



股票代號：2536

宏普建設股份有限公司

一〇八年度年報

# 2019 ANNUAL REPORT

## HONG PU REAL ESTATE DEVELOPMENT

TSE: 2536



年報查詢網址：<http://mops.twse.com.tw>

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### 最近年度財務報告簽證會計師

事務所名稱：安侯建業聯合會計師事務所  
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### 海外有價證券掛牌買賣之交易場所名稱及查詢該海外有價證券資訊之方式：

無

### 本公司利害關係人申訴管道

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### Stock Transfer Agent

Name: Yuanta Securities-Stock Agent  
Address: B1F., No.210, Sec. 3, Chengde Rd., Datong District, Taipei City 10366, Taiwan (R.O.C.)  
Operating hours: 8:30am~4:30pm, Monday ~ Friday  
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Tel : 886 (2) 2586-5859

### Auditors

Firm: KPMG Certified Public Accountants  
Name: Chun-Wei Chuang, Chin-Sun Wang  
Address: 68F., No.7, Sec. 5, Xinyi Rd., Xinyi District, Taipei City 11049, Taiwan (R.O.C.)  
Website: [www.kpmg.com.tw](http://www.kpmg.com.tw)  
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### Overseas Securities Exchange : None

### The company interested party service line

Receiving Unit: General Manager's Office  
Tel:886(2)2755-2662#124  
Corporate Website:[www.hong-pu.com.tw](http://www.hong-pu.com.tw)

#### Notice to readers

*This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.*

## 2019 Business Report

Dear Shareholders,

Looking back to 2019, Brexit was delayed, however, major central banks around the world have released liquidity, the concern of slowdown of the US economy has been lifted, and the US and China have temporarily reached a trade agreement. The demand in real estate market has come out. The projects, “World Trade Plaza” and “Leisurely Days” and “AMAX” were booked revenues on complete contract method of IFRS. We had a stable performance in 2019. In addition, we launched two presale projects, “Central Park” and “Peace Palace” in 2019, and will book revenues and profits in the future.

### A. Operating Performance in 2019

#### 1. Achievement of operating plan

We have achieved 2019 revenue of NT\$2,885,896K, compared with NT\$3,918,005K in 2018, a decrease of NT\$1,032,109K. And we have achieved 2019 earnings before tax of NT\$680,693K, compared with 520,842K in 2018, an increase of NT\$159,851K.

Because only one newly completed project, “World Trade Plaza” was booked revenues, in addition, some delivered units of “Hong Pu Park”, “Leisurely Days”, “Economy and Trade”, “WenDe”, “AMAX”, “Paris Mansion”, “Hong Pu New Star”, and “Light Year-the One” were booked in revenues. Therefore, revenues and costs decreased in 2019.

#### 2. Budget implementation

Our company is not required to file a financial forecast for fiscal year 2019 and 2018.

#### 3. Financial revenue and expenditure

Financial expenditures include capitalized interest expense NT\$84,257K in 2019, and NT\$73,968K in 2018. It increased NT\$10,289K than previous year, because of acquiring new lands and increase of bank loans. Therefore, interest expenses increased in 2019.

#### 4. Profitability analysis

| Item                      |                                     | Year 2019 | Year 2018 |
|---------------------------|-------------------------------------|-----------|-----------|
| ROA (%)                   |                                     | 3.63      | 2.78      |
| ROE (%)                   |                                     | 5.13      | 3.81      |
| As a % of paid in capital | Op. income                          | 17.00     | 12.99     |
|                           | Pretax profit                       | 20.45     | 15.64     |
| Net margin (%)            |                                     | 21.01     | 11.35     |
| EPS (NT\$)                | Diluted earnings per share          | 1.83      | 1.34      |
|                           | Adjusted diluted earnings per share | -         | 1.34      |

Our analysis is derived from the above figures:

Because only one newly completed project, “World Trade Plaza” and some delivered units of “Hong Pu Park” “Leisurely Days”, “Economy and Trade”, “WenDe”, “AMAX”, “Paris Mansion”, “Hong Pu New Star” and “Light Year-the One” were booked in revenues. Operating revenue decreased, but margin increased in 2019.



## 5. Research and development status

- (1) Constructions planning and design: In order to design better projects, the location and the corresponding environment must be appealing. In addition, we must evaluate and balance our customer needs against the construction laws set by the government to ensure that the project will be satisfactory to both parties upon completion. In order to do so, we will be incorporating computerized simulation and planning software.
- (2) Construction and management: Our construction department strives to study various technologies and building materials to improve efficiency and bring down construction costs.
- (3) Market research: To truly understand the property market, our marketing department studies land and property market data from various areas regularly and uses the analyzed data as a basis for positioning new projects and marketing strategies.

## B. Business plan in 2020

Looking forward to FY20, Global inflation is maintained at a low level. It is expected that central banks will continue to maintain the current quantitative easing monetary policy. After the first phase of the economic and trade agreement between the United States and China, the restlessness of the market will be resolved. Coupled with the transfer of trade orders and the return of investment from Taiwanese businessmen, the future is expected to be stabilized as the pneumonia epidemic slows. “Mitsui Garden Hotel” and “World Trade Plaza” will provide the company’s rental income. In addition, “TaChih”, “XinDian”, “NeiHu”, “BeiTou” will be adjusted, according to market conditions, the sales strategy or the timing of the presale. These lands can also be launched in the future.

We have our 2020 operation schedule below:

### 1. Business objectives

- (1) Accelerate land-bank development and continue to acquire quality land bank.
- (2) Position our projects within proper niches.
- (3) Maintain strong construction quality and good cost management.
- (4) Sustain sound financial planning and financing strategy.
- (5) Develop assets generate long-term rental income.

### 2. Sales forecast and sales policy

We are planning to sell projects, “World Trade Plaza”, “Hong Pu Park”, “Leisurely Days”, “Economy and Trade”, “WenDe”, “AMAX”, “Paris Mansion”, “Hong Pu New Star” and “Light Year-the One” in 2020.

### 3. Construction and marketing strategies

#### (1) Construction

- ◆ Focus on Taipei city and New Taipei City.
- ◆ Focus on residential property and office building.

#### (2) Marketing

- ◆ Design projects based on targeted customer’s demand and consumption power.
- ◆ Base our marketing strategy on project plans and Taipei city development to maintain profitability.

**C. Future developing strategies and effects of external competition, legal and macroeconomic environment:**

1. Hong Pu is major in Taipei City and New Taipei City, as well as some potential areas outside greater Taipei. We prefer to choose convenient transportation and life function land-piece to developing selfowned, joint venture or renewal projects. Beside residential buildings, we will put efforts on rent or sale of commercial office buildings.
2. Property development is not only high capital density, but also professional skills of land acquiring and product positioning and project planning. We have competitive strength of market research, quality control and solid financial situation to build up brand name.
3. Under circumstance of low level of interest rate and our healthy financial structure, we plan to develop long-term income properties and adjust business strategies.
4. High sales price projects market is slow, fundamental and middle sales price projects become main stream.

All of our management team will endeavor to accomplish the goals set for the year. Thank you for your continued support and encouragement.

Yours sincerely,

Chairman : J.H.Tuan



Manager : J.H.Tuan



Manager of accounting dept : P.S.Liu





## II. Company Profile

### A. Date of Incorporation : October 5, 1988

### B. Company History

- In October 1988, Hong-pu was incorporated and with a capital of NT\$35 million.
- In May 1990, a capital increased to the amount of NT\$193.88 million, and reorganized as a company limited by shares. In the end of the year, apply to the authority in charge of securities for an approval of public issuance of its shares.
- In March 1991, approved for public company by Securities and Futures Commission, Ministry of Finance. In Dec., for purchasing the land held for construction, a capital increased to the amount of NT\$600 million.
- In December 1992, in order to refund the loans, and reduce the finance stress, a capital increased to the amount of NT\$800 million.
- In February 1993, called a special shareholders' meeting, and had a resolution that the order of seatings in board of directors from 3 to 5. In April.
- In December 1994, a capital increased to the amount of NT\$960 million.
- In June 1995, a capital increased to the amount of NT\$1.104 billion.
- In March 1996, Hong-pu was listed in stock market. In June, in order to refund the loans, and reduce the finance stress, a capital increased to the amount of NT\$1.5696 billion.
- In August 1997, a capital increased to the amount of NT\$2.305 billion.
- In July 1998, a capital increased to the amount of NT\$2.885 billion.
- In September 1998, required for establishment of a subsidiary "Hung-Yuan Investment Limited Company" to proceed investment and manage finance. In 2000, reorganized as a company limited by shares.
- In June 1999, a capital increased to the amount of NT\$2.97155 billion.
- In August 2000, a capital increased to the amount of NT\$3.17956 billion.
- In February 2003, a capital decreased to the amount of NT\$3.13662 billion.
- In July 2004, Hong-pu merged Hong-Yuan Investment Co., Ltd. Hong-pu is the surviving company, NT\$309.21 billion capital held by Hong-Yuan was canceled. A capital decreased to the amount of NT\$282,741 billion.
- In October 2007, a capital increased to the amount of NT\$2.86268 billion.
- In September 2008, a capital increased to the amount of NT\$2.89931 billion.
- In August 2011, a capital increased to the amount of NT\$3.19135 billion.
- In June 2013, a capital increased to the amount of NT\$3.19467 billion.
- In January 2014, a capital increased to the amount of NT\$3.19951 billion.
- In June 2014, a capital increased to the amount of NT\$3.32809 billion.

### C. Mergers and Acquisitions : None

### D. Invested affiliates : None

### E. Restructuring : None

### F. The equity transfers of directors, supervisors or the shareholders with a stake of 10% or more : None

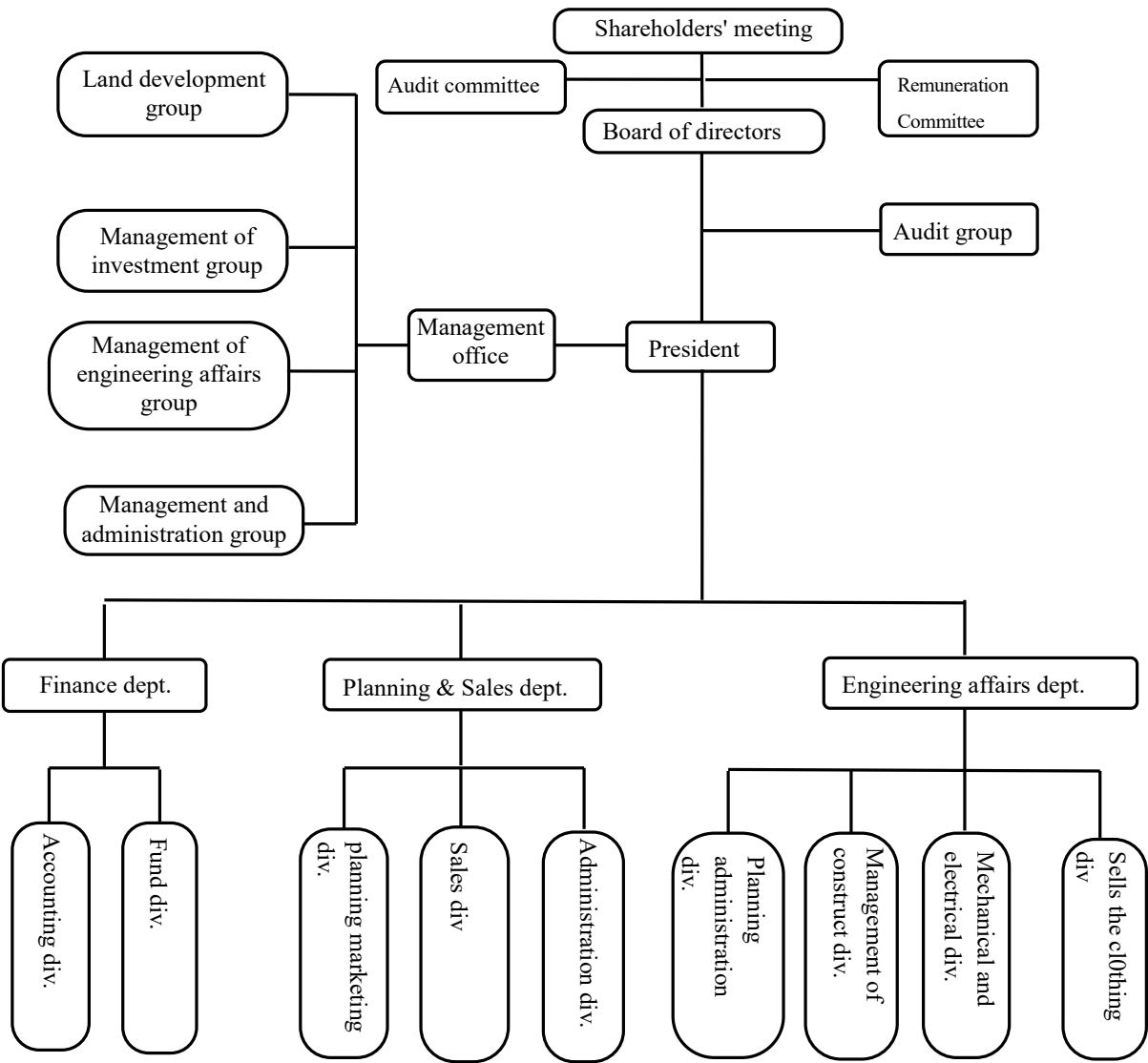
### G. Change of management : None

### H. Major changes of the operation style or business or other affairs, which might have an impact on the rights and interests of the shareholders:

We set up a leasing cooperation with Mitsui Fudosan Group on the hotel project "ZhongXiao" in January 2017. Lease contract was signed in June 2017 and the lease period is 20 years after delivery of the project.

