The credit risk of other debt securities and bank deposits (for example, the occurrence of default risk exceeding the expected duration of financial instruments) has not increased significantly since the initial recognition.

The loss allowance for accounts receivable and contractual assets is measured by the amount of lifetime expected credit losses.

In determining whether the credit risk has increased significantly since the initial recognition, the Consolidated Company shall consider reasonable and verifiable information (available without excessive cost or investment), including qualitative and quantitative information, analysis based on the historical experience, credit evaluation, and prospective information.

Lifetime expected credit loss refers to the expected credit loss out of all possible default events during the expected duration of financial instruments.

Twelve-month expected credit loss refers to the expected credit loss of financial instruments out of possible defaults within 12 months after the reporting date (or within a shorter period, if the expected duration of financial instruments is shorter than 12 months).

The longest period for measuring the expected credit loss is the longest contract period for the Consolidated Company to be exposed to credit risk.

Expected credit loss refers to the weighted estimate of credit loss probability during the expected duration of financial instruments. The credit loss is measured by the present value of all cash shortfall, namely the difference between the cash flow that the Consolidate Company can collect according to the contract and the expected cash flow that the Consolidate Company will receive. Expected credit loss is discounted at the effective interest rate of financial assets.

On each reporting date, the Consolidated Company assesses whether there is credit impairment on financial assets measured at amortized cost and debt securities measured at fair value through other comprehensive income. When one or more events are arising that will bring unfavorable influence to expected future cash flow, there is already credit impairment to the financial asset. Evidence of credit impairment of financial assets includes observable data on the following:

- Material financial difficulties of the borrower or the issuer;
- Default, such as delay or overdue for more than 90 days;
- Due to the economic or contractual reasons related to the borrower's financial difficulties, the Consolidated Company gives the borrower concessions that would not have been inspected;
- The borrower is likely to file for bankruptcy or conduct other financial reorganization; or
- Due to financial difficulties, the active market of the financial assets disappeared.

The loss allowance of financial assets measured through amortized cost is deducted from the carrying amount of assets. The loss allowance of debt instrument investment measured at fair value through other comprehensive income is adjusted profit and loss and recognized in other comprehensive income (without reducing the carrying amount of assets).

When the Consolidated Company cannot reasonably expect the whole or part of the recovered financial assets, it directly reduces the total carrying amount of its financial assets. The Consolidated Company analyzes the time and amount of write off individually based on whether it reasonably expects to be recoverable. The Consolidated Company expects that the amount written off will not be materially reversed. However, the written-off financial assets can still be enforced to comply with the procedures for the Consolidated Company to recover the overdue amount.

(5) Derecognition of Financial Assets

The Consolidated Company only derecognizes the financial assets when the contractual rights of the assets' cash flow are terminated, or when the financial assets have been transferred and almost all the risks and remuneration of the ownership of the asset have been transferred to other enterprises, or when almost all the risks and remuneration of the ownership have not been transferred or retained, and the control of the financial assets have not been retained.

When the Consolidated Company enters into a transaction to transfer financial assets, if it retains all or almost all of the risks and remuneration of ownership of the transferred assets, it will continue to be recognized in the balance sheet.

2. Financial Liabilities and Equity Instruments

(1) Classification of Liabilities or Equities

The debt and equity instruments issued by the Consolidated Company are classified as financial liabilities and equity in accordance with the substance of contractual arrangements and the definitions of financial liabilities and equity instruments.

(2) Equity Transactions

Equity instruments refer to any contracts containing residual interest after the Consolidated Company subtract liabilities from assets. The equity instruments issued by the Consolidated Company are recognized at the price obtained deduct the direct issue cost.

(3) Financial Liabilities

Financial liabilities are classified as amortized costs or the fair value measurement through profit or loss. Financial liabilities, if held for trading, derivatives or designated at the time of initial recognition, are classified as the fair value measurement through profit or loss. Financial liabilities measured at fair value through profit or loss are the fair value measurement, and the related net profit and loss, including any interest charge, are recognized in profit and loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and exchange gains and losses are recognized in profit or loss. Any profit or loss at the time of derecognize is also recognized in profit and loss.

(4) Derecognition of Financial Liabilities

The Consolidated Company derecognizes financial liabilities when the contractual obligations have been fulfilled, canceled or matured. When the provisions of financial liabilities are revised and there is a material difference in the cash flow of the modified liabilities, the initial financial liabilities shall be derecognized, and the new financial liabilities shall be recognized at fair value based on the revised provisions.

When a financial liability is derecognized, the difference between the carrying amount and the total consideration paid or payable (including any non-cash asset transferred or liability assumed) is recognized as profit or loss.

(5) Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities shall be offset against each other and expressed in the net amount in the balance sheet only when the Consolidated Company currently has the legally enforceable rights to offset and has the intention for netting settlement or realizing assets and settlement at the same time.

(6) Financial Guarantee Contract

A financial guarantee contract refers to a contract that the issuer must pay a specific amount to reimburse the loss of the holder when the specific debtor is due and unable to repay according to the terms of the debt instrument.

The financial guarantee contract issued by the Consolidated Company that is not designated as a fair value measurement through profit or loss are initially measured at its fair value minus directly attributable transaction costs, and subsequently measured at the higher of the following: (a) according to the amount of loss allowance determined in IFRS 9; and (b) the amount initially recognized, when applicable, deduct the amount of accumulated income recognized under the following income principles.

(VII) Investments in Associates

Associates refer to those for which the Consolidated Company has a material influence upon their financial and operating policies but without controlling or joint controlling. The Consolidated Company adopts the equity method for handling the equity of associates. Under the equity method, the initial acquisition is recognized according to the cost, and the investment cost includes the transaction cost. The carrying amount of invested associates includes the goodwill recognized at the time of initial investment less any accumulative impairment loss.

The consolidated financial statements include the amount of profit and loss and other comprehensive profit and loss of each invested associate recognized by the Consolidated Company according to the proportionate interest after the adjustment of the consistency with the accounting policies of the Consolidated Company from the date of attaining a material influence to the date of losing such influence. When the equity of associates change, not including profit and loss and other comprehensive profit and loss, and do not affect the shareholding ratio of the Consolidated Company, the Consolidated Company shall recognize all the equity changes as capital surplus according to the shareholding ratio.

The unrealized profits and losses arising from the transaction between the Consolidated Company and the associates shall be recognized in the financial statements of the associates only within the scope of the interest of the non-affiliated investor to the associate.

When the Consolidated Company recognizes the loss of associates in proportion and its share is equal to or more than its equity in associates, it shall stop recognize the loss. The Consolidated Company shall recognize additional losses and related liabilities only to the extent of legal obligations, constructive obligations or payments made on behalf of the investee.

(VIII) Joint Arrangements

The joint arrangement is one in which more than two parties have joint control. The joint arrangement includes joint operation and joint venture, and has the following characteristics: (a) the participants are bound by the contractual arrangement; (b) at least two parties have joint control over the arrangement. IFRS 11 "Joint Arrangement" defines the joint control as the contractual agreement to share control over an arrangement. It only exists when decisions related to relevant activities (i.e. activities that have a material impact on the remuneration of the arrangement) must be agreed by all parties to share control.

A joint operation is a joint arrangement whereby the parties having joint control over the arrangement (that is, the joint operator) have rights to the assets and are obligated to the liabilities related to the arrangement. The joint operator shall recognize and measure assets and liabilities related to its equity in the arrangement (and recognize relevant income and expenses) under relevant IFRS applicable to specific assets, liabilities, income, and expenses. When evaluating the classification of the joint arrangement, the Consolidated Company shall consider the structure of the arrangement, the legal form of the separate vehicle, the terms of the contractual arrangement, and other facts and circumstances.

(IX) Investment Property

Investment property refers to property held for earning rent or asset appreciation or both, rather than for normal business sale, production, provision of goods or services, or administrative purposes. Investment property is initially measured by cost and subsequently measured by cost minus accumulated depreciation and accumulated impairment. Its depreciation method, service life, and residual value are treated following the provisions of property, plant, and equipment.

The gain or loss on disposal of the investment property (calculated by the difference between the net disposal proceed and the carrying amount of the item) is recognized in profit and loss.

Rental income from investment property is recognized in other income on a straight-line basis during the lease term. The lease incentive is recognized as part of the lease income during the lease term.

(X) Property, Plant and Equipment

1. Recognition and Measurement

Property, plant, and equipment items are measured by cost (including capitalized borrowing costs) less accumulated depreciation and any accumulated impairment.

When the useful life of a material component of property, plant, and equipment is different, it shall be treated as a separate item (main component) of property, plant, and equipment.

The gain or loss on disposal of the property, plant, and equipment is recognized in profit and loss.

2. Subsequent Cost

Subsequent expenditures are capitalized only when their future economic benefits are likely to flow into the Consolidated Company.

3. Depreciation

Depreciation is calculated by deducting the residual value from the asset cost and is recognized in profit or loss within the estimated useful life of each component using the straight-line method.

No depreciation shall be recognized for the land.

The estimated useful life of the current period and comparative periods are as follows:

(1)	Houses and buildings	30 to 53
(2)	Transportation equipment	5 years
(3)	Other equipment	3 years

The Consolidated Company shall review the depreciation method, useful life, and residual value on each reporting date, and make appropriate adjustments as necessary.

(XI) Lease

Applicable from January 1, 2019

1. Lease Judgment

The Consolidated Company evaluates whether the contract is a lease or contains a lease on the contract establishment date. If the contract transfers control over the use of the identified assets for a period of time in exchange for consideration, the contract is a lease or contains a lease. To evaluate whether the contract is a lease, the Consolidated Company evaluates the following items:

(1) The contract involves the use of an identified asset, which is explicitly designated in the contract or implicitly designated when it is available for use, and its substance can distinguish or represent all the actual production capacity. If the supplier poses substantive rights to replace the asset, the asset is not an identified asset; and

(2) Have the right to obtain almost all economic benefits from the use of identified assets throughout the use period; and

(3) Attain the right to dominate the use of identified assets when one of the following conditions is met:

- The client has the right to dominate the use method of identified assets and the purpose of use throughout the use period.
- The relevant decisions about the use method and purpose of use of the asset are determined in advance, and:
  - The client has the right to operate the asset throughout the use period, and the supplier has no right to change the operating instructions; or
  - The client's plan on how to use the asset and purpose of use has determined in advance for the entire period of use.

On the date of the lease establishment or when reassessing whether the contract includes a lease, the Consolidated Company allocates the consideration in the contract to the individual lease components based on the relative individual price. However, when renting land and buildings, the Consolidated Company chose not to distinguish between non-lease components and treated the lease component and non-lease component as a single lease component.

2. Lessee

The Consolidated Company recognizes the right-of-use asset and the lease liability on the inception of the lease. The right-of-use asset is initially measured at cost, which includes the initial measured amount of the lease liability, adjusts any lease benefits paid on or before the inception of the lease, and adds the initial direct cost incurred and the estimated cost of dismantling, removing the underlying asset and restoring its location or underlying asset, and deducting any leasing incentives received.

The right-of-use asset is subsequently depreciated by the straight-line method from the inception of the lease to the expiration of the useful life of the right-of-use asset or the earlier of the lease term. Also, the Consolidated Company shall regularly assess whether the right-of-use asset is impaired and processes any impairment loss that has occurred, and cooperates to adjust the right-of-use asset when the lease liability is remeasured.

Lease liabilities are primitively measured by the present value of the unpaid lease benefits on the inception of the lease. If the interest rate implicit in the lease is easy to determine, the discount rate shall be the interest rate; if it is not easy to determine, the incremental borrowing rate of interest of the Consolidated Company shall be used. Generally speaking, the Consolidated Company uses its incremental borrowing rate of interest as the discount rate.

Lease benefits included in the measurement of lease liabilities consist of:

(1) Fixed benefits, including substantial fixed benefits;

(2) The variable lease benefits depend on an index or rate, and the index or rate on the inception of the lease is applied as the initial measurement;

(3) The residual guarantee amount expected to be paid; and

(4) When reasonably determined that the purchase option or lease termination option will be exercised, the exercise price or the penalty payable.

The lease liability subsequently accrues interest with the effective interest method, and its amount is measured the following occurs:

(1) Changes in the index or rate used to determine lease benefits result in changes in future lease benefits;

(2) The residual guarantee amount expected to be paid has changed;

(3) The evaluation of the underlying asset purchase option has changed;

(4) The assessment of whether to exercise the option of extension or termination has changed, and alter the assessment of the lease term;

(5) Modification of the subject matter, scope, or other terms of the lease.

When the lease liability is remeasured due to the above changes in the index or rate used to determine the lease benefits, changes in the residual guarantee amount, and changes in the evaluation of the purchase, extension or termination option, the carrying amount of the right-of-use asset shall be adjusted accordingly, and when the carrying amount of the right-of-use asset is reduced to zero, the surplus remeasured amount shall be recognized in profit and loss.

For the lease modification of reducing the lease scope, the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease, and the difference between it and the remeasurement amount of the lease liability is recognized in profit and loss.

The Consolidated Company expresses the right-of-use assets and the lease liabilities that do not meet the definition of investment property as separate line items in the balance sheet.

For short-term leases of office equipment and leases of low-value underlying assets, the Consolidated Company chooses not to recognize the right-of-use assets and lease liabilities, but to recognize the related lease benefits as expenses on the straight-line basis during the lease term.

3. Lessor

For transactions in which the Consolidated Company is the lessor, it is to classify the tenancy agreement according to whether it transfers almost all risks and remuneration attached to the ownership of the underlying asset on the lease establishment date. If so, it is classified as a financial lease, otherwise, it is classified as an operating lease. At the time of evaluation, the Consolidated Company's considerations include relevant specific indicators, such as whether it covers the main component of the economic life of the underlying asset during the lease term.

If the Consolidated Company is a sublease lessor, the main lease and sublease transactions are processed separately, and the classification of the sublease transaction is evaluated by the right-of-use asset generated by the main lease. If the main lease is a short-term lease and the recognition exemption applies, the sublease transaction should be classified as an operating lease.

If the agreement includes leasing and non-leasing components, the Consolidated Company shall employ the provisions of IFRS 15 to share the consideration in the contract.

<u>Applicable before January 1, 2019</u>

1. Lessor

The operating lease is recognized as income by the straight-line basis during the lease term. The original direct costs arising from the negotiation and arrangement of operating leases are added to the carrying amount of the leased assets and recognized as expenses by the straight-line basis during the lease term. The total incentive benefits provided for the lessee to reach the lease arrangement are recognized as a decrease in lease income through the straight-line method during the lease term.

The contingent lease benefits are recognized as current income when the adjustments are determined.

2. Lessee

Other leases are operating leases and such leased assets are not recognized in the balance sheet of the Consolidated Company.

Lease benefits of the operating lease (excluding service costs such as insurance and maintenance) are recognized as expenses by the straight-line basis during the lease term. The total incentive benefits provided by the lessor to reach the lease arrangement are recognized as a decrease in lease expense by the straight-line method during the lease term.

The contingent lease benefits are recognized as the current expense when the adjustments are determined.

(XII) Impairments of Non-Financial Assets

The Consolidated Company assesses on each reporting date whether there is any indication that the carrying amount of non-financial assets (other than inventory, contractual assets, and deferred income tax assets) may be impaired. If any indication exists, the recoverable amount of the asset is estimated. Goodwill is regularly tested for impairment every year.

The purpose of the impairment test, a group of assets whose cash inflow is mostly independent of other individual assets or asset groups, is regarded as the smallest identifiable asset group. Goodwill acquired from a business combination is allocated to each cash-generating unit or group of cash-generating units that are expected to benefit from the synergy combination.

The recoverable amount of an individual asset or a cash-generating unit is the higher of its fair value less costs of disposal and its use-value. When evaluating the use-value, the estimated future cash flow is converted to the present value at the pre-tax discount rate, which should reflect the current market's evaluation of the time value of money and the specific risk of the asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit is lower than the carrying amount, an impairment loss is recognized.

The impairment loss is recognized immediately in profit and loss, and first reduces the carrying amount of the goodwill of the cash-generating unit, and then reduces the carrying amount of each asset in proportion to the carrying amount of other assets in the unit.

(XIII) Provisions

The recognition of provisions means a current obligation for past events so that in the future the Consolidated Company is most likely to outflow resources with economic benefits to settle it, and the amount of the obligation can be reliably estimated. The provision is discounted at a pre-tax discount rate that reflects the current market's assessment of the time value of money and the specific risk of liabilities. The amortization of the discount is recognized as interest expense.

The warranty provision is recognized at the completion of the construction and is measured at correlation probability weighting according to the historical warranty data and all possible results.

(XIV) Revenue Recognition

1. Revenue from Contracts with Clients

The revenue is measured by the consideration expected to be entitled to for the transfer of goods or services. The Consolidated Company recognizes the revenue when the control over goods or services is transferred to the client, and the performance obligations are met. The main revenue items of the Consolidated Company are described as follows:

(1) Labor Service

The Consolidated Company provides business management services and recognizes the relevant revenue during the financial reporting period of providing labor services. Fixed-price contracts recognize the revenue based on the proportion of actual services provided to the total services as of the reporting date, which is determined by the proportion of costs incurred to the estimated total costs of transactions.

If the situation changes, the estimates of revenue, cost, and degree of completion will be revised, and the increase or decrease caused during the period when the management is informed of the change will be reflected in profit and loss.

Under a fixed-price contract, the client pays a fixed amount of money according to the agreed schedule. When the service provided exceeds the payment, the contract assets shall be recognized. When the payment exceeds the service provided, the contract liabilities shall be recognized.

(2) Construction Contract

The Consolidated Company is engaged in the contracting business of residential property and public construction. Since the assets are under the control of clients at the time of construction, the revenue is gradually recognized over time based on the proportion of the construction costs incurred to date to the estimated total contract costs. The contract includes fixed and variable consideration. The client pays a fixed amount of money according to the agreed schedule. Some variable consideration (such as penalty and price adjustment calculated based on overdue days) is estimated by the expected value based on the accumulated experience in the past. The Consolidated Company recognizes revenue only within the range where the accumulated income is highly unlikely to have a material reversal. If the amount of recognized revenue has not yet been claimed, it shall be recognized as a contract asset. When there is an unconditional right to the consideration, the contract asset shall be transferred to the accounts receivable.

If it is unable to reasonably measure the completion degree of the performance obligation of the construction contract, the contract revenue shall only be recognized within the scope of the expected recoverable cost.

When the Consolidated Company foresees that the inevitable cost of fulfilling the obligations of a construction contract exceeds the expected economic benefits from the contract, the liability reserve of the loss-making contract is recognized.

If the situation changes, the estimates of revenue, cost, and degree of completion will be revised, and the increase or decrease will be reflected in profit and loss during the period when the management is informed of the change.

The Consolidated Company provides a standard warranty for residential property and public construction in line with the agreed specifications and has recognized the warranty liability reserve for this obligation. Please refer to Note 6 (10) for details.

2. Cost of Client Contracts

Cost of Fulfilling Contracts

If the cost of fulfilling client contracts is not within the scope of other standards (IAS 2 "inventory", IAS 16 "property, plant and equipment", or IAS 38 "intangible assets"), the Consolidated Company shall only recognize such cost as an asset when it is directly related to contract or explicitly identifiable expected contract, which will be generating or strengthening resources for future satisfaction (or continuous satisfaction) of performance obligations, and expected to be recoverable.

The general and management costs, the costs of wasted raw materials, labor or other resources used to perform the contract but not reflected in the contract price, the costs related to the fulfilled (or partially fulfilled) performance obligation and the costs related to unfulfilled performance obligation or fulfilled (or partially fulfilled) performance obligation that cannot be distinguished are recognized as an expense when incurred.

(XV) Employee Benefits

1. Defined Contribution Plan

The contribution obligation of the defined contribution plan is recognized as an expense during the period of service provided by the employee.

2. Defined Benefit Plan

The net obligation of the Consolidated Company to determine the benefit plan is calculated by converting the future benefit amount earned by the employee in the current period or the previous period into the present value for each benefit plan and deducting the fair value of any plan assets.

The defined benefit obligation is calculated annually by a qualified actuary using the projected unit credit method. When the calculation result may be beneficial to the Consolidated Company, the recognized assets shall be limited to the present value of any economic benefits available in the form of refunding the contribution from the plan or reducing the future contribution to the plan. When calculating the present value of economic benefits, any minimum funding requirements are considered.

The remeasurement of net defined benefit liabilities, including actuarial gains and losses, plan asset returns (excluding interest), and any changes in the impact of the asset ceiling (excluding interest), are immediately recognized in other comprehensive income and accumulated in retained earnings. The net interest expense (income) of the net defined benefit liabilities (assets) determined by the Consolidated Company is the net defined benefit liabilities (assets) and the discount rate determined at the beginning of the annual reporting period. The net interest paid and other expenses of the benefit plan are recognized in profit and loss.