III Company Governance Report

A. Organization chart



## B. Directors, Supervisors and Management Team

### a. Directors and Supervisors

#### Information on the company's directors and supervisors (a)

April 10, 2020

Unit : thousands of NT dollars

| Title<br>(Note1)        | Nationality or<br>place of<br>Incorporation | Name                         | Gender | Assumed<br>date | Term | Assumed<br>date at first<br>time<br>(Note2) | Shares held in assumed<br>date |          | Shareholding |         | Spouse &<br>Minor<br>Shareholding |   | Shareholding<br>by Nominee<br>Arrangement |   | Experience<br>( Education )<br>(Note3)  | Additional occupation or position  | Executives, Directors or<br>Supervisors who are<br>spouses or within two<br>degrees of kinship |      |          |
|-------------------------|---|------------------------------|--------|-----------------|------|---|--------------------------------|----------|--------------|---------|-----------------------------------|---|---|---|---|--|--|------|----------|
|                         |   |                              |        |                 |      |   | Shares                         | %        | Shares       | %       | Shares                            | % | Shares                                    | % |   |  | Title  | Name | Relation |
| Director                | Taiwan                                      | J.H.Tuan                     | male   | 20190614        | 3    | 1998.4.28<br>Note4                          | 11,119                         | 0.0033%  | 11,119       | 0.0033% | -                                 | - | -   | - | President of San-Poo Real Estate Development Co., Ltd.<br>John Kennedy university<br>National Chengchi University<br>Supervisor of Trade-Van Information Services Co.   | President of the company<br>Chairman, Hong Pu Social Welfare and Charity Foundation  | None   | None | None     |
| Director                |   | Hua-Zhan Investment Co., Ltd |        | 20190614        | 3    | 1998.4.28                                   | 53,694,745                     | 16.1338% | 56,468,745   | 16.96%  | -                                 | - | -   | - | -   | None   | None   | None | None     |
| Director Representative | Taiwan                                      | S.L Shen                     | female | 20190614        | -    | -   | -                              | -        | -            | -       | -                                 | - | -   | - | National Taipei University of Science and Technology<br>Tunghai University  | Manager, Hong Pu Real Estate Development Co., Ltd<br>Director, Hong Pu Social Welfare and Charity Foundation   | None   | None | None     |
| Director                |   | Fu-Da Investment Co., Ltd.   |        | 20190614        | 3    | 1998.4.28                                   | 49,896,040                     | 14.9924% | 49,905,040   | 14.99%  | -                                 | - | -   | - | -   | None   | None   | None | None     |
| Director                |   | Fu-Yi Investment Co., Ltd.   |        | 2019.06.14      | 3    | 2001.05.15                                  | 4,356,077                      | 1.3088%  | 4,356,077    | 1.3088% |                                   |   |   |   | -   | None   |  |      |          |
| Director Representative | Taiwan                                      | P. S. Liu                    |        | 20190614        |      |   |                                |          |              |         |                                   |   |   |   | Management of BDO Taiwan Union & Co.,<br>National Taipei University of Science and Technology<br>Tunghai University   | Deputy general manager<br>Chief of Accounter<br>CEO, Hong Pu Social Welfare and Charity Foundation   |  |      |          |
| Director Representative | Taiwan                                      | W. L. You                    | male   | 20190614        | -    | -   | -                              | -        | -            | -       | -                                 | - | -   | - | Project Manager, Huang-Hsiang Construction Co., Ltd.<br>EMBA, National Taiwan University of Science and Technology  | Vice President, Hong Pu Real Estate Development Co., Ltd<br>Director, Hong Pu Social Welfare and Charity Foundation  | None   | None | None     |
| Independent Director    | Taiwan                                      | B.S LI                       | female | 20190614        | -    | -   | -                              | -        | -            | -       | -                                 | - | -   | - | VP, PwC Taiwan<br>AVP, Ernst & Young<br>Master Program, National Taiwan University<br>Professional Education and Continuing Study in Business Administration, National Taiwan University · Professional Master's Program in Business Administration, National Taiwan University | Chairman, SHK Consulting Co., Ltd<br>Member of Remuneration Committee, Hong Pu Real Estate Development Co., Ltd and Hsin-Li Chemical Industrial Corp.<br>Member of Remuneration Committee, Financial Advisor, TCI Co., Ltd<br>Supervisor, SBI Group<br>Supervisor, Aquagen-Life<br>Supervisor, Yong Jiang Investment Co., Ltd<br>Supervisor, Taiwan Sunshine Bless Association | None   | None | None     |
| Independent Director    | Taiwan                                      | J.R Wu                       | female | 20190614        | -    | -   | -                              | -        | -            | -       | -                                 | - | -   | - | Member of Committee, ROCCPA Taipei<br>CPA, ROC<br>Deputy Manager, Ernst & Young<br>Partner, CKH & W CPA Office<br>BA, Tunghai University  | Chairman, Yun Ting Financial Management Consulting Ltd.<br>Partner, Yu Jin CPA Office<br>Hong Pu Real Estate Development Co., Ltd<br>Member of Remuneration Committee  | None   | None | None     |



| Title<br>(Note1)             | Nationality or<br>place of<br>Incorporation | Name                           | Gender | Assumed<br>date               | Term | Assumed<br>date at first<br>time<br>(Note2) | Shares held in assumed<br>date |   | Shareholding |   | Spouse &<br>Minor<br>Shareholding |   | Shareholding<br>by Nominee<br>Arrangement |   | Experience<br>( Education )<br>(Note3)  | Additional occupation or position   | Executives, Directors or<br>Supervisors who are<br>spouses or within two<br>degrees of kinship |      |          |
|------------------------------|---|--------------------------------|--------|-------------------------------|------|---|--------------------------------|---|--------------|---|-----------------------------------|---|---|---|---|---|--|------|----------|
|                              |   |                                |        |                               |      |   | Shares                         | % | Shares       | % | Shares                            | % | Shares                                    | % |   |   | Title  | Name | Relation |
| Independent<br>Director      | Taiwan                                      | K.L. YEN                       | male   | 2019.06.14                    | 3    | 108.06.14                                   |                                |   |              |   |                                   |   |   |   | NCCU School of Professional Master's<br>Program in Department of Public Finance<br>Taipei IRS Tax Collector | Partner, Answer-cpa, CPAs<br>Hong Pu Real Estate Development Co., Ltd.<br>Convenor of Remuneration Committee<br>NICHIDENBO CORPORATION Independent<br>Director&<br>Member of the Remuneration Committee<br>Remuneration Committee and Independent<br>Director and Audit Committee of LuTa Tech.<br>Win Win Precision Technology Co., Ltd.<br>Independent Directors and Member of the<br>Remuneration Committee 、SUNFON<br>Construction Co., LTD. Supervisor of the<br>company |  |      |          |
| Director                     |   | Hua-Yi Investment<br>Co., Ltd. |        | Resign on<br>Jun 14,<br>2019. | 3    | 2013.06.19                                  | -                              | - | -            | - | -                                 | - | -   | - | -   | None  | None   | None | None     |
| Supervisor<br>Representative | Taiwan                                      | B. Z. Sun                      | male   | Resign on<br>Jun 14,<br>2019. | -    | -   | -                              | - | -            | - | -                                 | - | -   | - | Chien Kuo construction CO.,Ltd. Development<br>B.U. CEO<br>National Chengchi University                     | Chien Kuo construction co., Ltd. Director   | None   | None | None     |
| Supervisor                   | Taiwan                                      | W.H.Huang                      | male   | Resign on<br>Jun 14,<br>2019. | 3    | 2004.5.18                                   | -                              | - | -            | - | -                                 | - | -   | - | CPA<br>National Chengchi University   | None  | None   | None | None     |

Note1: Institutional shareholder shall show names of institution and it's representative separately (the representative shall remark the institution's name) and fill in Table 1 below.

Note2: It shall show when did he/she/it assume position of director or supervisor at first time. If it is discontinuous, it shall be described in the note.

Note3: If work experience related to position now is in accounting firm or affiliated company in the period showed above, it shall show his/her title and function of position.

Note4: 2008.08.18-2010.06.25 Hua-Zhan Investment Co., Ltd Legal person representative Director



### Major shareholders of the institutional shareholders

April 10,2020

| Name of institutional shareholders<br>(Note 1) | Major shareholders of the institutional shareholders (Note 2) |                        |
|--|---|------------------------|
| Hua-Zhan Investment Co., Ltd.                  | Yi-Li Investment Co., Ltd.                                    | (Shares held : 18.79%) |
|  | Sheng-Hui Investment Co., Ltd.                                | (Shares held : 18.79%) |
|  | Tong-Chang Investment Co., Ltd.                               | (Shares held : 18.79%) |
|  | Fu-Yi Investment Co., Ltd.                                    | (Shares held : 18.79%) |
|  | Fu-Ta Investment Co., Ltd.                                    | (Shares held : 18.79%) |
|  | Wen-Shan Investment Co., Ltd.                                 | (Shares held : 6.02%)  |
|  | J.H.Tuan  | (Shares held : 0.03%)  |
| Fu-Ta Investment Co., Ltd.                     | Fu-Yi Investment Co., Ltd.                                    | (Shares held : 16.05%) |
|  | Sheng-Hui Investment Co., Ltd.                                | (Shares held : 16.05%) |
|  | Yi-Li Investment Co., Ltd.                                    | (Shares held : 16.05%) |
|  | Tong-Chang Investment Co., Ltd.                               | (Shares held : 16.05%) |
|  | Hua-Zhan Investment Co., Ltd.                                 | (Shares held : 16.05%) |
|  | Tai-Ban Investment Co., Ltd.                                  | (Shares held : 19.75%) |
| Fu-Yi Investment Co., Ltd.                     | Tong-Chang Investment Co., Ltd.                               | (Shares held : 19.99%) |
|  | Yi-Li Investment Co., Ltd.                                    | (Shares held : 19.99%) |
|  | Hua-Zhan Investment Co., Ltd.                                 | (Shares held : 19.99%) |
|  | Fu-Ta Investment Co., Ltd.                                    | (Shares held : 19.99%) |
|  | Sheng-Hui Investment Co., Ltd.                                | (Shares held : 19.99%) |
|  | J.H.Tuan  | (Shares held : 0.05%)  |

Note1: When director or supervisor is the representative of a corporate, name of the corporate shall be showed.

Note2: Company shall show the major shareholders' (top ten) names and holding ratios of the corporate. When the major shareholder is a corporate, company shall fill the table below.

### Major shareholders of the major shareholders that are juridical persons

April 10,2020

| Name of juridical persons (Note 1) | Major shareholders of the juridical persons (Note 2) |                        |
|------------------------------------|--|------------------------|
| Sheng-Hui Investment Co.,Ltd.      | Fu-Yi Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Fu-Ta Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Tong-Chang Investment Co., Ltd.                      | (Shares held : 19.99%) |
|                                    | Yi-Li Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Hua-Zhan Investment Co., Ltd.                        | (Shares held : 19.99%) |
|                                    | J.H.Tuan   | (Shares held : 0.05%)  |
| Yi-Li Investment Co., Ltd.         | Fu-Ta Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Sheng-Hui Investment Co., Ltd.                       | (Shares held : 19.99%) |
|                                    | Tong-Chang Investment Co., Ltd.                      | (Shares held : 19.99%) |
|                                    | Fu-Yi Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Hua-Zhan Investment Co., Ltd.                        | (Shares held : 19.99%) |
|                                    | J.H.Tuan   | (Shares held : 0.05%)  |
| Tong-Chang Investment Co., Ltd.    | Sheng-Hui Investment Co., Ltd.                       | (Shares held : 19.99%) |
|                                    | Hua-Zhan Investment Co., Ltd.                        | (Shares held : 19.99%) |
|                                    | Fu-Ta Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Yi-Li Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Fu-Yi Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | J.H.Tuan   | (Shares held : 0.05%)  |
| Fu-Yi Investment Co., Ltd.         | Tong-Chang Investment Co., Ltd.                      | (Shares held : 19.99%) |
|                                    | Yi-Li Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Hua-Zhan Investment Co., Ltd.                        | (Shares held : 19.99%) |
|                                    | Fu-Ta Investment Co., Ltd.                           | (Shares held : 19.99%) |
|                                    | Sheng-Hui Investment Co., Ltd.                       | (Shares held : 19.99%) |
|                                    | J.H.Tuan   | (Shares held : 0.05%)  |
| Wen-Shan Investment Co., Ltd.      | P.L.Tuan   | (Shares held : 41.03%) |
|                                    | W.G..Tuan  | (Shares held : 58.97%) |
| Tai-Ban Investment Co., Ltd.       | P.L.Tuan   | (Shares held : 50.00%) |
|                                    | W.G..Tuan  | (Shares held : 50.00%) |

Note1:When major shareholders are juridical persons, the name of the corporate shall be showed.

Note2: Company shall show the major shareholders' (top ten) names and holding ratios of the corporate.

**Information on the company's directors, supervisors (b)**

| Name<br>(Note 1)  | Criteria | Meet One of the Following Professional Qualification Requirements, Together with at least Five Years Work Experience   |  |   | Independence Criteria (Note2) |   |   |   |   |   |   |   |   |    |    |    | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|---|----------|--|--|---|-------------------------------|---|---|---|---|---|---|---|---|----|----|----|---|
|   |          | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a profession Necessary for the Business of Company | Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1                             | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |   |
| Director : J.H.Tuan   |          | —  | —  | ✓   | —                             | — | ✓ | ✓ | — | — | — | — | ✓ | ✓  | ✓  | ✓  | 0   |
| Director :Hua-Zhan Investment Co., Ltd.<br>Representative : S.L.Shen                |          | —  | —  | —   | —                             | — | ✓ | — | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 0   |
| Director :Fu-Ta Investment Co., Ltd.<br>Representative : W. L. You                  |          | —  | —  | —   | —                             | — | ✓ | ✓ | ✓ | ✓ | — | ✓ | ✓ | ✓  | ✓  | ✓  | 0   |
| Director :Fu-Yi Investment Co., Ltd.<br>Representative : P.S. Liu                   |          | —  | —  | ✓   |                               | — | ✓ | — | ✓ | — | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 0   |
| Independent Director : B.S.Li   |          | —  | —  | ✓   | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 2   |
| Independent Director : J.R. Wu  |          | —  | ✓  | ✓   | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 1   |
| Independent Director : K.L. YEN   |          |  | ✓  | ✓   | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 3   |
| Hua-Yi Investment Co., Ltd.<br>Representative : B. Z. Sun<br>Resign on Jun 14, 2019 |          |  |  | ✓   | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 0   |
| Supervisor :W. H. Huang Resign on Jun 14, 2019                                      |          | —  | ✓  | ✓   | ✓                             | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | ✓  | ✓  | 0   |

Note 1 : Please tick the corresponding boxes.

Note 2 : Directors or Supervisors, during the two years before being elected or during the term of office, have been or be any of the following, please tick the appropriate corresponding boxes:

- (1)Not an employee of the Company or any of its affiliates.
- (2)Not a director or supervisor of the Company's affiliates (not to apply to setting independent directors of the Company, parent company or subsidiaries according to the Company Act or local statutes).
- (3)Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the company or ranking in the top 10 holdings.
- (4)Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5)Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the company or that holds shares ranking in the top five in holdings.

- (6)Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
- (7)Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that , provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof. Performing the official power by the remuneration committee members of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Trade over the Counter Article 7, shall not be subject to this restriction.
- (8)Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
- (9)Not been a person of any conditions defined in Article 30 of the company Law.
- (10)Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

## b. Management Team

April 10, 2020 (Unit: NT\$ thousands)

| Title                    | Nationality | Name       | Gender | Assumed date | Shareholding |         | Spouse & Minor Shareholding |    | Shareholding by Nominee Arrangement |    | Experience ( Education )  | Additional occupation or position   | Managers who are Spouses or Within Two Degrees of Kinship |      |          |
|--------------------------|-------------|------------|--------|--------------|--------------|---------|-----------------------------|----|-------------------------------------|----|---|---|---|------|----------|
|                          |             |            |        |              | Shares       | %       | Shares                      | %  | Shares                              | %  |   |   | Title   | Name | Relation |
| President                | Taiwan      | J. H. Tuan | M      | 1993.02.02   | 11,119       | 0.0033% | 0                           | 0% | 0                                   | 0% | President of San-Poo Real Estate Development Co., Ltd.<br>John Kennedy university<br>National Chengchi University<br>Supervisor of Trade-Van Information Services Co. | President of the company<br>Chairman, Hong Pu Social Welfare and Charity Foundation                                 | None  | None | None     |
| Vice-President           | Taiwan      | W. L. You  | M      | 2008.10.28   | 0            | 0%      | 0                           | 0% | 0                                   | 0% | Project Manager of Huang-Hsiang Construction Co., Ltd.<br>National Taiwan University of Science and Technology  | Vice President, Hong Pu Real Estate Development Co., Ltd<br>Director, Hong Pu Social Welfare and Charity Foundation | None  | None | None     |
| Audit Manager            | Taiwan      | C.H.chan   | M      | 2017.03.23   | 0            | 0%      | 0                           | 0% | 0                                   | 0% | MBA in Department of Finance, National Sun Yat-sen University   | None  | None  | None | None     |
| Manager of finance dept. | Taiwan      | P. S. Liu  | F      | 2000.06.01   | 0            | 0%      | 0                           | 0% | 0                                   | 0% | Management of BDO Taiwan Union & Co.,<br>National Taipei University of Science and Technology<br>Tunghai University   | Deputy general manager<br>Chief of Acounter<br>CEO, Hong Pu Social Welfare and Charity Foundation                   | None  | None | None     |

Note1: Include president, vice-presidents, assistant vice-presidents, and the chiefs of all the company's divisions and branches. Despite the position, company shall show the assignments equivalent to president, vice-presidents, and assistant vice-presidents.

Note2:If work experience related to position now is in accounting firm or affiliated company in the period showed above, it shall show his/her title and function of position.

c. Payroll of Directors (Include Independent Directors), Supervisors, President And Vice President

(1) Remuneration of Directors (Include Independent Directors)

(Unit: NT\$ thousands)

| Title   | Name(Note1)   | Remuneration                     |                             |                   |                              |                                       |                              |                         |                              | Ratio of total remuneration<br>(A+B+C+D) to net income(%)<br>(Note 10) |                              | Relevant remuneration received by directors who are also employees |                              |                   |                              |   |   |                              |   | Ratio of total compensation<br>(A+B+C+D+E+F+G) to net income(%) (Note10) |                              | Compensation paid to directors from an invested company other than the company's subsidiary<br>(Note 11) |
|---|---|----------------------------------|-----------------------------|-------------------|------------------------------|---------------------------------------|------------------------------|-------------------------|------------------------------|--|------------------------------|--|------------------------------|-------------------|------------------------------|---|---|------------------------------|---|--|------------------------------|--|
|   |   | Base Compensation(A)<br>(Note 2) |                             | Severance Pay(B)) |                              | Remuneration of director (C) (Note 3) |                              | Allowance(D)<br>(Note4) |                              |  |                              | Salary, Bonuses, and Allowances (E)<br>(Note 5)                    |                              | Severance Pay (F) |                              | Employees' compensation (G)<br>(Note 6) |   |                              |   |  |                              |  |
|   |   | The Company                      | Financial Report<br>(Note7) | The Company       | Financial Report<br>(Note 7) | The Company                           | Financial Report<br>(Note 7) | The Company             | Financial Report<br>(Note 7) | The Company  | Financial Report<br>(Note 7) | The Company  | Financial Report<br>(Note 7) | The Company       | Financial Report<br>(Note 7) | The Company                             |   | Financial Report<br>(Note 7) |   | The Company  | Financial Report<br>(Note 7) |  |
| Chairman  | J. H. Tuan  | 0                                | -                           | 0                 | -                            | 2,200                                 | 2,200                        | 514                     | 514                          | 0.4466   | 0.4475                       | 5,626  | 6,729                        | 0                 | -                            | 5,792                                   | 0 | 5,792                        | - | 1.8788   | 2.0648                       | None   |
| Director  | Hua-Zhan Investment Co., Ltd<br>Representative:<br>S.L,Shen |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Director  | FU-TA Investment Co., Ltd<br>Representative:<br>W.L.YOU     |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Director  | Fu-Yi Investment Co., Ltd.<br>Representative:<br>P. S. Liu  |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Independent Director  | B.S,Lee   |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Independent Director  | J.R,WU  |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Independent Director  | K.L. YEN  |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |
| Except the table above, directors provide services (such as non-employee consultant) to receive remunerations from all the companies disclosed in the annual report of latest year. |   |                                  |                             |                   |                              |                                       |                              |                         |                              |  |                              |  |                              |                   |                              |   |   |                              |   |  |                              |  |

# Range of Payroll

| Range of Payroll<br>(Unit: NT\$)                 | Director's Names   |  |                              |                                |
|--|--|--|------------------------------|--------------------------------|
|  | Sum of Payroll(A+B+C)  |  | Sum of Payroll(A+B+C+D+E)    |                                |
|  | The company<br>(Note 8)  | Financial report<br>(Note 9) G                                   | The company<br>(Note8)       | Financial report<br>(Note 9) H |
| Below 1,000,000                                  | W.L.You<br>B.S,Li<br>J.R.Wu<br>S.L.Shen<br>P. S. Liu<br>K.L. YEN | W.L.You<br>B.S,Li<br>J.R.Wu<br>S.L.Shen<br>P. S. Liu<br>K.L. YEN | B.S,Li<br>J.R.Wu<br>K.L. YEN | B.S,Li<br>J.R.Wu<br>K.L. YEN   |
| 1,000,000(included) ~ 2,000,000(not included)    | J.H. Tuan  | J.H. Tuan  | P. S. Liu 、 S.L.Shen         | P. S. Liu 、 S.L.Shen           |
| 2,000,000(included) ~ 3,500,000(not included)    | -  | -  | W.L.You                      | W.L. You                       |
| 3,500,000(included) ~ 5,000,000(not included)    | -  | -  | J.H. Tuan                    | J.H. Tuan                      |
| 5,000,000(included) ~ 10,000,000(not included)   | -  | -  | -                            | -                              |
| 10,000,000(included) ~ 15,000,000(not included)  | -  | -  | -                            | -                              |
| 15,000,000(included) ~ 30,000,000(not included)  | -  | -  | -                            | -                              |
| 30,000,000(included) ~ 50,000,000(not included)  |  |  |                              |                                |
| 50,000,000(included) ~ 100,000,000(not included) |  |  |                              |                                |
| More than 100,000,000                            | -  | -  | -                            | -                              |
| Total  | 7  | 7  | 7                            | 7                              |

Note1: Director's names shall be showed separately (names of company and representative shall be showed for institution shareholder), but company may show combined payment for each item. If director is president or vice-president simultaneously, the payment shall be showed in this table and in table below.

Note2: It is director's payment (include salary, duty allowance, retirement pension, severance pay, bonus and incentive, etc.) of latest year.

Note3: It is the board's suggested amount of director's reward of earning allocation held for the latest earning allocation.

Note4: It is the relative executive expense (include carfare, special expenditure, subsidy, dormitory and car, etc.). When company provides residences, cars, other vehicles or several expenditures, it shall disclose quality and cost, and actual or fair rents, oil price and other expenditures of the assets. If there is a wheelsman, it shall disclose the relative payment, but this amount is not payroll of director.

Note5: It is director's salary, duty allowance, retirement pension, severance pay, bonus, incentive, carfare, special expenditure, subsidy, dormitory, car, etc. When he/she is employee (include president, vice-president, manager, employee) simultaneously in the latest year. When company provides residences, cars, other vehicles or several expenditures, it shall disclose quality and cost, and actual or fair rents, oil price and other pay of the assets. If there is a wheelsman, it shall disclose the relative payment, but this amount is not payroll of director. And, salaries expense on share-based payment of IFRS2 should be charged to remuneration, including employee stock option certificates, restricted employee right shares and new shares reserved for subscription by employee.

Note6: It is director's remuneration (include stock and cash) of earning allocation. It is the board's suggested amount of employees' compensation of earning allocation before the shareholders' meeting held for the latest earning allocation. When he/she is employee (include president, vice-president, manager, employee) simultaneously in the latest year. If company could not predict the amount, it might use actual allocation ratio of last year for suggested amount of this year and shall fill Table 1-3. Company listed on TSEC or OTC shall calculate fair value (close price on balance sheet ended date) according Financial Statement Rule of Securities Issuer. If it is not a listing company, it might use book value per share on the end of fiscal year.

Note7: Company shall show directors' total payments of each item from all entities (include the company) showed in consolidated financial report.

Note8: Company shall show the names of director in each range of directors' each payment.

Note9: Company shall show the names of director in each range of directors' each payment from all entities (include the company) showed in consolidated financial report.

Note10: It is net income after tax of the latest year : If the company has adopted IFRSs, it's net income after tax of only or individual financial report recently year.

Note11: (a) Company shall show "yes" or "no" for directors' receiving relative payments from invested corporate beside subsidiaries.

(b) If yes, company shall show amount of payments, and combine payments (from invested corporate according to his/her status) and G and H in range of payroll, and change to "all invested corporate".

(c) It is the payment, reward of earning allocation, employees' compensation of earning allocation and allowance of the director who is also a director, supervisor or manager of invested corporate.

\*The content showed in this table is different form the notion of Tax Act. And this table is only use for information disclosure, not for taxation.

## (2) Remuneration of Supervisors

(Unit: NT\$ thousands)

|            | Name(Note1)   | Payment(A)<br>(Note2) |                                 | Remuneration (B)<br>(Note3) |                                 | Allowance (C)<br>(Note4) |                                 | A, B and C sum as a<br>percentage of net income<br>after tax (Note 8) |                                 | Other<br>compensation from<br>Non-Subsidiary<br>Affiliates<br>(Note9) |
|------------|---|-----------------------|---------------------------------|-----------------------------|---------------------------------|--------------------------|---------------------------------|---|---------------------------------|---|
|            |   | The<br>company        | Financial<br>Report<br>(Note 5) | The<br>company              | Financial<br>Report<br>(Note 5) | The<br>company           | Financial<br>Report<br>(Note 5) | The<br>company  | Financial<br>Report<br>(Note 5) |   |
| Supervisor | W.H. Huang<br>Resign on Jun 14, 2019.   | 0                     | -                               | 0                           | -                               | 76                       | 76                              | 0.0125  | 0.0125                          | None  |
| Supervisor | Hua-Yi<br>Investment Co., Ltd.<br>Representative : B. Z. Sun<br>Resign on Jun 14, 2019. |                       |                                 |                             |                                 |                          |                                 |   |                                 |   |

## Range of Payroll

| Range of Payroll<br>(Unit: NT\$)                  | Supervisor's Names     |                            |
|---|------------------------|----------------------------|
|   | Sum of Payroll (A+B+C) |                            |
|   | The company (Note 6)   | Financial Report (Note 7)D |
| Below 1,000,000                                   | W.H.Huang 、 B.Z. Sun   | W.H.Huang 、 B.Z. Sun       |
| 1,000,000(included) ~ 2,000,000 (not included)    | -                      | -                          |
| 2,000,000(included) ~ 3,500,000 (not included)    | -                      | -                          |
| 3,500,000(included) ~ 5,000,000 (not included)    | -                      | -                          |
| 5,000,000(included) ~10,000,000 (not included)    | -                      | -                          |
| 10,000,000(included) ~ 15,000,000 (not included)  | -                      | -                          |
| 15,000,000(included) ~ 30,000,000 (not included)  | -                      | -                          |
| 30,000,000(included) ~50,000,000 (not included)   | -                      | -                          |
| 50,000,000(included) ~ 100,000,000 (not included) | -                      | -                          |
| More than 100,000,000                             | -                      | -                          |
| Total   | 2                      | 2                          |

Note1: Supervisor's names shall be showed separately (names of company and representative shall be showed for institution shareholder), but company may show combined payment for each item.

Note2: It is supervisor's payment (include salary, duty allowance, retirement pension, severance pay, bonus and incentive, etc.) of latest year.

Note3: It is the board's suggested amount of supervisors' reward of earning allocation before the shareholders' meeting held for the latest earning allocation.

Note4: It is the relative executive expense (include carfare, special expenditure, subsidy, dormitory and car, etc.). When company provides residences, cars, other vehicles or several expenditures, it shall disclose quality and cost, and actual or fair rents, oil price and other expenditures of the assets. If there is a wheelsman, it shall disclose the relative payment, but this amount is not payroll of supervisor.

Note5: Company shall show supervisors' total payments of each item from all entities (include the company) showed in consolidated financial statement.

Note6: Company shall show the names of supervisor in each range of supervisors' each payment.

Note7: Company shall show the names of supervisor in each range of supervisors' each payment from all entities (include the company) showed in consolidated financial report.

Note8: It is net income after tax of the latest year ;If the company has adopted IFRSs, it's net income after tax of only or individual financial report recently year.

Note9: (a) Company shall show "yes" or "no" for supervisors' receiving relative payments from invested corporate beside subsidiaries.

(b) If yes, company shall show amount of payments, and combine payments (from invested corporate according to his/her status) and D in range of payroll, and change to "all invested corporate".

(c) It is the payment, reward of earning allocation, employees' compensation of earning allocation and allowance of the supervisor who is also a director, supervisor or manager of invested corporate.

\* : The content showed in this table is different form the notion of Tax Act. And this table is only use for information disclosure, not for taxation.