When the plan is amended or reduced, the number of benefits changes related to past service costs or reduced benefits or losses shall be recognized as profit or loss immediately. When the settlement occurs, the Consolidated Company shall recognize the settlement profit and loss of the defined benefit plan.

3. Short-term Employee Benefits

Short-term employee benefit obligations are recognized as expenses when services are provided. If the Consolidated Company has current legal or constructive payment obligations due to the past services provided by employees and the obligations can be estimated reliably, the amount shall be recognized as liabilities.

(XVI) Income Tax

Income tax include current and deferred income tax. Except for items related to the Consolidated Company and directly recognized into equity or other comprehensive incomes, current and deferred income tax shall be recognized in profit or loss.

Current income tax includes the estimated income tax payable or tax refund receivable calculated based on the taxable income (loss) of the current year, and any adjustments to income tax payable or tax refund receivable in previous years. The amount is the best estimate of the expected payment or receipt based on the legal tax rate or substantively enacted tax rate on the reporting date.

Deferred income tax is measured and recognized on the temporary difference between the carrying amount of assets and liabilities for financial reporting purposes and their tax base. The temporary difference for the following conditions will not be recognized as deferred income tax:

1. Assets or liabilities initially recognized in a transaction other than a business

combination that at the time of the transaction does not affect accounting profit and taxable income (loss);

2. Due to temporary differences arising from investment in subsidiaries, associates and joint venture interests, the Consolidated Company can control the reversing point of temporary differences and is likely not to revert in the foreseeable future; and
3. The taxable temporary difference arising from the initial recognition of goodwill.

Deferred income tax is measured by the tax rate when the expected temporary difference is reversed and is based on the legal tax rate or substantively enacted tax rate on the reporting date.

The Consolidated Company only offsets the deferred income tax assets and deferred income tax liabilities when the following conditions are met simultaneously:

1. Have the legally enforceable right to offset the current income tax assets and current income tax liabilities against each other; and
2. Deferred income tax assets and deferred income tax liabilities are related to one of the following taxpayers levied by the same taxation authority:
   (1) Same taxpayer; or
   (2) Different taxpayers, yet each taxpayer intends to settle current income tax assets and liabilities on a net basis or realize assets and settle liabilities at the same time in each future period when a material amount of deferred income tax assets are expected to be recovered, and deferred income tax liabilities are expected to be settled.

For unused tax losses and unused income tax deduction at the later stage of the transfer and deductible temporary differences, they are recognized as deferred income tax assets to the extent that there is likely to be future tax income available for use. On each reporting day, it shall be reassessed to reduce the relevant income tax benefits to the extent that they are not likely to be realized or to revert the reduced amount to the extent that they are likely to become sufficient taxable income.

(XVII) Earnings per Share

The Consolidated Company presents the basic and diluted earnings per share attributable to the Company's common equity holders. The basic earnings per share of the Consolidated Company are calculated by dividing the profit and loss attributable to the Company's common equity holders by the weighted average number of outstanding common shares in the current period. Diluted earnings per share are calculated by adjusting the profit and loss attributable to the common equity holders of the Company and the weighted average number of outstanding common shares, respectively, after adjusting the impact of all potential diluted common equity.

(XVIII) Segment Information

The operating segment is an integral part of the Consolidated Company, which is engaged in business activities that may generate revenue and incur expenses (including revenue and expense related to the transactions among other components in the Consolidated Company). The operating results of all operating segments are periodically reviewed by the major operating decision-makers of the Consolidated Company to make decisions on the allocation of resources to the segments and to evaluate their performance. Every operation segment has its independent financial information.

V. Main Sources of Uncertainty in Material Accounting Judgments, Estimates, and Assumptions

The management must make judgments, estimates, and assumptions when preparing the consolidated financial statements under the preparation standards and IFRS endorsed by the FSC, which will have an impact on the adoption of accounting policies and the reported amount of assets, liabilities, earnings, and expenses. The actual results may differ from the estimates.

The management continuously reviews estimates and basic assumptions, and changes in accounting estimates are recognized during the period of change and the future period affected.

The accounting policy involves significant judgments and information that has a material impact on the amount recognized in the consolidated financial statements is as follows:

(I) Judgment on Whether It Has a Material Impact on Associates

The Consolidated Company holds 46.67% of the voting shares of ReadyCom eServices Corporation, but the Consolidated Company does not substantially participate in the decision of the company's financial and operational policies. So it has no significant influence on ReadyCom eServices Corporation.

For the uncertainty of assumptions and estimates, the relevant information about significant risks that will cause material adjustments in the next year is as follows:

(I) Revenue Recognition

The recognition of the profit and loss of the construction contract of the Consolidated Company refers to the recognition of the contract revenue and the contract cost respectively according to the complete degree of the contractual activities and the degree of completion is measured by the proportion of the contract cost incurred so far in the estimated total contract cost. The Consolidated Company considers the nature, estimated duration, contract projects, construction process, construction method, and estimated contract amount of each project to estimate the total contract cost. Any change in the foundation of the above estimates may result in a material adjustment of the estimated amount.

The accounting policy and disclosure of the consolidated company include the adoption of fair value measurement on financial and non-financial assets and liabilities. The Consolidated Company verifies the independent source data to make the evaluation result close to the market status, confirms that the data source is independent, reliable, consistent with other resources and represents the executable price, and regularly calibrates the evaluation model, conducts backtesting, updates the input value and data required by the evaluation model and any other necessary fair value adjustments to ensure that the evaluation result is reasonable. For investment property, the Consolidated Company evaluates it periodically or entrusts an external appraiser to evaluate it according to the evaluation method and parameter hypothesis announced by the FSC.

In measuring the assets and liabilities, the Consolidated Company will employ the observable input value in the market as much as possible. The level of fair value is classified as follows based on the input value adopted by the evaluation technology:

(I) Level 1: The public offer price (unadjusted) of the same asset or liability in the active market.

(II) Level 2: In addition to the public offer price included in level 1, the input parameters of assets or liabilities are directly (namely price) or indirectly (namely derived from price) observable.

(III) Level 3: Input parameters of assets or liabilities are not based on observable market data (non-observable parameters).

In case of any transfer event or situation of fair value between different levels, the Consolidated Company shall recognize such transfer on the reporting date.

Please refer to the following notes for information about the assumptions used to measure fair value:

(I) Note 6 (7), investment property

(II) Note 6 (19), financial instrument

VI. Description of Significant Accounting Items

(I) Cash and cash equivalents

	2019.12.31	2018.12.31
Cash and petty cash	$ 710	1,226
Demand deposit	522,875	523,940
Check deposit	202,841	513,072
Cash equivalents	1,799,983	294,799
Cash and cash equivalents	$ 2,526,409	1,333,037

The aforementioned cash equivalents are short-term bills, whose maturity ranges are from January to March 2020 and January 2019, and the interest rate ranges are 0.53% to 0.57% and 0.61%, respectively.

Please refer to Note 6 (19) for the disclosure of interest rate risk and sensitivity analysis of financial assets and liabilities of the Consolidated Company.

(II) Financial Assets at Fair Value through Profit or Loss

	2019.12.31	2018.12.31
Financial assets enforced at fair value through profit or loss:		
Non-derivative financial assets		
Listed shares	$ 44,054	44,063
Funds	30,064	23,112
Total	$ 74,118	67,175

As of December 31, 2019 and 2018, none of the financial assets of the Consolidated Company was pledged as collateral.

(III) Financial Assets Measured at Fair Value through Other Comprehensive Income

		2019.12.31	2018.12.31
Equity instruments measured at fair value through other comprehensive income			
Stocks listed in TWSE or TPEx	$	338,952	217,290
Unlisted stocks		5,920	4,571
Total	$	344,872	221,861

1. Equity instrument investment measured at fair value through other comprehensive income

   The equity instrument investment held by the Consolidated Company is a long-term strategic investment and not held for trading purposes, so it has been designated to be measured at fair value through other comprehensive income.

2. For the equity instrument investment designated as measured at fair value through other comprehensive income, the dividend incomes recognized by the Consolidated Company in 2019 and 2018 were NT$10,955,000 and NT$5,577,000.

3. The Consolidated Company did not dispose of strategic investment in 2019 and 2018, and accumulated profit and loss during that period were not transferred within the equity.

4. None of the financial assets of the Consolidated Company has been pledged as collateral.

5. Please refer to Note 6 (19) for credit risk (including impairment of debt instrument investment) and market risk information.

(IV) Notes Receivable and Accounts Receivable

		2019.12.31	2018.12.31
Accounts receivable	$	1,127,588	757,261
Less: Loss allowance		-	-
	$	1,127,588	757,261

The Consolidated Company adopts the simplified method to estimate the expected credit loss for all notes receivable and accounts receivable, that is, to measure lifetime expected credit losses. For this measuring purpose, the Consolidated Company considers the past default records of clients, the current financial circumstances, the industrial economic situation, and the industrial outlook at the same time. The expected credit loss of notes receivable and accounts receivable of the Consolidated Company is analyzed as follows:

	2019.12.31		
	The carrying amount of notes receivable and accounts receivable	**Weighted average expected credit loss rate**	**Allowance of lifetime expected credit losses**
Not overdue	$ 1,127,588	-	-

	2018.12.31		
	The carrying amount of notes receivable and accounts receivable	**Weighted average expected credit loss rate**	**Allowance of lifetime expected credit losses**
Not overdue	$ 757,261	-	-

There is no provision for doubtful debt loss and write-down reversal in 2019 and 2018. As of December 31, 2019 and 2018, none of the receivables of the Consolidated Company were pledged as collateral.

(V) Investment under Equity Method

The investment of the Consolidated Company using the equity method on the reporting date is as follows:

	2019.12.31	**2018.12.31**
ReadyCom eServices Corp.	$ 20,506	20,505

1. Associates

   The share of associates' profit and loss enjoyed by the Consolidated Company is as follows:

	2019	**2018**
Share attributable to the Consolidated Company:		
Net income of continuing operations	$ 1	8

   The Consolidated Company does not have any contingent liabilities arising from the joint undertaking of the contingent liabilities of the associates with other investors or the individual accountability for the liabilities of the associates.