### (3) Compensation of President and Vice President

(Unit: NT\$ thousands)

| Title             | Name<br>(Note 1) | Salary(A)<br>(Note2) |                                 | Retirement Pension<br>(B) |                                 | Bonus and<br>Perquisite(C)<br>(Note3) |                                 | Employees' compensation (D)<br>(Note4) |                                       |  |                                       | A + B + C and D sum as a<br>percentage of net income<br>after tax(%) (Note8) |                                 | Compensation or Fees<br>Received from Investments<br>Other than Subsidiary<br>(Note9) |
|-------------------|------------------|----------------------|---------------------------------|---------------------------|---------------------------------|---------------------------------------|---------------------------------|--|---------------------------------------|--|---------------------------------------|--|---------------------------------|---|
|                   |                  | The<br>company       | Financial<br>Report<br>(Note 5) | The<br>company            | Financial<br>Report<br>(Note 5) | The<br>company                        | Financial<br>Report<br>(Note 5) | The company                            |                                       | Consolidated financial<br>statements (Note5) |                                       | The<br>company   | Financial<br>Report<br>(Note 5) |   |
|                   |                  |                      |                                 |                           |                                 |                                       |                                 | Cash<br>Bonus                          | Stock Bonus<br>Market Price<br>Amount | Cash<br>Bonus                                | Stock Bonus<br>Market Price<br>Amount |  |                                 |   |
| President         | J. H. Tuan       | 4,039                | 4,039                           | 0                         | -                               | 416                                   | 416                             | 3,024                                  | 0                                     | 3,024  | -                                     | 1.2307   | 1.2333                          | None  |
| Vice<br>President | W. L. You        |                      |                                 |                           |                                 |                                       |                                 |  |                                       |  |                                       |  |                                 |   |

Regardless of title, position function is equivalent to president or vice president (e.g. chairman, CEO, director, etc.) should be shown in this table

#### Range of Payroll

| Range Of Payroll<br>(Unit: NT\$)                  | President's and Vice President's Names |                               |
|---|--|-------------------------------|
|   | The company<br>(Note 6)                | Financial Report<br>(Note 7)E |
| Below 1,000,000                                   | -                                      | -                             |
| 1,000,000(included) ~ 2,000,000 (not included)    | -                                      | -                             |
| 2,000,000(included) ~ 3,500,000 (not included)    | -                                      | -                             |
| 3,500,000(included) ~ 5,000,000 (not included)    | W. L. You                              | W. L. You                     |
| 5,000,000(included) ~ 10,000,000 (not included)   | J. H. Tuan                             | J. H. Tuan                    |
| 10,000,000(included) ~ 15,000,000 (not included)  | -                                      | -                             |
| 15,000,000(included) ~ 30,000,000 (not included)  | -                                      | -                             |
| 30,000,000(included) ~ 50,000,000 (not included)  |  |                               |
| 50,000,000(included) ~ 100,000,000 (not included) |  |                               |
| More than 100,000,000                             | -                                      | -                             |
| Total   | 2                                      | 2                             |

\* Despite the position, company shall show the assignments equivalent to president and vice-presidents.

Note1: President's and vice-presidents' names shall be showed separately, but company may show combined payment of each item. If the director is the president or vice-president simultaneously, company shall fill this table and table above.

Note2: It is president's and vice-presidents' salary, duty allowance, retirement pension and severance pay of the latest year.

Note3: It is the president's and vice-presidents' bonus, incentive, carfare, perquisite, subsidy, dormitory, car and other payments. When company provides residences, cars, other vehicles or several expenditures, it shall disclose quality and cost, and actual or fair rents, oil price and other expenditures of the assets. If there is a wheelsman, it shall disclose the relative payment, but this amount is not payroll of president and vice-presidents. And, salaries expense on share-based payment of IFRS2 should be charged to remuneration, including employee stock option certificates, restricted employee right shares and new shares reserved for subscription by employee.

Note4: It is the board's suggested amount of president and vice-presidents' compensation of earning allocation (include stock and cash) before the shareholders' meeting held for the latest earning allocation. If company could not predict the amount, it shall fill Table 1-3. Company listed on TSEC or OTC shall calculate fair value (close price on balance sheet ended date) according Financial Statement Rule of Securities Issuer. If it is not a listing company, it might use book value per share on the end of fiscal year. It is net income after tax of the latest year; If the company has adopted IFRSs, it's net income after tax of only or individual financial report recently year.

Note5: Company shall show presidents' and vice-presidents' total payments of each item from all entities (include the company) showed in consolidated financial statement.

Note6: Company shall show the names of president and vice-president in each range of president's and vice-presidents' each payment.

Note7: Company shall show the names of president and vice-president in each range of president's and vice-presidents' each payment from all entities (include the company) showed in consolidated financial statement.

Note8: It is net income after tax of the latest year; If the company has adopted IFRSs, it's net income after tax of only or individual financial report recently year.

Note9: (a) Company shall show "yes" or "no" for president's and vice-presidents' receiving relative payments from invested corporate beside subsidiaries.

(b) If yes, company shall show amount of payments, and combine payments (from invested corporate according to his/her status) and D in range of payroll, and change to "all invested corporate".

(c) It is the payment, reward of earning allocation, employees' compensation of earning allocation and allowance of the supervisor who is also a director, supervisor or manager of invested corporate.

\* The content showed in this table is different from the notion of Tax Act. And this table is only use for information disclosure, not for taxation.



(4) Employees' compensation Granted to Management Team

April 10, 2020  
(Unit: NT\$ thousands)

|                       | Title<br>(Note1)   | Name<br>(Note1) | Stock<br>compensation | Cash<br>compensation | Total | As a percentage<br>of net income<br>after tax(%) |
|-----------------------|--------------------|-----------------|-----------------------|----------------------|-------|--|
| Executive<br>Officers | President          | J. H. Tuan      | -                     | 4,084                | 4,084 | 0.6735   |
|                       | Vice-president     | W. L. You       |                       |                      |       |  |
|                       | Chief of Accounter | P.S.Liu         |                       |                      |       |  |
|                       | Audit Manager      | C.H.Chan        |                       |                      |       |  |

Note1: Company shall show names and position separately, but it may show combined compensation of earning allocation.

Note2: It is the board's suggested amount of managers' compensation of earning allocation (include stock and cash) before the shareholders' meeting held for the latest earning allocation. If company could not predict the amount, it might use actual earning allocation ratio of last year for suggested amount of earning of this year. It is net income after tax of the latest year; If the company has adopted IFRSs, it's net income after tax of only or individual financial report recently year.

Note3: According to 2003/3/27 official letter No.0920001301 by Financial Supervisory Commission on March27,2003 the definition of manager is showed as follows:

- (1) President or equivalent.
- (2) Vice-president or equivalent.
- (3) Assistant vice-president or equivalent.
- (4) Manager of Finance Dept.
- (5) Manager of Accounting Dept.
- (6) Other employee who administers business or has right of signature.

Note4: If director, president, or vice-president receive compensation of earning allocation (include stock and cash), company shall fill Table 1-2 and this table.

d.Compensation Paid to Directors, Supervisors, President and Vice presidents

(Unit: NT\$ thousands)

| Title                                   | Year 2019   |                           | Year 2018   |                           |
|---|-------------|---------------------------|-------------|---------------------------|
|   | The company | All consolidated Entities | The company | All consolidated Entities |
| Director                                | 1,944       | 1,944                     | 1,944       | 1,944                     |
| Supervisor                              | 576         | 576                       | 576         | 576                       |
| President 、 Vice president              | 7,716       | 7,716                     | 7,716       | 7,716                     |
| Total                                   | 10,236      | 10,236                    | 10,236      | 10,236                    |
| As a percentage of net income after tax | 1.6851%     | 1.6851%                   | 2.3018%     | 2.3018%                   |

Note:

In addition to the evaluation results obtained by the directors' performance evaluation, the remuneration committee reviews the degree of participation and contribution value of each director to the company's operations, links the reasonable fairness of performance risks with the compensation received, and refers to the company's operating performance and the usual paid level of industry, the proposal is submitted to the board of directors for resolution.



- e. Separate analysis of payments percentage to earnings after tax to Directors, Supervisors, President and Vice presidents in Hong Pu and companies in consolidated financial statement in recent 2 years and relevance to remuneration policies, standards and combination, procedures, performance and future risk.

1. Percentage of remuneration to earnings after tax in recent 2 years:

Company: the percentage is 2.3018% in 2018 and 1.6851% in 2019.

2. Compensation:

(1) Directors and Supervisors:

Traveling expenses: pay on numbers of attendance of meeting.

Remuneration: no more than 3% of earnings distribution.

(2) President and Vice Presidents:

Salary: under the salary principle passed by Board.

Bonus: under the bonus principle passed by Board.

(3) Directors and Supervisors remuneration are processed under corporate articles given reasonable rewards based on performance of operation. President and vice presidents remuneration policies are refer to standard of salaries in peers and market and responsibilities and contributions. Procedures of remuneration setting are taken into consideration of performance of operation, future industrial risk of operation and trend of growth simultaneously. And, adjust the remuneration system constantly under operating situations and relevant rules in order to maintain the balance of sustainable operation and risk control.

## C. Implementation of Corporate Governance

### a. Board of Directors

#### Boar of Directors Meeting Status

During the 2019 calendar year, nine regular meetings were convened. Director and Supervisor attendance status is as follows:

| Title                | Name<br>(Note1)  | Attendance in<br>Person | By Proxy | Attendance Rate(%)<br>(Note2) | Remark   |
|----------------------|--|-------------------------|----------|-------------------------------|--|
| Chairman             | J. H. Tuan   | 9                       | 0        | 100%                          | Re-election on Jun 14, 2019.   |
| Director             | Fu-Ta Investment Co., Ltd.<br>Representative : W.L.You       | 9                       | 0        | 100%                          | Re-election on Jun 14, 2019.   |
| Director             | Hua-Zhan Investment Co., Ltd<br>Representative:S.L.Shen      | 8                       | 0        | 88.89%                        | Re-election on Jun 14, 2019.   |
| Director             | Fu-Yi Investment Co., Ltd<br>Representative: P. S. Liu       | 5                       | 0        | 100%                          | Re-election on Jun 14, 2019.   |
| Independent Director | B.S.Lee  | 9                       | 0        | 100%                          | Re-election on Jun 14, 2019.   |
| Independent Director | J.R.Wu   | 9                       | 0        | 100%                          | Re-election on Jun 14, 2019.   |
| Independent Director | K.L. YEN   | 5                       | 0        | 100%                          | Newly elected on Jun 14, 2019.   |
| Supervisor           | Hua-Yi<br>Investment Co., Ltd.<br>Representative : B. Z. Sun | 3                       | 0        | 75%                           | Set up the audit committee to replace the supervisors, and resign from office on Jun 14, 2019. |
| Supervisor           | W. H. Huang  | 3                       | 0        | 75%                           | Set up the audit committee to replace the supervisors, and resign from office on Jun 14, 2019. |

#### Independent Directors Attendance at 9 Board Meetings in 2019:

| Independent Director | 2019             |                  |                  |                  |                  |                  |                  |                  |                  |
|----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                      | 1st              | 2nd              | 3rd              | 4nd              | 5nd              | 6nd              | 8nd              | 8nd              | 9nd              |
| P.S.Lee              | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person |
| C.J.Wu               | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person |
| K.L. YEN             | n.a.             | n.a.             | n.a.             | n.a.             | Attend in person | Attend in person | Attend in person | Attend in person | Attend in person |

#### Other matters:

1.The operation of the board of directors in any of the following circumstances shall state the date, period, content of the proposal, the opinions of all independent directors and the company's handling of the opinions of independent directors:

#### (1) Matters listed in Article 14-3 of the Securities and Exchange Act

| Date, Period   | Proposal content and resolution results  |
|--|--|
| Jan 30, 2019<br>16 <sup>th</sup> of 10 <sup>th</sup> Session | <p>Proposal</p> <p>◎KPMG intends to replace the assignment of CPA, and cooperates with the internal rotation of the accounting firm to change the former accountants Wang and Lin to Zhuang and Wang .</p> <p>◎The company donated NT \$ 100 million to the "Hong Pu Social Welfare and Charity Foundation"</p> <p>◎Drafted the company's "Audit Committee Organization Rules"</p> <p>◎Proposed to revise some provisions of the company's "Board Performance Evaluation Measures"</p> <p>Independent director's opinions: no objections and reservations.</p> <p>ThThe company's handling of independent directors' opinions: n/a</p> <p>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p> |



|  |  |
|--|--|
| Mar 20, 2019<br>17 <sup>th</sup> of 10 <sup>th</sup> Session | <p>Proposal</p> <p>◎ Amendments to some provisions of "Procedures for Loaning of Funds and Making of Endorsements/Guarantees"</p> <p>◎ Proposed amendments to some provisions of the company's "Corporation's Articles of Incorporation"</p> <p>◎ Proposed amendments to some provisions of the Company's "Procedures for Election of Election of Directors and Supervisors."</p> <p>◎ Proposed to amend some provisions of the company's "Procedure for Verification and Disclosure of Material Information"</p> <p>Independent director's opinions: no objections and reservations.<br/>The company's handling of independent directors' opinions: n/a.<br/>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p>   |
| Mar 25, 2019<br>18 <sup>th</sup> of 10 <sup>th</sup> Session | <p>Proposal</p> <p>◎ Planned to sell the 54-11 and 54-22 in JiuZong Section, Neihu District, Taipei City with 1,701.23 square meters and 23.39 square meters. Both land holding ratios are as 868,550/1,000,000.</p> <p>Independent director's opinions: no objections and reservations.<br/>The company's handling of independent directors' opinions: n/a.<br/>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p>  |
| Apr 26, 2019<br>19 <sup>th</sup> of 10 <sup>th</sup> Session | <p>Proposal</p> <p>◎ Proposed to amend some provisions of the company's "Guidelines for the adoption of Codes of Ethical Conduct"</p> <p>Proposed to amend to some provisions of the Company's "Principles for Ethical Corporate Mangment"</p> <p>Proposed to amend some provisions of the company's "Procedures for Ethical Management and Guidelines for Conduct"</p> <p>◎ Planned to jointly invest in real estate development with a Japanese company</p> <p>Independent director's opinions: no objections and reservations..<br/>The company's handling of independent directors' opinions: n/a<br/>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p>   |
| Jul 11, 2019<br>2 <sup>th</sup> of 11 <sup>th</sup> Session  | <p>Proposal</p> <p>◎ Qualification review of the 4th session of the Company's "Remuneration Committee".<br/>In accordance with the provision of Article 14-1 of the Securities and Exchange Act, proposed to amend the Company's internal control system.</p> <p>◎ Proposed to amend some provisions of the Company's "Rules of Procedure for Board of Directors Meetings"</p> <p>◎ Proposed to amend some provisions of the Company's "Management Measures for Prevention of Insider Transactions"</p> <p>◎ Proposed to amend some provisions of the company's "Application for Suspension and Resume Trading Procedures"</p> <p>◎ Proposed to revise some of the provisions of the company's "Directions for the Implementation of continuing Education for Directors and Supervisors"</p> <p>Independent director's opinions:<br/>Proposal 1: Qualification review of the 4th session of the company's "Remuneration Committee": n/a.<br/>Proposal 2: According to Article 14 of the Securities and Exchange Act, it is proposed to amend the company's internal control system: no objections and reservations.<br/>Proposal 3-5: no objections and reservations.<br/>The company's treatment of independent directors' opinions: n/a<br/>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p> |
| Aug 07, 2019<br>3 <sup>th</sup> of 11 <sup>th</sup> Session  | <p>Proposal</p> <p>◎ Proposed amendments to some provisions of the Company's "Corporate Governance Best Practice Principles"</p> <p>Independent director's opinions: no objections and reservations..<br/>he company's handling of independent directors' opinions: n/a<br/>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case.</p>   |

|   |   |
|---|---|
| Nov 06, 2019<br>4 <sup>th</sup> of 11 <sup>th</sup> Session | Proposal<br>◎Reported to the accountant's fee for the year 2019<br>Independent director's opinions: no objections and reservations..<br>The company's handling of independent directors' opinions: n/a.<br>Result of the resolution: After the chairman consulted the directors present, there was no objection, and it was passed as the case. |
|---|---|

(2) Except for the matters above, other directors' meeting records or written statements that are opposed or reserved by independent directors and have a written statement: None.