2. Collateral

   As of December 31, 2019 and 2018, none of the investment under the equity method of the Consolidated Company was pledged as collateral.

(VI) Property, Plant and Equipment

Details of changes in cost, depreciation, and impairment loss of property, plant, and equipment of the Consolidated Company are as follows:

	Land	Houses and buildings	Transportation equipment	Other equipment	Total
Cost or deemed cost:					
Balance on January 1, 2019	$ 62,430	14,969	1,930	407	79,736
Balance on December 31, 2019	**$ 62,430**	**14,969**	**1,930**	**407**	**79,736**
Balance on January 1, 2018	$ 62,430	14,969	1,930	407	79,736
Balance on December 31, 2018	**$ 62,430**	**14,969**	**1,930**	**407**	**79,736**
Depreciation and impairment loss:					
Balance on January 1, 2019	$ -	14,068	1,823	407	16,298
Depreciation for the year	-	269	53	-	322
Balance on December 31, 2019	**$ -**	**14,337**	**1,876**	**407**	**16,620**
Balance on January 1, 2018	$ -	13,760	1,769	407	15,936
Depreciation for the year	-	308	54	-	362
Balance on December 31, 2018	**$ -**	**14,068**	**1,823**	**407**	**16,298**
Carrying Amount					
December 31, 2019	**$ 62,430**	**632**	**54**	**-**	**63,116**
December 31, 2018	**$ 62,430**	**901**	**107**	**-**	**63,438**
January 1, 2018	**$ 62,430**	**1,209**	**161**	**-**	**63,800**

Please refer to Note 8 for details of the property, plant, and equipment of the Consolidated Company pledged as collateral for financing line as of December 31, 2019, and 2018.

(VII) Investment Property

Details of changes in cost, depreciation, and impairment loss of investment property of the Consolidated Company are as follows:

	Land, houses and buildings
Cost or deemed cost:	
Balance on January 1, 2019	$ 127,549
Balance on December 31, 2019	**$ 127,549**
Balance on January 1, 2018	$ 127,549
Balance on December 31, 2018	**$ 127,549**
Depreciation and impairment loss:	
Balance on January 1, 2019	$ 24,539
Depreciation for the year	466
Balance on December 31, 2019	**$ 25,005**
Balance on January 1, 2018	$ 24,072
Depreciation for the year	467
Balance on December 31, 2018	**$ 24,539**
Carrying amount:	
December 31, 2019	**$ 102,544**
December 31, 2018	**$ 103,010**
January 1, 2018	**$ 103,477**
Fair value	
December 31, 2019	**$ 176,599**
December 31, 2018	**$ 176,599**

The fair value of investment property is based on the evaluation of the independent appraisers (with a relevant professional qualification accredited) or of the Consolidated Company through the comprehensive consideration by the comparative method (taking into account the information of the deal price of the real estate agent and the actual price registration of the Ministry of the Interior). The input value used in the fair value evaluation technique belongs to Level 3.

The fair value is evaluated by the income approach. In the absence of the current price in the active market, the evaluation considers the total aggregate estimated cash flow received from the lease of the property and discounts it with the earning rate that reflects the specific risks inherent in the net cash flow to determine the value of the property. The earning rate adopted in 2019 and 2018 is 1.19%.

Please refer to Note 8 for details of the investment property of the Consolidated Company pledged as collateral for financing line as of December 31, 2019, and 2018.

(VIII) Right-of-use Assets

Details of changes in the cost and depreciation of the leased houses and buildings of the Consolidated Company are as follows:

		Houses and buildings
Balance on January 1, 2019	$	4,546
Depreciation for the year		(153)
Balance on December 31, 2019	**$**	**4,393**

Please refer to note 6 (11) for relevant information on the operating lease of the Consolidated Company in 2018.

(IX) Short-term Loans

The details of the short-term loans of the Consolidated Company are as follows:

		2019.12.31	**2018.12.31**
Unsecured bank loans	**$**	**150,000**	**-**
Unused facilities	**$**	**3,571,975**	**3,497,523**
Interest rate interval		**1.6%**	**-**

Please refer to Note 6 (19) for information on the exposure to interest rate and liquidity risk of the Consolidated Company.

Please refer to Note 8 for details of the collateral of the Consolidated Company's asset pledged for bank loans.

(X) Provisions

		Warranty
Balance on January 1, 2019	$	79,261
Additional provisions during the period		27,816
Provisions used during the period		(4,595)
Balance on December 31, 2019	**$**	**102,482**
Balance on January 1, 2018	$	59,085
Additional provisions during the period		33,316
Provisions used during the period		(13,140)
Balance on December 31, 2018	**$**	**79,261**

In 2019 and 2018, the warranty provisions of the Consolidated Company are mainly related to construction contracting. The warranty provisions are estimated based on the historical warranty data of various constructions. The Consolidated Company expects that the liability will occur mostly one year after the construction acceptance.

(XI) Operating Lease

1. Lessee Lease

The payment of accrued rent payable of the non-cancellable operating lease is as follows:

	2018.12.31
Within 1 year	$ 2,425

The Consolidated Company leases its office by operating lease. The operating lease expense reported in profit and loss in 2019 was NT$2,425,000.

2. Lessor Lease

Please refer to Note 6 (7) for details of the investment property leased by the Consolidated Company under an operating lease. The minimum lease payments receivable in the future during the non-cancellable lease term are as follows:

	2019.12.31	2018.12.31
Within 1 year	$ 6,074	3,361
1-5 years	3,295	-
Total	$ 9,369	3,361

The investment property leased by the Consolidated Company doesn't transfer all risks and remuneration attached to the ownership of the underlying assets, so the tenancy agreement is classified as an operating lease. Please refer to Note 6 (7) investment property for details.

In 2019 and 2018, the rental income from investment property was NT$6,082,000 and NT$6,083,000 respectively. In addition, there was no material maintenance and servicing expense.

(XII) Employee Benefits

1. Defined Benefit Plan

The adjustment of the present value of the defined benefit obligations and the fair value of the plan assets of the Consolidated Company is as follows:

	2019.12.31	2018.12.31
Present value of defined benefit obligations	$ 22,317	29,385
Fair value of plan assets	(23,678)	(29,330)
Net defined benefit obligation (assets) liabilities	$ (1,361)	55

The defined benefit plan of the Consolidated Company is contributed to the special pension fund account at the Bank of Taiwan. The pension payment of each employee under the Labor Standards Act is calculated based on the base number of service years and the average salary of 6 months before retirement.

(1) Components of plan assets

The pension fund contributed by the Consolidated Company following the Labor Standards Act is under the overall management of the Bureau of Labor Funds of the Ministry of Labor. According to the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to utilization of the Fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

As of the reporting date, the balance of the Consolidated Company's special pension fund account at Bank of Taiwan amounted to NT$23,678,000. For the utilization of the pension fund, including the earnings rate and asset allocation of the fund, please refer to the information published on the website of the Bureau of Labor Funds of the Ministry of Labor.

(2) Changes in present value of defined benefit obligations

The changes in the present value of defined benefit obligations of the Consolidated Company in 2019 and 2018 are as follows:

	2019	**2018**
Defined benefit obligation on January 1	$ 29,385	33,721
Current service cost and interest	316	383
Remeasurement of net defined benefit liability (asset)		
- Return on plan assets (excluding current interest)	-	117
- Actuarial gain and loss arising from changes in demographic assumptions	391	755
- Experience adjustments	(162)	(489)
Benefits paid by the plan	(7,613)	(5,102)
Defined benefit obligation on December 31	$ 22,317	29,385

(3) Changes in fair value of plan assets

Changes in fair value of defined benefit plan assets of the Consolidated Company in 2019 and 2018 are as follows:

	2019	**2018**
Fair value of plan assets on January 1	$ 29,330	32,518
Interest income	318	372
Remeasurement of net defined benefit liability (asset)		
- Return on plan assets (excluding current interest)	1,136	954
Amount contributed to the plan	507	588
Benefits paid by the plan	(7,613)	(5,102)
Fair value of plan assets on December 31	$ 23,678	29,330

(4) The Consolidated Company had no upper limit impact on defined benefit plan assets in 2019 and 2018.

(5) Expenses recognized as profit and loss

The expenses recognized as profit and loss of the Consolidated Company in 2019 and 2018 are as follows:

	2019	2018
Net interest from net defined benefit liability (asset)	$ (2)	11

Expenses are recognized in the statement of comprehensive income as follows:

	2019	2018
Operating cost	$ (2)	11

(6) Remeasurement of net defined benefit liability (asset) recognized as other comprehensive income

The remeasurement of the net defined benefit liability (asset) accumulated and recognized as other comprehensive income of the Consolidated Company as of December 31, 2019 and 2018 is as follows:

	2019	2018
Accumulated balance on January 1	$ 1,728	1,157
Current recognition	907	571
Accumulated balance on December 31	$ 2,635	1,728

(7) Actuarial assumption

The main actuarial assumptions used by the Consolidated Company at the end of the financial reporting period are as follows:

	2019.12.31	2018.12.31
Discount rate	1.00%	1.15%
Future salary increase	1.75%	1.75%

The Consolidated Company expects to pay NT$436,000 to the defined benefit plan within one year after the reporting date of 2019.

The weighted average duration of defined benefit plans is 13.1 years.

(8) Sensitivity analysis

The impact of changes in the main actuarial assumptions to be adopted on the reporting date of December 31, 2019 and 2018 on the present value of defined benefit obligations is as follows:

	Impact on defined benefit obligations	
	Increase	Decrease
December 31, 2019		
Discount rate (change of 0.25%)	(646)	672
Future salary increase (change of 1%)	2,798	(2,455)
December 31, 2018		
Discount rate (change of 0.25%)	(862)	895
Future salary increase (change of 1%)	3,736	(3,283)

The above sensitivity analysis is based on the impact of changes in a single assumption when other assumptions remain unchanged. In practice, the changes in assumptions may be interlinked. Sensitivity analysis is consistent with the method used to calculate net defined benefit liabilities on the balance sheet.

The methods and assumptions used in the preparation of sensitivity analysis in this period are the same as those in the previous period.

2. Defined Contribution Plans

The Consolidated Company's defined contribution plan contributes 6% of the worker's monthly wage to the individual labor pension accounts at the Bureau of Labor Insurance per the provisions of the Labor Pension Act. Under this plan, the Consolidated Company contributes a fixed amount to the Bureau of Labor Insurance, and there is no legal or constructive obligation to pay the additional amount.

The pension expenses of the Consolidated Company under the defined contribution pension mechanism in 2019 and 2018 are NT$21,872,000 and NT$21,130,000 respectively, which have been contributed to the Bureau of Labor Insurance.

3. Short-term Compensated Absences

The details of employee benefit liabilities of the Consolidated Company are as follows:

	2019.12.31	2018.12.31
Short-term compensated absences	$ 14,543	11,591

(XIII) Income Tax

1. The details of income tax expenses of the Consolidated Company in 2019 and 2018 are as follows:

	2019	2018
Current income tax expense		
Arising in the current period	$ 99,498	110,314
Adjustments of income tax in the prior period	(3,337)	1,755
Surtax on unappropriated retained earnings	4,471	4,691
	100,632	116,760
Deferred tax expense		
Origination and reversal of temporary differences	(3,074)	(4,617)
Change in income tax rate	-	(2,457)
Income tax expense	$ 97,558	109,686

2. The relationship between the income tax expense and the profit before tax of the Consolidated Company in 2019 and 2018 is adjusted as follows:

	2019	2018
Profit before tax	$ 499,914	517,199
Income tax calculated according to the domestic tax rate of the location of the Company	99,983	103,440
Change in income tax rate	-	(2,457)
Adjustments of income tax in the prior period	(3,337)	1,755
Surtax on unappropriated retained earnings	4,471	4,691
Investment profit and loss recognized by the equity method	-	(2)
Tax exemption profit	(2,188)	(1,220)
Non-deductible expense	-	33
Others	(1,371)	3,446
Total	**$ 97,558**	**109,686**

3. Deferred tax assets

(1) Unrecognized deferred tax assets

Items not recognized as deferred tax assets by the Consolidated Company are as follows:

	2019.12.31	2018.12.31
Deductible temporary difference	**$ 803**	**803**

(2) Recognized deferred tax assets

The changes in deferred tax assets in 2019 and 2018 are as follows:

	Provisions	Unrealized construction loss	Cumulative compensated absences	Others	Total
January 1, 2019	$ 15,847	2,160	2,314	664	20,985
Recognized in the income statement	4,644	(2,160)	591	-	3,075
December 31, 2019	**$ 20,491**	**-**	**2,905**	**664**	**24,060**
January 1, 2018	$ 10,040	6	1,808	2,058	13,912
Recognized in the income statement	5,807	2,154	506	(1,394)	7,073
December 31, 2018	**$ 15,847**	**2,160**	**2,314**	**664**	**20,985**

4. The Consolidated Company's business income tax declaration has been approved by the collection authority until 2017, except that Jiequn Investment has been approved to 2018.

(XIV) Capital and Other Equity

As of December 31, 2019 and 2018, the total authorized capital stock of the Company is NT$1,200,000; the total number of shares is 120,000,000 with a par value of NT$10 per share, and the number of issued shares is 106,036,000. The payment of all issued shares has been collected.

1. Capital Surplus

The balance of the Company's capital surplus is as follows:

	2019.12.31	2018.12.31
Paid-in capital in excess of par value	$ 383,109	383,109
Conversion premium of corporate bond	130,766	130,766
Changes in the equity net value of associates and joint ventures recognized by the equity method	2,568	2,568
Overdue unclaimed dividend	361	328
Others	1,437	1,437
	$ 518,241	**518,208**

According to the Company Act, after the capital surplus has priority to cover the deficit, it may issue new shares or cash with the realized capital surplus according to the proportion of the original shares of the shareholders. The realized capital surplus referred to in the preceding paragraph includes the overage from the issuance of shares over the par value and the proceeds from the receipt of gifts. In accordance with the provisions of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be capitalized, and the combined amount of any portions capitalized may not exceed 10% of the paid-in capital each year.

2. Retained Earnings

According to the Articles of Association of the Company, if there are any earnings in the general final accounts of each year, other than the tax contributed in accordance with the law, the Company shall first make up the deficits of the previous year, and the second contribute 10% as the legal capital surplus and contribute or revert the special capital surplus according to the laws. As for the remaining, apart from the dividend distribution, if there are still any earnings, the Board of Directors shall prepare an earnings distribution plan and submit it to the shareholders' meeting for resolution.

The Company will develop towards contracting large-scale constructions and strive for growth and innovation. To continuously expand appropriate capital to meet the needs of the business, and to take into account the cash needs of shareholders, the Company's future cash dividend ratio will be based on the lower limit of 20% of the total cash and stock dividends to be issued in the current year.

(1) Legal capital surplus

When the Company has no loss, it may, by resolution of the shareholders' meeting, issue new shares or cash with the legal capital surplus, provided that the surplus exceeds 25% of the paid-in capital.

(2) Earnings distribution

On June 17, 2019 and June 22, 2018, the Company passed resolutions on earnings distribution in 2018 and 2017 at the general shareholders' meetings. The amount of dividends distributed to the owners is as follows:

	2018		2017	
	Dividend rate (NT$)	**Amount**	**Dividend rate (NT$)**	**Amount**
Dividends distributed to owners of ordinary shares:				
Cash	$ 3	**318,107**	2.16	**229,037**

3. Other Equity (net after tax)

	Unrealized profit and loss of financial assets measured at fair value through other comprehensive income	**Available-for-sale investment**	**Total**
Balance on January 1, 2019	$ 3,177	-	3,177
Unrealized evaluated (loss) profit of financial assets measured at fair value through other comprehensive income	122,982	-	122,982
Balance on December 31, 2019	**$ 126,159**	**-**	**126,159**
Balance on January 1, 2018	$ -	11,710	11,710
Adjustments for retroactive application of new standards	4,074	(11,710)	(7,636)
Balance after restatement on January 1, 2018	4,074	-	4,074
Unrealized evaluated (loss) profit of financial assets measured at fair value through other comprehensive income	(897)	-	(897)
Balance on December 31, 2018	**$ 3,177**	**-**	**3,177**

(XV) Earnings per Share

The basic and diluted earnings per share of the Company in 2019 and 2018 are calculated as follows:

		2019	2018
Basic earnings per share			
Net profit attributable to ordinary equity holders of the Company	$	402,348	407,506
The weighted average number of ordinary shares outstanding		106,036	106,036
		3.79	3.84
Diluted earnings per share			
Net profit attributable to ordinary equity holders of the Company	$	402,348	407,506
The weighted average number of ordinary shares outstanding		106,036	106,036
Impact of potential ordinary shares with the dilution effect			
Influence of potentially diluted shares - employee compensation		185	284
The weighted average number of ordinary shares outstanding (after adjusting the impact number of diluted potential ordinary shares)		106,221	106,320
	$	3.79	3.83

(XVI) Revenue from Client Contracts

1. Disaggregation of Revenue

		2019	2018
Timing of revenue recognition:			
Constructions gradually transferred over time	$	11,456,360	11,406,289
Gradually transferred services over time		6,082	22,903
	$	11,462,442	11,429,192

2. Contract Balance

		2019.12.31	2018.12.31	2018.01.01
Notes and accounts receivable (including affiliates)	$	3,040,963	3,393,909	2,121,339
Less: Loss allowance		-	-	-
Total	$	3,040,963	3,393,909	2,121,339
Contract asset construction-	$	1,594,708	1,209,724	1,451,911
Less: Loss allowance		-	-	-
Total	$	1,594,708	1,209,724	1,451,911
Contract liability construction-	$	988,111	960,840	941,700

Please refer to Note 6 (4) for the disclosure of accounts receivable and their impairment.

The changes in contract assets and contract liabilities are mainly due to the difference between the time when the Consolidated Company transfers commodity or services to customers to meet the performance obligations and the time when clients pay. Therefore, there was no other material change in 2019 and 2018.

(XVII) Remuneration of Employees, Directors, and Supervisors

According to the Articles of Association of the Company, if there is any profit in the year, 0.5% - 1% should be allocated as the employees' remuneration and no more than 2% as the Directors' and Supervisors' remuneration. However, if the Company still has accumulated deficits, it shall reserve the amount of compensation in advance.

The Company's estimated remuneration of employees in 2019 and 2018 are NT$ 5,105,000 and NT$5,272,000 respectively, and those of Directors and Supervisors are NT$ 10,209,000 and NT$10,544,000 respectively. That is based on the Company's profit before tax before deducting remuneration of employees, Directors, and Supervisors during the period multiplied by the remuneration distribution ratio of employees, Directors, and Supervisors stipulated in the Articles of Association of the Company as the estimated basis, and reported as the operating costs and operating expenses in 2019 and 2018. There is no difference between the remuneration of the employees, Directors, and Supervisors allocated by the aforesaid resolution of the Board of Directors and the estimated amount of the individual financial report of Company in 2019 and 2018. For relevant information, please refer to the Market Observation Post System (MOPS).

(XVIII) Non-operating Income and Expenses

1. Other Income

Details of other income of the Consolidated Company in 2019 and 2018 are as follows:

	2019	2018
Interest income		
Loans and receivables	$ 5,513	2,413
Bank deposits	776	690
Other interest income	-	10,503
Dividend income	12,870	7,728
Rent income	11	11
Other income	5,465	5,370
	$ 24,635	**26,715**

2. Other Gains and Losses

Details of other gains and losses of the Consolidated Company in 2019 and 2018 are as follows:

	2019	2018
Net profit or loss of financial assets at fair value through profit and loss	$ 7,027	(6,455)
Others	-	(3,886)
	$ 7,027	**(10,341)**

3. Financial Cost

Details of the financial cost of the Consolidated Company in 2019 and 2018 are as follows:

	2019	2018
Interest expense		
Bank loans	$ 2,044	1,798
Others	86	204
	$ 2,130	2,002

(XIX) Financial Instruments

1. Credit Risk

(1) Credit risk exposure

The carrying amount of financial assets represents the maximal amount of credit risk exposure.

(2) The concentration of credit risk

The revenues of the Consolidated Company in 2019 and 2018 are derived from the sales to domestic clients; the clients of the Consolidated Company are concentrated in the construction industry and public works, but mainly in the group companies, creditworthy companies and government agencies. Therefore, no material concentration of credit risk is found in the evaluation of the Consolidated Company. The Consolidated Company still regularly evaluates the possibility of recovery of accounts receivable and provides the allowance for bad debts also the loss of bad debts is within the expectation of the management.

2. Liquidity Risk

The following table shows the contractual maturity of financial liabilities, including estimated interest but excluding the impact of net amount agreements.