2. Implementation situation of the directors for the avoidance of the conflicts of interest proposal. It shall state the names of the directors, the content of the proposal, the reasons for the avoidance of conflicts of interest, and the situation of participation and voting:

(1) 16th Board Meeting of 10th Session on Jan 30, 2019

- Content of the proposal: Proposed Donation to Hong Pu Social Welfare and Charity Foundation NT \$ 1,200,000
- The names of directors or supervisors of avoidance of conflicts of interest: Directors, Tuan, Yu (FuTa Investment) and Shen (HuaZhan Investment), and Supervisors, Huang and Sun (HuaYi Investmeent).
- The reasons for avoidance of conflicts of interest and situation of participation and voting: Because of directors, Tuan, Yu (FuTa Investment) and Shen (HuaZhan Investment), and supervisors, Huang and Sun (HuaYi Investmeent), positions as directors of the foundation, considering their own interests, besides avoidance of conflicts of interest according to law, they shall not be allowed to participate in discussions and votes.

Except for the directors above not participated in the discussion and voting due to the avoidance conflicts of interest, the chairman appointed the independent director Li Bishu as the interim chairman. Interim chairman consulted all the other directors present to pass the proposal without objection.

(2) 2nd Board Meeting of 11th Session on Jul 11, 2019

- Content of the proposal: qualification review of the fourth session of the company's "Remuneration Committee"
- The names of independent directors of avoidance of conflicts of interest: Independent directors, Li, Wu and Yan.
- The reasons for avoidance of conflicts of interest and situation of participation and voting: Because of independent directors, Li, Wu and Yan, nominee for member of the Remuneration Committee, considering their own interests, besides avoidance of conflicts of interest according to law, they shall not be allowed to participate in discussions and votes.

Except for the independent directors above not participated in the discussion and voting due to the avoidance conflicts of interest, the chairman consulted all the other directors present to pass the proposal without objection.

3. Listed TSE or OTC companies should disclose information such as the evaluation cycle and period, evaluation scope, methods, and evaluation contents of the board's self (or peer) evaluation, and fill in the following table of the implementation of the board evaluation:

| cycle  | period                      | scope                                       | methods  | evaluation contents  |
|--------|-----------------------------|---|--|--|
| annual | Jan 01, 2019 – Dec 31, 2019 | Board of Directors and Functional Committee | internal self-evaluation of Board, self-evaluation of functional committee | board 's performance evaluation<br>1. Participation in company operations<br>2. Improvement of quality of Board decisions<br>3. Composition and structure of Board<br>4.Election of directors and continuing training<br>5.internal control<br>The score of comprehensive performance evaluation of board and was 92.22 points<br>Performance evaluation of functional committee<br>1. Participation in company operations<br>2. Cognition of functional committee responsibilities<br>3. Improvement of quality of functional committee's decisions<br>4. Composition and structure of functional committee<br>5.Internal control<br>The score of comprehensive performance evaluation of functional committee was 94.79 points |



|   |
|---|
|   |
| <p>4. Objectives of strengthening the functions of the board of directors in the current year and the most recent year (such as the establishment of an audit committee, improving information transparency, etc.) and evaluation of implementation:</p> <p>(1) In addition to providing relevant regulations for directors and supervisors at any time, the company reports to the directors and supervisors on the company's business status in the board of directors meetings, and prepares relevant information on the proposals and assigns personnel for the examination of the directors and supervisors.</p> <p>(2) The company provides information on various kinds of training courses and also encourages directors and supervisors to actively participate in various corporate governance courses to strengthen the functions of board members; total directors' training was 58 hours in 2019.</p> <p>(3) Maintain the transparency of operations, protect the rights and interests of shareholders, and disclose major information on Market Observation Post System.</p> <p>(4) In order to implement corporate governance and enhance the functions of the board of directors in order to establish performance goals and strengthen the efficiency of the board of directors, the company has revised some provisions of the board's performance evaluation method in 2019 and carried out the evaluation at the beginning of each year. The scores of comprehensive performance evaluation of board and functional committee were 92.22 points and 94.79 points in 2019. The results were reported to the board meeting on Mar 18, 2020.</p> <p>(5) The company held the re-election of directors and supervisors in shareholders' meeting and set up an audit committee to replace supervisors and strengthen the functions of the board of directors on Jun 14, 2019,.</p> |

Note1: When directors' and supervisors' are belong to juridical person shall be showed the company's name and representative.

Note2: (1) If director or supervisor resigned before end of year, company shall show date in note, and attendance rate (%) is attendant times of meeting in incumbent period.

(2) If there is re-election of director and supervisor, company shall show former, new, reappointed member and date in note. Attendance rate (%) is attendant times of meeting in incumbent period.

b.Audit Committee Meeting Status:

3 times meetings of Audit Committee in last year, the situation of meeting attendance of independent directors as follows:

The main issues reviewed by the Audit Committee include:

1. Audit of financial statements and accounting policies and procedures. 2. The internal control system and related policies and procedures. 3. Transactions of material assets or derivatives. 4. Material monetary loan and endorsement or provision of guarantee. 5. The offering or issuance of marketable securities. 6. Derivative financial products and cash investment. 7. Regulatory compliance. 8. Whether the managers and the directors are possible to related party transactions and conflicts of interest. 9. Appeal report. 10. Anti-fraud investigation report. 11. Information security. 12. Company risk management. 13. Qualification, independence and performance evaluation of CPA. 14. The hiring and dismissal of an attesting CPA or compensation. 15. The appointment and discharge of financial, accounting or internal audit officers. 16. The audit committee's performance of duties. 17. Self-assessment questionnaire for performance evaluation of the Audit Committee.

| title           | name    | Attend in person | Attend by proxy | rate of attendance<br>in person note | remarks   |
|-----------------|---------|------------------|-----------------|--------------------------------------|---|
| Audit committee | B.S.Li  | 3                | 0               | 100%                                 | Jun 14, 2019 Set the first session of the Audit Committee |
| Audit committee | J.R.Wu  | 3                | 0               | 100%                                 |   |
| Audit committee | K.L.Yen | 3                | 0               | 100%                                 |   |

other matters:

1.The operation of the audit committee in any of the following circumstances shall state the date, period, content of the proposal, the opinions of audit committee and the company's handling of the opinions of audit committee:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act.

|   |  |
|---|--|
| Jul 11,2019<br>1 <sup>st</sup> of 1 <sup>st</sup> Session | <p>Proposal</p> <p>◎Proposed to amend some provisions of the Company's "Rules of Procedure for Board of Directors Meetings"</p> <p>◎Proposed to amend some provisions of the Company's "Management Measures for Prevention of Insider Transactions"</p> <p>◎Proposed to amend some provisions of the company's "Application for Suspension and Resume Trading Procedures"</p> <p>◎Proposed to revise some of the provisions of the company's " Directions for the Implementation of continuing Education for Directors and Supervisors"</p> <p>◎In accordance with the provision of Article 14-1 of the Securities and Exchange Act, proposed to amend the Company's internal control system.</p> <p>Audit committee's opinions: no objections and reservations.</p> <p>The company's treatment of audit committee's opinions: n.a.</p> <p>Result of the resolution: after the chairman consulted the committees present, there was no objection, and it was passed as the case.</p> |
| Aug 07,2019<br>2nd of 1 <sup>st</sup> Session             | <p>Proposal</p> <p>◎Reported to the Company's consolidated financial statements in the second quarter of 2019.</p> <p>◎ Proposed amendments to some provisions of the Company's "Corporate Governance Best Practice Principles"</p> <p>Audit committee's opinions: no objections and reservations</p> <p>The company's treatment of audit committee's opinions: n.a.</p> <p>Result of the resolution: after the chairman consulted the committees present, there was no objection, and it was passed as the case.</p>  |

(2)Except for the matters above, other resolutions that have not been approved by the Audit Committee but have been approved by more than two-thirds of all directors: none



2. Implementation situation of the audit committee and the independent directors for the avoidance of the conflicts of interest proposal. It shall state the names of the audit committee and independent directors, the content of the proposal, the reasons for the avoidance of conflicts of interest, and the voting situation: none.

3. The communication situation of the audit committee, independent directors, internal audit manager and accountants (It should include major matters, methods and results of communication situation on the company's financial and business conditions):

(1)The audit committee, independent directors and internal audit manager can usually contact each other by email, telephone or meeting at any time as necessary. If there are major abnormalities, they can also call a conference at any time, and the communication channels with each other are multiple and smooth. The audit report of the previous month was delivered to the audit committee and independent directors for review. The audit committee and independent directors makes responses or comments on the necessity of the report. There were no major abnormalities in the audit results in 2019 and the audit committee and independent directors had no objections. The company's accountants, in addition to auditing or reviewing the financial reports on the audit committee and independent directors, will also hold a reading party every year for the company's relevant personnel to participate. The topics of reading party cover the newly knowledge and impact of the fiscal and tax laws and the corresponding measures. The audit committee,independent directors, internal audit manager and accountants communicated 2 times this year. The summary of the communication situation is as follows::

| Date         | Essence and communication themes  | Independent Director's Recommendation                      |
|--------------|---|--|
| Mar 20, 2019 | <ul style="list-style-type: none"> <li>●Interim financial report and explanation in 2018, communications on matters needing attention and updates of important accounting principles, government's official letters, relevant securities and tax laws.</li> <li>●Respond and discuss the questions raised by the participants.</li> </ul> | Independent directors have no opinions and no suggestions. |
| Aug 08, 2019 | <ul style="list-style-type: none"> <li>●Interim financial report and explanation in 2019, communications on matters needing attention and updates of important accounting principles, government's official letters, relevant securities and tax laws.</li> <li>●Respond and discuss the questions raised by the participants.</li> </ul> | Independent directors have no opinions and no suggestions. |

Note:

\*If an independent director leaves the company before the end of the year, the resignation date should be stated in remarks column. The rate of attendance in person (%) is calculated based on the number of audit committee meetings and the number of attendances in person during the tenure.

\*If there are independent director re-elections before the end of the year, both newly and former independent directors should be filled in, and remarks column should show that the independent director is former, newly or re-elected and the date of re-election. The rate of attendance in person (%) is calculated based on the number of audit committee meetings and attendances in person during the tenure.



c. Supervisors participate in Board of Directors Meeting Status

Supervisors participate in Board of Directors Meeting Status

During the 2019 calendar year, four regular meetings were convened. Attendance status is as follows:

| Title      | Name<br>(Note1)                        | Attendance in Person<br>【B】 | Attendance Rate(%)<br>【B/A】 (Note2) | Remarks  |
|------------|--|-----------------------------|-------------------------------------|--|
| Supervisor | Hua-Yi Investment Co., Ltd.<br>B.Z.Sun | 3                           | 75%                                 | The Audit Committee replaced supervisors after the re-election on June 14,2019 |
| Supervisor | W. H. Huang                            | 3                           | 75%                                 | The Audit Committee replaced supervisors after the re-election on June 14,2019 |

Other mentionable items:

1.Composition and Responsibilities of Supervisors:

A.How the supervisors communicate with the Company's employees and shareholders. (ex: communication channels and methods..) When it is necessary, supervisors communicate shareholders through shareholders' meeting or ordinary meeting with employees in company.

B. How the supervisors communicate with accounting, internal auditing officers.(ex:about communicating the way and consequence of financial operations,business condition)

a.Supervisors make understand and communicate financial and operating situations through board meetings and reviewing documents. °

b.Audit chief attends and reports in board meetings and supervisors have no objection.

2.If supervisors attend meetings of the board of directors and state his/her opinions,we shall show the date, term, the content of the case,consequence,and the company's response to the supervisor's opinion in detail.:NONE

Note1: When directors' and supervisors' are belong to juridical person shall be showed the company's name and representative.

Note2: (1) If director or supervisor resigned before end of year, company shall show date in note, and attendance rate (%) is attendant times of meeting in incumbent period.

(2) If there is re-election of director and supervisor, company shall show former, new, reappointed member and date in note. Attendance rate (%) is attendant times of meeting in incumbent period.

d~i : Please reference to Chinese version.



## h. control system overview

## (a) Statement of Internal Control System

Date: March 18, 2020

Based on the findings of a self-assessment, Hong-Pu Real Estate Development Co., Ltd. states the following with regard to its internal control system during the period from January 1, 2019 to December 31, 2019:

1. Hong-Pu is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. Hong-Pu has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of Hong-Pu contains self-monitoring mechanisms, and Hong-Pu takes corrective actions whenever a deficiency is identified.
3. Hong-Pu evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (here in below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Hong-Pu has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Hong-Pu believes that, on December 31st, 2018, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This statement will be an integral part of Hong-Pu's Annual Report for the year 2018 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors, 7 director members(3 independent directors included), in their meeting held on March 18, 2020, with 0 absent director and 0 of the 7 attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Hong-Pu Real Estate Development Co., Ltd.

Chairman: J. H. Tuan

CEO: J. H. Tuan



(b) The Securities and Futures Bureau May Request Companies to Commission Independent Auditor to Audit the Said Internal Control System. Disclosure of the Audit Report(s) is mandatory: None

k. Regulatory Authorities' Legal Penalties to the Company, and the Company's resulting Punishment on Its Employees: None

l. During the 2018 calendar year, through the period from June 10, 2020 to report published date, Shareholder Meetings' and Board Meetings' major resolutions passed at these meetings are summarized below:

| Board Resolution | Item  |
|------------------|---|
| 2019/01/30       | Board meeting approved the donation to Hong Pu Social Welfare and Charity Foundation.   |
| 2019/01/30       | KPMG, the company's accounting firm, reassign accountant due to internal rotation.  |
| 2019/03/25       | Announced that the company acquired 2 lands including 54-11 and 54-2 in JiuZong Section, Neihu District, Taipei City through the court auction. |
| 2019/04/26       | Board meeting adopted the proposal for dividend of fiscal year 2018 to shareholders' meeting.   |
| 2019/06/14       | Major resolutions of shareholders' meeting in 2019. Note1   |
| 2019/06/14       | The board of directors elected the chairman's re-appointment in 2019.   |
| 2019/06/14       | The company elected the members of audit committee of the first session.  |
| 2019/07/01       | Board meeting set the ex-dividend date and relevant arrangements of earning distribution of fiscal year 2018.                                   |
| 2019/07/31       | The company bid for land No. 28 and 29, Sixing Section, XinDian District, New Taipei City.  |
| 2020/03/18       | Board meeting approved the donation to Hong Pu Social Welfare and Charity Foundation.   |
| 2020/03/27       | The company acquired land in QingSheng Section, ZhongLi District, Taoyuan City.   |

Note 1: Resolution of shareholders' meeting

| Date       | Abstracts of proposal   | Resolutions | Implementations  | Remarks |
|------------|---|-------------|--|---------|
| 2019/06/14 | (1) Adoption of the proposal for distribution of profits fiscal year 2018 °   | (1) Approvd | (1) In accordance with the resolution of the shareholders' meeting, the earnings distribution of cash dividend of NT\$1 per share, a total amount of NT\$ 332,808,652, has been implemented. Set Aug 4, 2019 as the distribution base date, and fully distributed on Aug 21, 2019.                 | None    |
|            | (2) Amendment to the Articles of Incorporation  | (2) Approvd | (2) Registration was approval by the Ministry of Economic Affairs on Jul 11, 2019.   | None    |
|            | (3) Adoption of business report and financial statements of fiscal year 2018 °  | (3) Approvd | (3) Business report and financial statements of fiscal year 2017 was ratified  | None    |
|            | (4) The election of directors and supervisors   | (4) Approvd | (4) Election results of directors and independent directors of 11 <sup>th</sup> session: 4 directors, "J.H.Tuan", "Hua-Zhan Investment Co., Ltd", "Fu-Ta Investment Co., Ltd", "Fu-Yi Investment Co., Ltd.", were elected. 3 independent directors, "B.S. LI", "J.R. WU", "K.L. YEN", were elected | None    |
|            | (5) Other matters:<br>Amendment to the "Corporation's Articles of Incorporation".<br>Amendment to the "Procedures for Loaning of Funds and Making of Endorsements/Guarantees".<br>Amendment to the "Procedures for the Acquisition and Disposal of Assets"<br>Amendment to the "Procedures for Election of Directors and Supervisors".<br>Repeal of the "Rule and Duties of Supervisors Establishment Proposal" | (5) Approvd | (5) It has been implemented in accordance with the resolution and announced on the website of the company before the end of the fourth quarter of the year and handled according to the revised procedures.  |         |



- m. Directors and supervisors have different opinion in the major resolutions passed by the Board of Directors and record as paper in recently year and up to the annual report published date: None.
- n. Resigned or expired situation summary of the company chairman, the general manager, the accountant officer, the financial officer, the internal auditing officer and the R&D officer and so on in recently year and up to the annual report published date:

Summary of relevant person's resignation or dismissal

2020/04/10

| Title                             | Name      | To assume a post Date | Expiration   | The resignation or expiration the reason |
|-----------------------------------|-----------|-----------------------|--------------|--|
| Manager of Engineering Management | D.H. Chiu | Oct 10, 2004          | Apr 30, 2019 | retired                                  |

Note: Said that is refers to chairman, general manager, the accountant officer, the financial officer, the internal auditing manager the R&D officer with the company person concerned and so on.

### D.Information Regarding Hong-Pu's Independent Auditor

| CPA  | Name             |                  | Term                 | Remark |
|------|------------------|------------------|----------------------|--------|
| KPMG | CHUN-WEI, CHUANG | CHING-SUNG, WANG | 2019/1/01-2019/12/31 | -      |

Note1: In this fiscal year, if company replaces certified public accountant or accounting firm, it shall show audit period separately in note.

- a. Range of Audit fees and Non-Audit Fees

(Unit: NT\$ thousands)

| Range of Audit Fees |                               | Item | Audit Fees | Non-Audit Fees | Total     |
|---------------------|-------------------------------|------|------------|----------------|-----------|
| 1                   | Below 2,000                   |      | -          | ✓              | 180,000   |
| 2                   | 2,000 ( included ) ~ 4,000    |      | ✓          | -              | 2,030,000 |
| 3                   | 4,000 ( included ) ~ 6,000    |      | -          | -              | -         |
| 4                   | 6,000 ( included ) ~ 8,000    |      | -          | -              | -         |
| 5                   | 8,000 ( included ) ~ 10,000   |      | -          | -              | -         |
| 6                   | More than 10,000 ( included ) |      | -          | -              | -         |

- b. Change CPA firm and the audit fees in changing year is less than previous year, it should disclose the amounts and reason: None.

- c. The audit fees is less than previous year up to 15%, it should disclose the amount and reason: None.

| CPA  | Name             | Audit fee | Non-audit fees |                       |                |                |          | Term             | Remark  |
|------|------------------|-----------|----------------|-----------------------|----------------|----------------|----------|------------------|---|
|      |                  |           | System design  | Business registration | Human resource | Others (note2) | subtotal |                  |   |
| KPMG | CHUN-WEI, CHUANG | 2,030     |                |                       |                | 180            |          | 2019Q1 to 2019Q4 | Non-audit accountant's fees for undistributed earnings correction for 2014-2015 and full-time employee salary information checklist for non-managers in 2018. |
|      | CHING-SUNG, WANG |           |                |                       |                |                |          |                  |   |

Note2: Non-audit fees are listed separately according to the service items. If the "others" of the non-audit public fees reach 25% of the non-audit public funds, the service contents should be listed in the remarks column.

**E. CPA Replacement Information: None****a. About former accountants**

|   |   |             |                                   |
|---|---|-------------|-----------------------------------|
| Date of chang   | -   |             |                                   |
| Reason and description of change  | The internal rotation of KPMG compliance with the laws and regulations. |             |                                   |
| Description of appointer’s termination or accountants’ refusal                      | Situation   | Accountants | Appointer                         |
|   | Termination   |             |                                   |
|   | Refusal   |             |                                   |
| Opinion and reson of non-qualified opinion of auditing report in the last tow years | None  |             |                                   |
| Disagree with the company   | yes   |             | Accounting principles or practice |
|   |   |             | Disclosure of financial reports   |
|   |   |             | Auditing scope or procedures      |
|   |   |             | others                            |
|   | no  |             |                                   |
|   | description   |             |                                   |
| Other disclosures   | None  |             |                                   |

**b. about succeed accountants**

|  |      |
|--|------|
| Name of accountants firm   | None |
| Name of accounts   | None |
| Date of appointment  | None |
| Advisory and results of accounting treatments or principles of the specific transaction and possible opinion of financial report before appointing | None |
| Written comments of different opinion with former accountants  | None |

**F. Information on the company chairman, president or a manager in charge of financial or accounting matters serving as a CPA at the accounting firm or an affiliated company within the past year: None**



## G. Equity transfers and equity pledges (or changes thereto) during the preceding fiscal year or in the current fiscal year up to the date of printing of the annual report.

### a. Changes in share holding of the director, supervisor, manager, and major shareholder

| Title ( Note1 )                                      | Name                          | 2018                                     |   | 2019/1/1~2019/04/10                      |   |
|--|-------------------------------|--|---|--|---|
|  |                               | Increase<br>(Decrease) of<br>shares held | Increase<br>(Decrease) of<br>equity pledges | Increase<br>(Decrease) of<br>shares held | Increase<br>(Decrease) of<br>equity pledges |
| Chairman   | J. H. Tuan                    | -  | -   | -  | -   |
| Director(major shareholder)                          | Hua-Zhan Investment Co., Ltd. | 3,152,000                                | -   | 279,000                                  | -   |
| Representative of Director(major shareholder)        | S.L.Shen                      | -  | -   | -  | -   |
| Director(major shareholder)                          | Fu-Da Investment Co.,Ltd.     | -  | -   | 3,622,000                                | -   |
| Representative of Director(major shareholder)        | W. L. You                     | -  | -   | -  | -   |
| Independent Director                                 | B.S.Li                        |  |   |  |   |
| Independent Director                                 | J.R.Wu                        |  |   |  |   |
| Independent Director                                 | K.L.Yen                       |  |   |  |   |
| Director(major shareholder)                          | Fu-Yi Investment Co.,Ltd.     |  |   |  |   |
| Representative of Director(major shareholder)        | P. S. Liu                     |  |   |  |   |
| Supervisor(Resign on Jun 14, 2019)                   | Hua-Yi Investment Co., Ltd.   | -<br>-                                   | -<br>-                                      | -<br>-                                   | -<br>-                                      |
| Representative of Supervisor(Resign on Jun 14, 2019) | B. Z. Sun                     |  |   |  |   |
| Supervisor(Resign on Jun 14, 2019)                   | W.H.Huang                     |  |   |  |   |
| President  | J. H. Tuan                    | -  | -   | -  | -   |
| Vice President                                       | W. L. You                     |  |   |  |   |
| Deputy general manager                               | P. S. Liu                     | -  | -   | -  | -   |
| Chief of Acounter                                    |                               | -  | -   | -  | -   |
| Audit Manager  | C.H. Chan                     | -  | -   | -  | -   |

Note1 : shareholders with a stake of 10 percent or more, the recipient's name shall be disclosed along with a note explaining.

Note2 : Where the recipient of the equity transfer or equity pledge has ties to the company, it have to fill in the following tabulation .

b. Stock Trade with Related Party: None.

c. Stock Pledge with Related Party: None.

**H. Information on concerned relationship of No. 6 in FASB with top ten major shareholders:**

| Name<br>(Note 1)   | Current Shareholding |              | Spouse & Minor Children's Shareholding |   | Share-holding in Name of Others |   | Name and relationship of among in the company's 10 largest shareholders and any one is a related party or a relative within the second degree of kinship of another. (Note 3) |  | Remark |
|--|----------------------|--------------|--|---|---------------------------------|---|---|--|--------|
|  | Shares               | %            | Shares                                 | % | Shares                          | % | Name  | Relationship                                       |        |
| Hua-Zhan Investment Co., Ltd.<br>Representative : J.H.Tuan                                 | 57,801,745<br>11,119 | 17.37%<br>0% | -                                      | - | -                               | - | Fu-Da Investment Co., Ltd<br>Fu-Yi Investment Co., Ltd  | The same chairman<br>Fu-Yi is a direct at Hua-Zhan | None   |
| Fu-Da Investment Co., Ltd.<br>Representative : J.H.Tuan                                    | 53,527,040<br>11,119 | 16.08%<br>0% | -                                      | - | -                               | - | Hua-Zhan Investment Co., Ltd.   | The same chairman                                  | None   |
| Teacher Retirement System of Texas - Dimensional Fund Advisors LP as external fund manager | 14,890,491           | 4.47%        | -                                      | - | -                               | - | -   | -  | None   |
| Fubon Life Insurance Company Representative : Richard M. Tsai                              | 14,214,925           | 4.27%        | -                                      | - | -                               | - | -   | -  | None   |
| Edgbaston Asian Equity Trust   | 12,598,154           | 3.79%        | -                                      | - | -                               | - | -   | -  | None   |
| Sunfon Construction Co., Ltd.<br>Representative : M.F. Hong                                | 8,100,000            | 2.43%        | -                                      | - | -                               | - | -   | -  | None   |
| Tai-Ban Investment Co., Ltd.<br>Representative : P. S. Liu                                 | 7,166,738            | 2.15%        | -                                      | - | -                               | - | -   | -  | None   |
| C.P. Liu   | 5,342,000            | 1.61%        | -                                      | - | -                               | - | -   | -  | None   |
| DaHong Investment Co., Ltd. Representative: M. Lai   | 5,269,000            | 1.58%        | -                                      | - | -                               | - | -   | -  | None   |
| Public Service Pension Fund Managerment Board  | 4,707,448            | 1.41%        | -                                      | - | -                               | - | Hua-Zhan Investment Co., Ltd.   | Fu-Yi is a direct at Hua-Zhan                      | None   |

Note 1: List all of top ten shareholders and if the shareholders are belonging to juridical person shall be showed the company's name and representative.

Note 2: The shareholding percentage is calculated in his own name, spouse, minor children or use other's name.

Note 3: The top ten shareholders including institutional shareholder and natural person should required by regulations governing the preparation of financial reports by issues to disclose the relationship between each other.