	Carrying amount	Contractual cash flow	Within 1 year	13 years-	35 years-	More than 5 years
December 31, 2019						
Non-derivative financial liabilities						
Unsecured bank loans	$ 150,000	151,400	151,400	-	-	-
Notes payable	361,911	361,911	361,911	-	-	-
Accounts payable	3,599,351	3,599,351	2,106,886	1,492,465	-	-
Other payables	74,167	74,167	74,167	-	-	-
Other current liabilities (lease liabilities)	122	197	197	-	-	-
Other non-current liabilities (lease liabilities)	4,305	5,427	-	393	393	4,641
	$ 4,189,856	4,192,453	2,694,561	1,492,858	393	4,641
December 31, 2018						
Non-derivative financial liabilities						
Notes payable	$ 394,924	394,924	394,924	-	-	-
Accounts payable	2,656,398	2,656,398	1,528,130	1,128,268	-	-
Other payables	49,446	49,446	49,446	-	-	-
	$ 3,100,768	3,100,768	1,972,500	1,128,268	-	-

The Consolidated Company does not expect that the cash flow of maturity analysis will take place significantly earlier, or the actual amount will be meaningfully different.

3. Interest Rate Analysis

The risk of interest rate exposure on the financial assets and financial liabilities of the Consolidated Company is described in the liquidity risk management of this note.

The following sensitivity analysis is determined by the interest rate risk exposure of derivative and non-derivative instruments on the reporting date. For floating rate liabilities, the analysis method presumes that the amount of outstanding liabilities on the reporting date is outstanding throughout the year. The rate of change used in reporting the interest rate to the key management within the Consolidated Company is 0.5% increase or decrease in the interest rate, which also signifies the management's evaluation of the reasonable range of likely fluctuations in the interest rate.

4. Other Price Risk

On the reporting date, if the price of equity securities fluctuates (two periods of analysis are based on the same basis, assuming that other variable factors remain unchanged), the impact on the comprehensive profit and loss items is as follows:

	2019		2018	
Securities price on the reporting date	**After-tax amount of other comprehensive income**	**After-tax profit or loss**	**After-tax amount of other comprehensive income**	**After-tax profit or loss**
Up 10%	$ 33,895	4,405	21,729	4,406
Down 10%	$ (33,895)	(4,405)	(21,729)	(4,406)

5. Fair Value Information

(1) Type and fair value of financial instruments

Financial assets and liabilities measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income are measured at fair value on a repeatability basis. The carrying amount and fair value of various types of financial assets and financial liabilities (including fair value level information, then again the carrying amount of financial instruments not measured by fair value is a reasonable approximation, and the fair value of equity instrument investment lease liabilities without quotation in the active market that cannot be reliably measured, the fair value is not required to be disclosed according to regulations) are listed as follows:

	2019.12.31				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets enforced at fair value through profit or loss	$ 74,118	74,118	-	-	74,118
Financial assets measured at fair value through other comprehensive income	$ 344,872	338,952	-	5,920	344,872
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 2,526,409	-	-	-	-
Notes receivable and accounts receivable (including affiliates)	3,040,963	-	-	-	-
Other financial assets - current-	243,636	-	-	-	-
Other financial assets - non-current-	7,955	-	-	-	-
Subtotal	5,818,963	-	-	-	-
Total	$ 6,237,953	413,070	-	5,920	418,990
Financial liabilities measured at amortized cost					
Short-term loans	$ 150,000	-	-	-	-
Notes payable and accounts payable	3,961,262	-	-	-	-
Other current liabilities (lease liabilities)	122	-	-	-	-
Other non-current liabilities (lease liabilities)	4,305	-	-	-	-
Other payables	74,167	-	-	-	-
Total	$ 4,189,856	-	-	-	-

	2018.12.31				
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets enforced at fair value through profit or loss	$ 67,175	67,175	-	-	67,175
Financial assets measured at fair value through other comprehensive income	$ 221,861	217,290	-	4,571	221,861
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 1,333,037	-	-	-	-
Notes receivable and accounts receivable (including affiliates)	3,393,909	-	-	-	-
Other financial assets - current-	341,866	-	-	-	-
Other financial assets - non-current-	9,242	-	-	-	-
Subtotal	5,078,054	-	-	-	-
Total	$ 5,367,090	284,465	-	4,571	289,036
Financial liabilities measured at amortized cost					
Notes payable and accounts payable	$ 3,051,322	-	-	-	-
Other payables	49,446	-	-	-	-
Total	$ 3,100,768	-	-	-	-

(2) Quantitative information of fair value measurement of material unobservable inputs (Level 3)

The fair value measurement of the Combined Company is classified as Level 3, mainly including financial assets measured at fair value through other comprehensive income and is conducted through the income approach.

(3) Fair value evaluation technique of financial instruments measured at fair value

Non-derivative financial instruments

If a financial instrument has a quoted price in an active market, then the active market quotation shall be the fair value. The market price of the major Exchanges and the market price of popular central government bonds judged and released by the Taipei Exchange, which is the basis of the fair values of TWSE/TPEx listed equity instruments and debt instruments with active market quotations.

If the public quotation of a financial instrument can be obtained from an exchange, broker, underwriter, industry association, pricing service agency or competent authority in a timely and frequent manner, and the price represents the actual and regular fair market transactions, the financial instrument has an active market quotation. If the above conditions are not met, the market is deemed not active. Generally speaking, large difference in buying and selling price, significant increase of buying and selling price, and few transactions are indexes of market not active.

If the financial instruments held by the Consolidated Company fit into an active market, their fair values are listed according to the categories and attributes as follows :

The stock of a TWSE/TPEx listed company is a financial asset with standard terms and traded in an active market, and its fair value is determined by reference to the market quotation.

In addition to the aforementioned financial instruments with an active market, the fair value of other financial instruments is acquired by valuation technique or by reference to the counterparty quotes. The fair value acquired through valuation technique can refer to the current fair value, the discounted cash flow method or other valuation techniques for financial instruments with similar substantive conditions and characteristics in essence, including the market information available on the combined reporting date using the model (such as the reference yield curve of the OTC market and the average quotation of Reuters commercial promissory note rate).

If the financial instruments held by the Consolidated Company do not fit into the active market, their fair values are listed according to the categories and attributes as follows :

The equity instrument without public quotation: The discounted cash flow model is used to estimate fair value. Its main assumption is that the expected future cash flow of the investee will be measured by discounting the rate of return, reflecting the time value of money and investment risk.

The equity instrument without public quotation: The market comparable company approach is used to estimate the fair value. Its assumption is based on the estimated earnings before tax, interest, depreciation, and amortization of the investee and the earnings multiplier derived from the market quotation of comparable TWSE/TPEx listed companies. This estimate has adjusted the discount effect of the lack of market liquidity of the equity securities.

(4) Details of changes in Level 3

	Measured at fair value through other comprehensive income		
	Equity instruments without public quotation	**Bond Investment**	**Total**
January 1, 2019	$ 4,571	-	4,571
December 31, 2019	$ 5,920	-	5,920
January 1, 2018	$ 6,000	-	6,000
December 31, 2018	$ 4,571	-	4,571

The above total profit or loss is reported in "unrealized valuation profit (loss) of financial assets measured at fair value through other comprehensive income." Among them, the related assets still held on December 31, 2019 and 2018 are as follows:

	2019	**2018**
Total profit or loss		
Recognized in other comprehensive profit and loss (reported in "unrealized valuation profit (loss) of financial assets measured at fair value through other comprehensive income").	$ 1,349	(1,429)

(XX) Financial Risk Management

1. Outline

The Consolidated Company is exposed to the following risks due to the use of financial instruments:

(1) Credit risk

(2) Liquidity risk

(3) Market risk

The notes convey the aforementioned various risk exposure of the Consolidated Company and the objectives, policies, and procedures for the measurement and risk management of the Consolidated Company. For further quantitative disclosure, please refer to the notes in the consolidated financial report.

2. Risk Management Framework

(1) Risk management policies

In the process of operation, enterprises often encounter many uncertain factors that may threaten their operations. In order to perceive and control them as early as possible and reduce the losses caused by the occurrence of risks, a good risk management policy is essential. The Board of Directors of the Consolidated Company establishes the overall risk management policy in line with the operating strategy, operating environment and department plan. Its main subjects include the aspects of the environment, internal and external operational flow, and strategic decision-making, etc. Furthermore, the Board of Directors shall put forward risk management reports on the resolutions, deliverables, supervision, and subsequent execution process of various risk management issues. So when the future operation and management encounter similar or the same problems, it can refer to the experience and propose better solutions.

(2) Organizational structure of risk management:

Each hierarchy level or department of the Consolidated Company shall be responsible for the risks. Once the situation is found to be wrong, it shall promptly report to the auditing office or the senior executive and seek solutions as soon as possible. The decision-maker shall also take action within the shortest time.

The organizational structure of risk management of the Consolidated Company is as follows:

Name of Organization	Scope of authority and responsibility
The Board of Directors	Establish risk management policies Ensure the effective operation and resource allocation of risk management mechanism
Senior Executive	Implement risk management decisions of the Board of Directors Coordinate risk management affairs across departments
Auditing Office	Conduct daily risk management audit Supervise risk management activities and report the implementation to the Board of Directors and Supervisors
Other Departments	Consolidate the implementation results of risk management activities Conduct daily risk management operations Determine the risk category depending on environmental changes, and propose the undertaking plan

3. Credit Risk

Credit risk refers to the risk of financial loss due to the failure of the Consolidated Company's clients or counterparties of financial instruments to perform their contractual obligations. It mainly comes from the accounts receivable from clients and securities investment of the Consolidated Company.

(1) Accounts receivable and other receivables

The credit risk exposure of the Consolidated Company is primarily affected by the individual circumstances of each client. The management also considers the statistical data of the Consolidated Company's client base, including the default risk of the client's industry and country, as these factors may affect the credit risk. In order to reduce the credit risk of receivables, the Consolidated Company continuously assesses the financial status of its clients and requires the counterparty to provide collaterals or guarantees when necessary.

(2) Investment

The credit risks of bank deposits, fixed-income investments, and other financial instruments are measured and monitored by the financial department of the Consolidated Company. Given that the trading counterpart and the contract performing party of the Consolidated Company are financial institutions, corporate organizations, and government agencies with good credit, there is no material credit risk because there is no significant doubt about the contract performance.