**I. The number of shares held by the company, directors, supervisors, managers, and the number of shares of the same re-invested business which are held by the entities directly or indirectly controlled by the company, and calculating the consolidated shareholding percentage of the above categories: None**



## IV. Capital Overview

### A. Disclosure of the company's capital and shares, corporate bonds, preferred Shares, global depository receipts, employee stock option certificates, and any merger & acquisition activities :

#### a. Capital and shares

##### 1. Source of capital

| Year/<br>Month | Issuing<br>price | Authorized capital                      |                                 | Capital collected                       |                                 | Remark  |  |        |
|----------------|------------------|---|---------------------------------|---|---------------------------------|---|--|--------|
|                |                  | Stock<br>share<br>(Thousan<br>d shares) | Amount<br>(Thousand<br>dollars) | Stock<br>share<br>(Thousan<br>d shares) | Amount<br>(Thousand<br>dollars) | Source of capital   | Capital is<br>paid with<br>something<br>other than<br>cash | Other  |
| 1988.10        | 10               | 3,500                                   | 35,000                          | 3,500                                   | 35,000                          | Capital \$35,000,000  | None   | Note1  |
| 1990.06        | 10               | 19,388                                  | 193,880                         | 19,388                                  | 193,880                         | Property to offset the equity shareholders<br>\$158,880,000   | Yes  | Note2  |
| 1991.12        | 10               | 60,000                                  | 600,000                         | 60,000                                  | 600,000                         | cash capital increase \$406,120,000   | None   | Note3  |
| 1992.06        | 10               | 80,000                                  | 800,000                         | 80,000                                  | 800,000                         | cash capital increase \$200,000,000   | None   | Note4  |
| 1995.02        | 10               | 96,000                                  | 960,000                         | 96,000                                  | 960,000                         | Unappropriated retained<br>earnings\$160,000,000  | None   | Note5  |
| 1995.12        | 10               | 110,400                                 | 1,104,000                       | 110,400                                 | 1,104,000                       | unappropriated retained earnings<br>\$144,000,000   | None   | Note6  |
| 1996.12        | 10               | 176,640                                 | 1,766,400                       | 156,960                                 | 1,569,600                       | cash capital increase \$300,000,000<br>unappropriated retained earnings<br>\$165,600,000                                  | None   | Note7  |
| 1997.09        | 10               | 320,000                                 | 3,200,000                       | 230,500                                 | 2,305,000                       | cash capital increase \$418,500,000<br>unappropriated retained earnings<br>\$159,940,000<br>capital reserve \$156,960,000 | None   | Note8  |
| 1998.07        | 10               | 360,000                                 | 3,600,000                       | 288,500                                 | 2,885,000                       | unappropriated retained earnings<br>\$115,250,000<br>capital reserve \$461,000,000<br>employee bonuses\$3,750,000         | None   | Note9  |
| 1999.06        | 10               | 360,000                                 | 3,600,000                       | 297,155                                 | 2,971,550                       | unappropriated retained earnings<br>\$86,550,000  | None   | Note10 |
| 2000.08        | 10               | 430,000                                 | 4,300,000                       | 317,956                                 | 3,179,559                       | unappropriated retained earnings<br>\$208,008,500   | None   | Note11 |
| 2003.02        | 10               | 430,000                                 | 4,300,000                       | 313,662                                 | 3,136,619                       | Treasury stock capital decrease \$42,940,000  | None   | Note12 |
| 2004.07        | 10               | 430,000                                 | 4,300,000                       | 282,741                                 | 2,827,406                       | Merge Hong-Yuan Investment Co., Ltd<br>Capital decrease\$309,212,940  | None   | Note13 |
| 2007.08        | 10               | 430,000                                 | 4,300,000                       | 286,268                                 | 2,862,680                       | unappropriated retained earnings<br>\$28,274,050<br>employee bonuses\$7,000,000   | None   | Note14 |
| 2008.08        | 10               | 430,000                                 | 4,300,000                       | 289,931                                 | 2,899,306                       | unappropriated retained earnings<br>\$28,626,790<br>employee bonuses\$8,000,000   | None   | Note15 |
| 2011.08        | 10               | 430,000                                 | 4,300,000                       | 319,135                                 | 3,191,348                       | unappropriated retained earnings<br>\$289,930,640   | None   | Note16 |
|                | 36               |   |                                 |   |                                 | Convertible Bond \$76,000,000 was<br>converted to common stock \$2,111,070<br>accumulatively.                             |  |        |
| 2013.06        | 10<br>29.        | 430,000                                 | 4,300,000                       | 319,467                                 | 3,194,670                       | Convertible Bond \$9,900,000 was converted<br>to common stock \$3,322,140 accumulatively                                  | None   | Note17 |
| 2014.01        | 10<br>28.1       | 430,000                                 | 4,300,000                       | 319,951                                 | 3,199,510                       | Convertible Bond \$13,600,000 was<br>converted to common stock<br>\$4,839,800accumulatively                               | None   | Note18 |
| 2014.05        | 10<br>28.1       | 430,000                                 | 4,300,000                       | 319,954                                 | 3,199,954                       | Convertible Bond \$100,000 was converted<br>to common stock \$35,580 accumulatively                                       | None   | Note19 |
| 2014.06        | 10<br>28.1       | 430,000                                 | 4,300,000                       | 332,809                                 | 3,328,087                       | Convertible Bond \$361,200,000 was<br>converted to common stock<br>\$128,540,890accumulatively                            | None   | Note20 |



Note 1: Apply for approval by MOEA in 1988/10/5, see:經(077)商 30388 號函。  
 Note 2: Apply for approval by MOEA in 1990/6/23, see:經(079)商 111788 號函。  
 Note 3: Apply for approval by MOEA in 1991/12/30, see:經(080)商 129062 號函。  
 Note 4: Apply for approval by MOEA in 1992/6/1, see:經(081)商 126109 號函。  
 Note 5: Apply for approval by MOEA in 1995/2/13, see:經(084)商 101097 號函。  
 Apply for approval by SFC in 1994/12/19, see:(83)台財證(一)第 44036 號函。  
 Note 6: Apply for approval by MOEA in 1995/12/29, see:經(084)商 120526 號函。  
 Apply for approval by SFC in 1995/12/5, see:(84)台財證(一)第 62982 號函。  
 Note 7: Apply for approval by MOEA in 1996/12/23, see:經(085)商 122200 號函。  
 Apply for approval by SFC in 1996/10/17, see:(85)台財證(一)第 59596 號函。  
 Note 8: Apply for approval by MOEA in 1997/9/5, see:經(086)商 115644 號函。  
 Apply for approval by SFC in 1997/5/19, see:(86)台財證(一)第 33867 號函。  
 Note 9: Apply for approval by MOEA in 1998/7/3, see:經(087)商 116246 號函。  
 Apply for approval by SFC in 1998/5/18, see:(87)台財證(一)第 43779 號函。  
 Note10:Apply for approval by MOEA in 1999/6/7, see:經(088)商 128149 號函。  
 Apply for approval by SFC in 1999/6/11, see:(88)台財證(一)第 54911 號函。  
 Note11:Apply for approval by MOEA in 2000/8/31, see:經(089)商 132051 號函。  
 Apply for approval by SFC in 2000/7/26, see:(89)台財證(一)第 64952 號函。  
 Note12:Apply for approval by MOEA in 2003/2/27, see:經(092)商 01059210 號函。  
 Apply for approval by SFC in 2002/11/19, see:(91)台財證(三)第 0162211 號函。  
 Note13:Apply for approval by MOEA in 2004/8/13, see:經(093)商 01152070 號函。  
 Apply for approval by SFC in 2004/7/2, see:(91)台財上字第 0930101704 號函。  
 Note14:Apply for approval by MOEA in 2007/07/26, see: 經授商字第 0960039463 號函。  
 Note15:Apply for approval by MOEA in 2008/07/17, see: 經授商字第 0970036086 號函。  
 Note16:Apply for approval by MOEA in 2011/07/22, see: 經授商字第 1000034201 號函。  
 Note17:Apply for approval by MOEA in 2013/07/15, see: 經授商字第 10201139040 號函。  
 Note18:Apply for approval by MOEA in 2014/07/14, see: 經授商字第 10301020900 號函。  
 Note19:Apply for approval by MOEA in 2014/07/14, see: 經授商字第 10301085220 號函。  
 Note20:Apply for approval by MOEA in 2014/07/14, see: 經授商字第 10301140350 號函。

## 2.Types of shares

| Types of Shares | Authorized capital |                  |             | Remark       |
|-----------------|--------------------|------------------|-------------|--------------|
|                 | Outstanding stock  | Non-issued stock | Total       |              |
| Common stock    | 332,808,652        | 97,191,348       | 430,000,000 | Listed stock |

Aggregated declaration information : NA

## 3.Structure of shareholders

April 10,2020

| Structure of Shareholders<br>Amount | Government agency | Financial Institutions | Other juristic person | Personal   | Foreign Institutional and foreign national | Total       |
|-------------------------------------|-------------------|------------------------|-----------------------|------------|--|-------------|
| Number                              | 2                 | 2                      | 59                    | 10,304     | 103  | 10,470      |
| Shares held                         | 4,707,454         | 15,664,925             | 159,827,858           | 95,367,154 | 57,241,261                                 | 332,808,652 |
| %                                   | 1.41%             | 4.71%                  | 48.02%                | 28.65%     | 17.21%                                     | 100%        |

Note: The first listing (OTC) and emerging companies should disclose their financial stake in China; China refers to China fund to invest in Taiwan permit regulations under section 3 of the people of the China Area, legal entities, organizations, other institutions or investment companies in the third region.



#### 4. Status of dispersal of shareholding

##### (1) Common stock

April 10, 2020

| Range of shareholder | Number of shareholders | Shares held | %       |
|----------------------|------------------------|-------------|---------|
| 1 ~ 999              | 3,713                  | 674,482     | 0.20%   |
| 1,000 ~ 5,000        | 4,588                  | 9,747,088   | 2.93%   |
| 5,001 ~ 10,000       | 921                    | 7,159,527   | 2.15%   |
| 10,001 ~ 15,000      | 324                    | 4,042,572   | 1.21%   |
| 15,001 ~ 20,000      | 205                    | 3,783,420   | 1.14%   |
| 20,001 ~ 30,000      | 177                    | 4,576,478   | 1.38%   |
| 30,001 ~ 40,000      | 94                     | 3,301,099   | 0.99%   |
| 40,001 ~ 50,000      | 85                     | 3,994,967   | 1.20%   |
| 50,001 ~ 100,000     | 153                    | 10,866,229  | 3.27%   |
| 100,001 ~ 200,000    | 100                    | 13,624,757  | 4.09%   |
| 200,001 ~ 400,000    | 42                     | 11,635,369  | 3.50%   |
| 400,001 ~ 600,000    | 17                     | 8,596,747   | 2.58%   |
| 600,001 ~ 800,000    | 12                     | 8,319,535   | 2.50%   |
| 800,001 ~ 1,000,000  | 2                      | 1,788,000   | 0.54%   |
| 1,000,001 above      | 37                     | 240,698,382 | 72.32%  |
| Total                | 10,470                 | 332,808,652 | 100.00% |

##### (2) Preferred stock : None

#### 5. List of major shareholders

| Major Shareholders   | Shares held | %      |
|--|-------------|--------|
| Hua-Zhan Investment Co., Ltd.  | 57,801,745  | 17.37% |
| Fu-Da Investment Co., Ltd.   | 53,527,040  | 16.08% |
| Teacher Retirement System of Texas - Dimensional Fund Advisors LP as external fund manager | 14,890,491  | 4.47%  |
| Fubon Life Insurance Company   | 14,214,925  | 4.27%  |
| Edgbaston Asian Equity Trust   | 12,598,154  | 3.79%  |
| Sunfon Construction Co., Ltd.  | 8,100,000   | 2.43%  |
| Tai-Ban Investment Co., Ltd.   | 7,166,738   | 2.15%  |
| C.P. Liu   | 5,342,000   | 1.61%  |
| DaHong Investment Co., Ltd.  | 5,269,000   | 1.58%  |
| Public Service Pension Fund Management Board   | 4,707,448   | 1.41%  |

6.Share prices for the past two fiscal years, together with the company's net worth per share, earnings per share, dividends per share, and related information

| Item                                 |  |                                  | Year | 2018        | 2019        | 2020.01.01~<br>2020.03.31 |
|--------------------------------------|--|----------------------------------|------|-------------|-------------|---------------------------|
| Market price<br>per share<br>(Note1) | Max.   |                                  |      | 23.40       | 24.95       | 24.70                     |
|                                      | Min.   |                                  |      | 19.15       | 19.15       | 17.50                     |
|                                      | Average                                      |                                  |      | 21.34       | 20.86       | 22.14                     |
| Net worth<br>per share<br>(Note2)    | Unappropriated                               |                                  |      | 35.00       | 35.95       | 36.49                     |
|                                      | Appropriated                                 |                                  |      | 34.00       | (Note 8)    | (Note 9)                  |
| Earnings per<br>share                | Weighted average stock shares                |                                  |      | 322,809,000 | 322,809,000 | 332,809,000               |
|                                      | Earnings per share<br>(Note3)                | Unretroacted                     |      | 1.34        | 1.83        | 0.54                      |
|                                      |  | Retroacted                       |      | 1.34        | (Note 8)    | (Note 9)                  |
| Dividends<br>per share               | Cash dividend                                |                                  |      | 1.00        | (Note 8)    | -                         |
|                                      | Stock dividend                               | Dividends from retained earnings |      | -           | -           | -                         |
|                                      |  | Dividend from capital surplus-   |      | -           | -           | -                         |
|                                      | Accumulated unappropriated dividends (Note4) |                                  |      | -           | -           | -                         |
| Return on<br>investment              | Ratio of profit (Note5)                      |                                  |      | 15.93       | 11.46       | 41                        |
|                                      | Ratio of dividend (Note6)                    |                                  |      | 14.23       | 20.86       | -                         |
|                                      | Ratio of cash dividend (Note7)               |                                  |      | 0.070       | 0.048       | -                         |

Note 1 : List the highest and lowest market price of each year. And calculating each year's average market price based upon each year's actual transaction prices and volume.

Note 2 : To base on the decision of distribution reached in next Shareholder's Meeting.

Note 3 : The situation have to retroactively adjust because of stock dividend, it shall disclose the information of earnings per share before and after adjusted.

Note 4 : If unpaid dividends would distribute till the year that have earnings, it should disclose the accumulated amount of unpaid dividends.

Note 5 : Ratio of profit = closing price per share of the year / earnings per share.

Note 6 : Ratio of dividend = closing price per share of the year / cash dividend per share.

Note 7 : Ratio of cash dividend = cash dividend per share / closing price per share of the year.

Note 8 : The distribution of 2018 retained earnings has not determined by shareholders' meeting.

Note 9 : No distribution of the settlement in the first quarter in 2019.



### 7. Company's dividend policy and implementation status :

- (a) Dividend policy : consider need of and the perfect financial plan the future fund and the perfect financial plan, if there have the dividend distribution, the total of the cash dividend not be lower than 20% of the amount of cash dividend and stock dividend, other will distribute by stock from retained earnings and capital reserve.
- (b) Implementation status : the effect of business performance, earnings per stock, and return on investment by stock dividend.