4. Liquidity Risk

Liquidity risk refers to the risk that the Consolidated Company is unable to deliver cash or other financial assets to settle financial liabilities and fails to perform relevant obligations. The method of managing the liquidity of the Consolidated Company is to ensure that the Consolidated Company has sufficient circulating capital to pay for its due liabilities under normal and stressful conditions, without any risk of unacceptable loss or damage to the reputation of the Consolidated Company.

Generally speaking, the Consolidated Company ensures that there is sufficient cash to meet the needs of expected operating expenses, including the performance of financial obligations, but excluding the potential impact that cannot be reasonably expected under extreme circumstances, such as natural disasters. Moreover, the unused comprehensive loan facilities (including NTD loan, letter of credit and commercial paper facilities) of the Consolidated Company on December 31, 2019 and 2018 totaled NT$3,671,975,000 and NT$ 3,597,523,000.

5. Market Risk

Market risk refers to the risk that changes in market prices, such as exchange rate, interest rate, and equity instrument price will affect the earnings of the Consolidated Company or the value of the financial instruments it holds. The goal of market risk management is to control the market risk to an acceptable extent and optimize the return on investment.

(1) Interest rate risk

The policy of the Consolidated Company is to ensure that the risk of borrowing interest rate fluctuation is based on fixed interest rates. Part of this is through the signing of fixed interest rate instruments, and part is through the borrowing floating interest rates, and the use of interest rate swap contracts is attributed to avoid the cash flow variability due to interest rate fluctuations to achieve this goal.

(2) Other market price risks

The Consolidated Company has the risk of exposure in equity price due to the equity securities investment of TWSE/TPEx listed companies. The equity investment is not held for trading but a strategic investment. The Consolidated Company has not actively traded such investments, and the managing personnel of the Consolidated Company manage the risks by holding different risk investment portfolios.

(XXI) Capital Management

The goal of the capital management of the Consolidated Company is to ensure the ability to sustain operation to continuously offer the shareholders' remuneration and other stakeholders' interests and to maintain the best capital structure to reduce the cost of capital.

In order to maintain or recapitalize structure, the Consolidated Company may adjust the dividends paid to the shareholders, refund of capital reduction to shareholders, issue new shares, or sell assets to settle the liabilities.

The Consolidated Company is the same as its peers and uses debt to capital ratio as the foundation of capital control. The ratio is calculated by dividing net indebtedness over capitalization. Net indebtedness is the total liabilities, shown in the balance sheet, less cash and cash equivalents. Capitalization is the entire component of equity (that is, equity, capital surplus, retained earnings, other equity, and non-controlling equity) plus net indebtedness.

The capital management strategy of the Consolidated Company in 2019 is consistent with that in 2018, to ensure financing at a reasonable cost. The debt to capital ratios at December 31, 2019 and 2018 are as follows:

	2019.12.31	2018.12.31
Total Liabilities	$ 5,535,726	4,450,861
Less: Cash and cash equivalents	(2,526,409)	(1,333,037)
Net indebtedness	3,009,317	3,117,824
Total equity	2,741,122	2,532,922
Adjusted capital	**$ 5,750,439**	**5,650,746**
Debt to capital ratio	**52%**	**55%**

VII. Related Party Transactions

(I) The Parent Company and the Ultimate Controlling Party

Kingdom Development Co., Ltd. is the parent company of the Consolidated Company and the ultimate controller of the group to which it belongs and holds 34.18% of the outstanding ordinary shares of the Consolidated Company. Kingdom Development Co., Ltd. has prepared a consolidated financial report for public use.

(II) Name and Relation of Affiliates

During the period covered by this consolidated financial report, the affiliates who have transactions with the Consolidated Company are as follows:

Name of affiliates	**Relationship with the Consolidated Company**
Kindom Development Co., Ltd.	The parent company of the Company
ReadyCom eServices Corp.	Investee companies evaluated by the equity method
Kindom Yu San Education Foundation	The relationship between the chairman of the board of directors and the parent of the company The chairman of the board and the chairman of the Company are relative within the second degree

(III) Material Transactions with Affiliates

1. Sales of Services to Affiliates

The material sales amount of the Consolidated Company to affiliates is as follows:

		2019			
	Nature	**Total contract amount**	**Valuated amount**	**Current valuation amount**	**Income recognized in the current period**
Parent company - Kindom Development Co., Ltd.	Construction contract	$ 20,037,538	10,158,533	5,000,015	5,629,172

		2018			
	Nature	**Total contract amount**	**Valuated amount**	**Current valuation amount**	**Income recognized in the current period**
Parent company - Kindom Development Co., Ltd.	Construction contract	$ 25,156,833	12,753,510	6,858,591	5,882,829

(1) The construction contracted by the Consolidated Company to the affiliate is the contract price after the reasonable management fee and profit are added in accordance with the project budget, following the outsourcing operation regulations of the construction project of the affiliated company, and submitted to the supervisor for approval through price comparison and negotiation procedures.

(2) In 2019 and 2018, the gross profit rates of the construction contracted by the Consolidated Company with the non-affiliated company are about (1.92)% - 22.92% and (1.81)%-18.55% respectively, and the gross profit rates with the affiliated company are about 3.85%-4.94% and 2.56%-5.75% respectively.

2. Receivables from Affiliates and Contract Assets

Details of receivables from affiliates and contract assets of the Consolidated Company are as follows:

Accounting items	Category of affiliates	2019.12.31	2018.12.31
Notes receivable	Parent company - Kindom Development Co., Ltd.	$ 1,287,602	1,899,951
Accounts receivable	Parent company - Kindom Development Co., Ltd.	625,773	736,697
Contract Assets	Parent company - Kindom Development Co., Ltd.	375,043	137,680
Contract assets (retention receivables)	Parent company - Kindom Development Co., Ltd.	21,494	43,714
		$ 2,309,912	2,818,042

The collection period of the Consolidated Company for the affiliate is 100% paid with 90 days promissory notes, and the general case is one or two assessments per month, 100% on spot, or 100% for 30 days, or 100% for 90 days.

3. Endorsement

On December 31, 2019 and 2018, the Consolidated Company is the joint partner and joint debtor of parent company Kindom Development Co., Ltd. for cooperative development and construction, with the amount of NT$28,384,000.

4. Leases

In 2019 and 2018, the Consolidated Company leased to parent company Kindom Development Co., Ltd. office building and signed a tenancy agreement concerning the rental market of offices in neighboring areas. The total contract value is NT$ 294,000 per month. The rental income in 2019 and 2018 is NT$ 3,360,000.

Also, in 2018, the Consolidated Company leased office building from its parent company Kindom Development Co., Ltd., with a total contract value of NT$212,000 per month. The rental expense in 2018 is NT$2,425,000. Those who meet the definition of a lease in IFRS 16 have been recognized for the right-of-use assets of NT$4,546,000 and lease liabilities of NT$4,546,000 respectively on January 1, 2019, when the aforementioned standards were initially applied. Interest expense of NT$ 77,000 was recognized in 2019, and the balance of lease liabilities as of December 31, 2019 was NT$4,427,000, which was recorded respectively in other current and non-current liabilities according to the maturity date.

5. Others

(1) In 2019 and 2018, the Consolidated Company donated NT$4,000,000 and NT$5,500,000 to Yu San Education Foundation, a syndicate legal entity, for the promotion of the foundation's business.

(2) In October 2017, the Consolidated Company signed an information project consulting service contract with ReadyCom eServices Corp. for a total contract price of NT$3,990,000, which has been paid in full as of December 31, 2018.

(3) In 2018, the Consolidated Company paid an information consulting fee of NT$343,000 to ReadyCom eServices Corp.

(IV) Key Management Personnel Transactions

Remuneration of key management personnel includes:

	2019	2018
Short-term employee benefits	$ 66,826	58,909
Benefits after retirement	168	5,320
	$ 66,994	64,229

VIII. Pledged Assets

The details of the carrying value of pledged assets by the Consolidated Company were as follows:

Name of assets	Object pledged as collateral	2019.12.31	2018.12.31
Other financial assets - current	Loan facilities collaterals and construction guarantees	$ 224,488	317,428
Net amount of property, plant and equipment	Loan facilities collaterals	53,200	53,394
Net amount of investment property	Loan facilities collaterals	95,585	102,817
		$ 373,273	473,639

IX. Material Contingent Liabilities and Unrecognized Contract Commitments

(I) Material Unrecognized Contract Commitments

1. On December 31, 2019 and 2018, the total amounts of material construction contracts by the Consolidated Company were NT$34,837,049,000 and NT$36,231,190,000 respectively, and the payments received according to the contract were NT$12,491,856,000 and NT$15,550,159,000 respectively.
2. Approved by the Board of Directors on December 20, 2019 and December 21, 2018, the Consolidated Company committed to donating NT$ 5,500,000 and NT$ 4,000,000 to the Kindom Yu San Education Foundation in 2020 and 2019 for the promotion of the foundation's business.

(II) Contingent Liability

1. For the construction 041A contracted by the Company, the neighboring manufacturer appealed that the improper construction of the Company caused the damage to the plant structure and floor, and the two parties failed to coordinate, so the neighboring manufacturer sued and claimed the Company for joint damage indemnity of NT$15,665,000, and the Company will continue to deal with it according to the judgment result.
2. The Company was sued for the construction contract and claimed to pay a loan amount of NT$ 2,032,000, and the Company will continue to deal with it according to the judgment result.

Notes to Consolidated Financial Statements of Great Tree Pharmacy Co., Ltd. (Continued)

X. Material Disaster Losses: None

XI. Material Post-period Matters: None

XII. Others

The function of employee benefits, depreciation, depletion, and amortization are summarized as follows:

Function / Nature	2019			2018		
	Attributed to operating cost	Attributed to operating expense	Total	Attributed to operating cost	Attributed to operating expense	Total
Employee benefit expenses						
Salary expense	$ 430,607	158,989	589,596	464,607	146,369	610,976
Labor insurance and national health insurance expense	38,139	9,137	47,276	35,988	8,046	44,034
Pension expense	16,689	5,180	21,869	16,463	4,678	21,141
Other employee benefits expense	232	12,068	12,300	584	9,338	9,922
Depreciation expense	466	475	941	467	362	829
Depletion expense	-	-	-	-	-	-
Amortization expense	-	-	-	-	-	-

XIII. Supplementary Disclosures

(I) Information on Material Transactions

In 2019, under Regulations Governing the Preparation of Financial Reports by Securities Issuers, information related to material transactions should be disclosed by the Consolidated Company is as the following:

1. Loan of funds to others: none.
2. Endorsement for others:

No.	Company name of the endorser	Endorsee		Endorsement limit for single enterprise (Note 2)	Maximum balance of endorsement in current period	Ending balance of endorsement	Actual expenditure	Endorsement amount secured by the property	The ratio of accumulated endorsement amount to the net value of the latest financial statements	Maximum amount of endorsement (Note 2)	Endorsement of the parent company to the subsidiary	Endorsement of the subsidiary to the parent company	Endorsement for mainland China
		Company Name	Relationship (Note 1)										
0	Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	Parent/Subsidiary Company	$ 5,481,922	14,192	14,192	14,192	-	0.52%	5,481,922	-	Y	-
1	Dingtian Construction Co., Ltd.	Kindom Development Co., Ltd.	Parent/Subsidiary Company	53,430	14,192	14,192	14,192	-	26.56%	53,430	-	Y	-
1	〃	Kedge Construction Co., Ltd.	〃	8,014,571	1,376,500	1,376,500	1,376,500	-	2,576.27%	16,029,141	-	Y	-

Note 1. Listed below are 7 types of relationship between the endorser and the endorsee, simply indicating the type will do:

(1) A company with business contacts.

(2) A company in which the Company directly or indirectly holds more than 50% of the voting rights.

(3) A company that directly or indirectly holds more than 50% of the voting rights of the Company.

(4) Companies in which the Company holds directly or indirectly 90% or more of the voting rights.

(5) Where a company fulfills its contractual obligations by providing mutual endorsements for another company in the same industry or for joint builders for purposes of undertaking a construction project

(6) Where all capital contributing shareholders make endorsements for their jointly invested company in proportion to their shareholding percentages.

(7) Where companies in the same industry provide among themselves joint and several securities for a performance bond of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 2.

1. The Company's endorsement method is that the total amount of external endorsements shall not exceed 200% of the net value of the Company's latest financial statements, and the endorsement amount for a single enterprise shall not exceed 200% of the net value of the Company's latest financial statements. Nevertheless, the total guarantee amount for construction projects shall not exceed 10 times the net value of the Company's latest financial statements, and the total guarantee amount for construction projects of a single enterprise shall not exceed 5 times the net value of the Company's latest financial statements.
2. The endorsement method of Dingtian Construction Co., Ltd. is that the total amount of external endorsement shall not exceed 100% of the net value of the latest financial statements of the company, and the endorsement amount for a single enterprise shall not exceed 100% of the net value of the latest financial statements of the company. Nevertheless, the total guarantee amount for construction projects shall not exceed 300 times the net value of the company's latest financial statements, and the total guarantee amount for construction projects of a single enterprise shall not exceed 150 times the net value of the company's latest financial statements.

Note 3. The above transactions have been written off at the time of preparation of the consolidated financial report.

3. Securities held at the end of the period (excluding investment in subsidiaries, associates and interest in joint ventures):

Holding company	Type and name of securities	Relationship with the issuer of securities	Accounting item	End of period				Maximum shareholding or contribution during the period	Notes
				Number of shares (1,000 shares)	Carrying amount	Shareholding ratio	Fair value		
Kedge Construction Co., Ltd.	Shares - Kindom Development Co., Ltd.	Kedge Construction Co., Ltd. is a subsidiary of the company	Financial assets measured at fair value through other comprehensive income - non-current	500	$ 15,950	0.10 %	15,950	0.10%	
〃	Beneficiary certificate - Fuh Hwa Aegis Fund	-	Financial assets at fair value through profit or loss - current	733	22,474	- %	22,474	- %	
Jiequn Investment Co., Ltd.	Shares - Fubon Financial Holding Co., Ltd.	-	〃	472	21,878	- %	21,878	- %	
〃	Shares - SinoPac Financial Holdings Co., Ltd.	-	〃	211	2,744	- %	2,744	- %	
〃	Beneficiary certificate - Fuh Hwa China New Economy A Shares Equity Fund-	-	〃	766	7,590	- %	7,590	- %	
〃	Shares - Kindom Development Co., Ltd.	Jiequn Investment Co., Ltd. is the second-tier subsidiary of the company	Financial assets measured at fair value through other comprehensive income - non-current	8,518	271,739	1.69 %	271,739	1.69%	
〃	Shares - Taiwan Calcom International Computer Graphic Co., Ltd.	-	〃	405	-	0.78 %	-	0.78%	
Guanqing Electromechanical Co., Ltd.	Shares - Kindom Development Co., Ltd.	Guanqing Electromechanical Co., Ltd. is the second-tier subsidiary of the company	〃	1,607	51,263	0.32 %	51,263	0.32%	
〃	Shares - Global Views – Commonwealth Publishing Co.	-	〃	132	5,920	0.59 %	5,920	0.59%	
Guanqing Electromechanical Co., Ltd.	Shares - Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	419	19,432	- %	19,432	- %	

4. Accumulated purchase or sale of the same securities amounts to NT$ 300 million or more than 20% of the paid-in capital: none.

5. The amount of property acquired reaches NT$ 300 million or more than 20% of the paid-in capital: none.
6. The amount of property disposal reaches NT$ 300 million or more than 20% of the paid-in capital: none.
7. Where the amount of goods purchased or sold with affiliates reaches NT$ 100 million or more than 20% of the paid-in capital: none.

Unit: NT$1,000

Purchases (Sales) Company	Name of transaction counterpart	Relationship	Transaction situation				The situation and reason for the difference between the transaction terms and the general transaction		Notes and accounts receivable (payable)		Notes
			Purchases/sales	Amount (Note)	Ratio to total goods purchased (sold)	Credit period	Unit price	Credit period	Balance	Ratio to total notes and accounts receivable (payable)	
Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	An investment company that evaluates Kedge Construction Co., Ltd. by the equity method	041B etc.	$ (5,000,015)	(47.24)%	Payment by installment following the contract is equivalent to the general transaction.	Equivalent	Slightly longer than normal	1,929,699	63.56%	

Note: It refers to the current valuation amount.

8. Receivables from affiliates amount to NT$ 100 million or more than 20% of paid-in capital:

Unit: NT$1,000

The company record it as receivable	Name of transaction counterpart	Relationship	Balance of receivables from affiliates	Turnover rate	Overdue receivables from affiliates		Receivables from affiliates Amount recovered after the period	Provisions for loss allowance Provisions for loss allowance
					Amount	Action taken		
Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	An investment company that evaluates Kedge Construction Co., Ltd. by the equity method	$ 1,929,699	2.47	-	-	445,601	-

9. Dealing in derivatives: none.
10. Business relations and essential transactions between parent-subsidiary companies:

No.	Name of trader	Name of the transaction counterpart	Relationship with trader	Transaction situation			
				Item	Amount	Terms of transaction	Ratio to consolidated total operating revenue or total assets
0	Kedge Construction Co., Ltd.	Guanqing Electromechanical Co., Ltd.	1	Contract liabilities	$ 5,456	Comparable to general transactions	0.07%
0	〃	〃	1	Notes and accounts payable	90,362	〃	1.09%
0	〃	〃	1	Operating cost	282,289	〃	2.46%
0	〃	Dingtian Construction Co., Ltd.	1	Contract liabilities	25,906	〃	0.31%
0	〃	〃	1	Notes and accounts payable	17,165	〃	0.21%
0	〃	〃	1	Operating cost	285,523	〃	2.49%
1	Guanqing Electromechanical Co., Ltd.	Kedge Construction Co., Ltd.	2	Contract assets	5,456	〃	0.07%
1	〃	〃	2	Notes and accounts receivable	90,362	〃	1.09%
1	〃	〃	2	Operating revenue	282,289	〃	2.46%
2	Dingtian Construction Co., Ltd.	〃	2	Contract assets	25,906	〃	0.31%
2	〃	〃	2	Notes and accounts receivable	17,165	〃	0.21%
2	〃	〃	2	Operating revenue	285,523	〃	2.49%

Note 1. The number is filled in as follows:

1. 0 represents parent company.
2. Subsidiaries are numbered in sequence, starting with Arabic numeral 1 according to company type.

Note 2. The type of relationship with the trader is indicated as follows:

1. Parent company to subsidiary.
2. Subsidiary to parent company.

Note 3. The above transactions have been written off at the time of preparing the consolidated financial report.

(II) Information on Reinvestment

The information on the reinvestment of the Consolidated Company in 2019 is as follows:

Unit: NT$1,000/1,000 shares

Name of investor company	Name of investee company	Location	Primary operating item	Original investment amount		Holdings at the end of the period			Maximum shareholding or contribution during the period	Current profit and loss of the investee	Investment profit and loss recognized in the current period	Notes
				End of this period	End of last year	Number of shares	Ratio	Carrying amount				
Kedge Construction Co., Ltd.	Jiequn Investment Co., Ltd.	Taiwan	General investment	$ 163,935	163,935	16,396	99.98%	369,801	99.98%	11,617	11,614	Subsidiary
Kedge Construction Co., Ltd.	Guanqing Electromechanical Co., Ltd.	Taiwan	Electrical equipment installation and fire safety equipment installation industry, etc.	81,326	81,326	7,747	99.96%	203,204	99.96%	11,976	11,972	〃
Jiequn Investment Co., Ltd.	Dingtian Construction Co., Ltd.	Taiwan	The comprehensive construction industry, etc.	16,500	16,500	-	30.00%	16,029	30.00%	5,592	1,678	Second-tier subsidiary
Guanqing Electromechanical Co., Ltd.	Dingtian Construction Co., Ltd.	Taiwan	The comprehensive construction industry, etc.	11,105	11,105	-	70.00%	37,401	70.00%	5,592	3,914	〃
Dingtian Construction Co., Ltd.	ReadyCom eServices Corp.	Taiwan	Information software services and management consultants, etc.	15,000	15,000	1,400	46.67%	20,506	46.67%	2	1	-

Note: The transactions of the above subsidiaries and second-tier subsidiaries have been written off at the time of preparing the consolidated financial report.

(III) Information on Investments in Mainland China:

1. Relevant information about the name and primary business items of the investee company in mainland China: none.
2. Investment limit in mainland China: none.
3. Material transactions with mainland investee companies: none.

XIV. Segment Information

The Consolidated Company should simply report the construction segment of operating segments. The construction segment is mainly responsible for the integrated operation and maintenance of construction, management, and other overall works. The information on segment profit and loss, segment assets, and segment liabilities are consistent with the financial statements. Please refer to the consolidated balance sheet and consolidated income statement for details.