(Unit: NT\$ thousands)

| Item                         |   | Year                                       |          | 2018      | 2019      |
|------------------------------|---|--|----------|-----------|-----------|
| Paid-in capital in beginning |   |  |          | 3,328,087 | 3,328,087 |
| Distribution                 | Cash dividend per share(unit : NT dollars)  |  |          | 1.5       | 1.2       |
|                              | Stock dividend per share-retained earnings  |  |          | -         | -         |
|                              | Stock dividend per share-capital reserve  |  |          | -         | -         |
| Business performance         | Operating income  |  | (note7)  | 432,625   | 566,066   |
|                              | Operating income (compare with last year)   |  | (note 7) | (30.09)%  | 30.84%    |
|                              | Net income  |  | (note 7) | 444,704   | 606,414   |
|                              | Net income (compare with last year)   |  | (note 7) | (43.17)%  | 36.36%    |
|                              | Earnings per share(unit : NT dollars)   | Unretroacted                               | (note 7) | 1.34      | 1.83      |
|                              |   | Retroacted                                 | (note 7) | 1.34      | -         |
|                              | Earnings per share (compare with last year)   | Unretroacted                               | (note 7) | (42.98)%  | 36.57%    |
|                              |   | Retroacted                                 | (note 7) | -         | -         |
|                              | Average of return on investment   |  |          | 9.42%     | 8.73%     |
|                              | Capital increase paid out of earnings→cash dividends  | Fictitious earnings per share              |          | 1.34      | 1.83      |
|                              |   | Fictitious average of return on investment |          | 9.42%     | 8.73%     |
|                              | No capitalization of capital reserve  | Fictitious earnings per share              |          | 1.34      | 1.83      |
|                              |   | Fictitious average of return on investment |          | 9.42%     | 8.73%     |
|                              | No capitalization of capital reserve and capital increase paid out of earnings→cash dividends | Fictitious earnings per share              |          | 1.34      | 1.83      |
|                              |   | Fictitious average of return on investment |          | 9.42%     | 8.73%     |

Note1 : Earnings per share(if capital increase paid out of earnings → cash dividends) = [ net income-interest expense\*(1-interest rate) ] / [weighted average outstanding stock-stock dividend per share by retained earnings]

Interest expense = amount of capital increase through capitalization of retained Earnings \* average loan rate

Note2 : Average market price per share in 2018=NT\$21.34 ; average market price per share in 2019=NT\$20.86.

Note3 : Interest rate is calculated by weighted average interest rate on short-term margin loan, 1.25% in 2018 and 1.44% in 2019

Note4 : Valid interest rate is 20% in 2019

Note5 : Cost-profit average ratio = average market price per share/earnings per share.

Note6 : No make a budget and announce the financial forecast in 2020, therefore no need to disclose the affect of issuance of bonus shares.

Chairman: J.H.Tuan



Manager: J.H.Tuan



Manager of accounting dept.: P.S.Liu



(c) Proposed dividend distribution to Shareholder's meeting:

1. Resolution of Board Meeting in April 15, 2020 Dividend of 2019 distribute cash dividend \$1.2 per share.
2. The above distribution proposal, yet to submit to Shareholders' meeting by June 9, 2020.

(d) Dividend policy is expected there will be major changes explanation: None.

8. Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting : The Company doesn't make public financial forecast of 2020 so this item is not applicable.

9. Employee remuneration and compensation of directors and supervisors

(1) The multiples or ranges with respect to employee dividends and director/auditor compensation, as set forth in the company's articles of incorporation :

Net income at closing, except allocate for tax in advance, redeem loss in business in past year, and allocate 10% for legal reserve, remanent are distributed by the Board of Directors, and than recognize by Shareholder's Meeting:

- a. Remuneration to directors and supervisors can't over 3%
- b. Employee remuneration can't lower than 1% , and can distribute in stock if have the situation that remuneration transferred to common stock
- c. Shareholder's Meeting could resolved the distribution of retained earnings

(2) The accounting treatment of estimate base of employee remuneration and compensation of directors and supervisors, and calculated base of number of shares in stock remuneration distribution, are different to actual distributed amount: None

(3) The information of proposed dividend distribution of Board Meeting:

a. Distribution amount of employee remuneration, stock dividend, and compensation of directors and supervisors:  
(Unit: NT\$)

| Distribution                              | Estimate Amount | Distribution Amount Approved by the Board | Difference | Reason & Treatment |
|---|-----------------|---|------------|--------------------|
| Employee remuneration                     | 12,000,000      | 12,000,000                                | 0          | None               |
| Employee remuneration                     | 0               | 0   | 0          | None               |
| Remuneration of Directors and Supervisors | 2,200,000       | 2,200,000                                 | 0          | None               |

b. Propose to distribute employee stock remuneration and the percentage of net income and total employee remuneration: 0%

c. Earnings per share of considered in distribute employee remuneration and compensation of directors and supervisors: NT\$1.82.

(4) Use of earnings in the preceding fiscal year for distribution of employee dividends and directors/supervisors compensation:

(Unit: NT\$)

| Year 2018   | Employee remuneration | Compensation for Directors and Supervisors |
|---|-----------------------|--|
| Distribution Proposal of Retained Earnings adopted at the Board of Directors. | 9,000,000             | 2,200,000                                  |
| Actual Distribution of Retained Earnings in Shareholders' Meeting.            | 9,000,000             | 2,200,000                                  |
| Difference  | 0                     | 0  |



The information related to the appropriation of employees' bonuses and remuneration to directors and supervisors can be found on web sites such as the Market Observation Post System after the Shareholders' meeting.

10. Share Repurchases: None.

b. Corporate Bonds:

1. Bond (handle situation): Please reference to Chinese version.

2. The information of Convertible bonds: Please reference to Chinese version.

c. Preferred Shares

1. Issuance of Preferred Shares: None.

2. Preferred Share with Warrants: None.

d. Global depository receipts: None.

e. Employee stock option certificates: None.

f. Merger & acquisition: None.

## **B. Information on Implementation of the Company's Funds Utilization Plans**

a. Description of the plans: None.

b. Status of implementation: None.

## V. Operational Highlights

### A. Business Activities

#### (A)Cope of business

##### 1. Major business content

- (1) Contract contractor to construct public housing and commercial building for rental and sale
- (2) Proxy, business, import and export of building material and engineering material
- (3) Upholstery
- (4) Conduct of convenience market & supermarket
- (5) E2010101 andscape engineering
- (6) F501010 dinihg hall
- (7) H701020 develop, rental, and sale of industry building
- (8) H701040 development of specific professional area
- (9) H701060 development of new town and new community
- (10) H703010 rental of factory building
- (11) H703020 rental of storage
- (12) H703030 rental of office
- (13) H701050 invest in construction of public structure

##### 2. Business operation

Contracting contractor to construct public housing and commercial building for rental and sale in domestic market (100%)

##### 3. Current product line and future service

- (1)Apartment : residence 、store 、parking lot
- (2)Building : residence 、store 、market 、suite 、parking lot

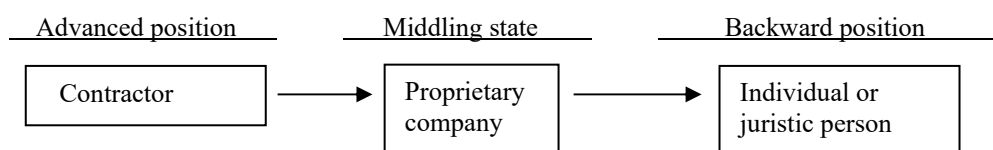
#### (B)Industry summary

##### 1.Current and development of industry :

Looking back to 2018, Although the United States and China engaged trade war and Fed raised interest rate and planed to unwind its balance sheet. However, the central government no further introduced control policies on housing market and new president of the central bank continued to maintain monetary policy stability. The mainstream of the real estate market still focused on rigid demand such as first purchase and first change. Presale projects, “Leisurely Days”, “Hong Pu Park” were completed and booked revenue. “WenDe”, “Economy and Trade”, “A Max”, “Paris Mansion”, “Hong Pu New Star”, “Light Year-the World” and “Light Year-the One” were delivered and booked revenue. We have a stable revenue and profit in 2018.

##### 2.Relation between advanced position, middling state, and backward position :

Hong-Pu is in the business of contracting contractor to construct public housing and commercial building for rental and sale in domestic market. The relation show in follow chart :





### 3.Evolutional trend :

Growth rate of major product in this ten years :

(Unit: NT\$ thousands)

| Year        | Item          | Sales     | Growth rate |
|-------------|---------------|-----------|-------------|
| 2011        | Sales Revenue | 2,934,481 | -21.32%     |
|             | Rental        | 16,718    | 18.72%      |
| 2012        | Sales Revenue | 4,378,490 | 49.21%      |
|             | Rental        | 20,466    | 22.42%      |
| 2012 (IFRS) | Sales Revenue | 3,939,002 | 34.23%      |
|             | Rental        | 20,466    | 22.42%      |
| 2013        | Sales Revenue | 3,972,960 | 0.86%       |
|             | Rental        | 32,998    | 61.23%      |
| 2014        | Sales Revenue | 4,460,492 | 12.27%      |
|             | Rental        | 39,488    | 19.67%      |
| 2015        | Sales Revenue | 5,021,702 | 12.58%      |
|             | Rental        | 29,053    | -26.43%     |
| 2016        | Sales Revenue | 4,766,599 | -5.08%      |
|             | Rental        | 22,195    | -23.61%     |
| 2017        | Sales Revenue | 2,664,960 | -44.09%     |
|             | Rental        | 20,368    | -0.08%      |
| 2018        | Sales Revenue | 3,897,830 | 46.26%      |
|             | Rental        | 20,175    | -0.95%      |
| 2019        | Sales Revenue | 2,853,323 | -26.80%     |
|             | Rental        | 32,573    | 61.45%      |

It can be seen from the above table that the Company's revenue decreased by 26.80% in 2019. Because only one newly completed project, "World Trade Plaza" was booked revenues, in addition, some delivered units of "Hong Pu Park", "Leisurely Days", "Economy and Trade", "WenDe", "AMAX", "Paris Mansion", "Hong Pu New Star", and "Light Year-the One" were booked in revenues. Therefore, revenues in 2019 is less than in 2018.

(C)An overview of the company's technologies and its research and development work :

1. Increase building's ability to resist earthquake.
2. Improve quality of curtail wall.
3. Invest in the detailed research of healthy green buildings and intelligent buildings and implement various indicators.
4. Create specialty and uniqueness of house.

(D)The long- and short-term business development plans

Projection in short-term, medium-term, and long-term :

| Development | Short-term (2020)   | Medium-term and long-term  |
|-------------|---|--|
| Customer    | 1.Full service for customers<br>2.Strengthen communication between advanced position, middling state, and backward position | 1. Cut cost and share the profit<br>2. Much accounted of customer's require  |
| Product     | 1.Predominant and convenient house<br>2.Slowdown from acquisitive land to complete work                                     | 1. Invest in the detailed research of healthy green buildings Development of new residence<br>2.Raise the abilities of employees in planning dept.<br>3.With solid financial structure, the company plans to develop long-term rental income assets. |
| Market      | 1.Looking for the worth land in Taiwan.   | 1. Looking for the worth land in Taiwan.   |



## B. Market and Sales Overview

### (A)Market analysis

#### 1. Sales and market for key product and services

Hong-Pu is in the business to construct residential building and office building, and all in Taipei area and the land development prefer to choose convenient transportation, perfect life function, and full of potential lot in future.

#### 2. Market demand and supply

##### (1)Supply :

- a. Investigate housing supply situation currently and surplus housing pressure in market from variety of expedite number in construct license and use license. We observe that to know, construct license is increase in 2005, generality, use license must wait to expedite till building finish construction, and use license would be lag behind construct license in 1.5 years to 2 years. Therefore expedite number of use license large increase in 2006 and 2007, and expect surplus supply pressure in market would be continuing increase. But it's getting slowly in 2008, the supply in market decrease slightly. Under impact of government tightening policies such as Luxury Tax on property in year 2011 and political and economical uncertainties in the first half year 2012, the number of issued construct licenses in year 2011 and 2012 was reduced. But, from the second half of 2012, market sentiment became better. And after the implementation of Registering the Actual Selling Price of Real Estate, uncertain factor was eliminated. Market became optimistic in 2013 and 2014. Developers launched new projects increasingly. The implement of "Integrated Housing and Land Tax", the increase of property tax due to raised "Standard Values of Houses" and "Assessed and Announced Value of Land" affect investors' confidence, therefore transaction of real estate became slow ; Due to the Amendment of construction regulations, number of application of construction permits increased in 2017.
- b. Economy had begun recovery since 2003, except a little decrease international financial crisis in 2008. But market recovered again in 2009. Under circumstance of the implementation of the luxury-housing tax in 2011, The implement of "Integrated Housing and Land Tax" and the conservative market sentiment caused the application numbers of building permit decreased significantly ; Looking back to 2018, Brexit was delayed, however, major central banks around the world have released liquidity, the concern of slowdown of the US economy has been lifted, and the US and China have temporarily reached a trade agreement. The demand in real estate market has come out..



List of number of housing that issuing building permit and occupation permits.

Unit : ten thousand housing

| Year | Number of housing that issuing building permit | Number of housing that issuing occupation permit |
|------|--|--|
| 1997 | 13.0   | 11.3   |
| 1998 | 8.5  | 9.8  |
| 1999 | 5.7  | 8.5  |
| 2000 | 4.5  | 6.2  |
| 2001 | 2.4  | 4.9  |
| 2002 | 3.9  | 4.5  |
| 2003 | 6.3  | 5.8  |
| 2004 | 11.0   | 6.9  |
| 2005 | 18.30  | 11.49  |
| 2006 | 11.64  | 12.41  |
| 2007 | 10.61  | 13.04  |
| 2008 | 7.04   | 11.12  |
| 2009 | 5.12   | 7.59   |
| 2010 | 8.45   | 7.19   |
| 2011 | 9.32   | 6.87   |
| 2012 | 9.43   | 7.72   |
| 2013 | 11.68  | 8.30   |
| 2014 | 12.14  | 8.89   |
| 2015 | 10.38  | 9.66   |
| 2016 | 7.84   | 9.53   |
| 2017 | 9.13   | 8.70   |
| 2018 | 12.09  | 9.78   |
| 2019 | 14.78  | 9.15   |

Note : data origin: Construction and Planning Agency, Ministry of the Interior

## (2)Demand:

The central government no further released control policies on housing market and introduced “Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings”, the local government announced lower “Assessed Land Value”, and the central bank’s monetary policy continued to maintain a dynamic stability Rigid demand is still main stream in the real estate market.

## 3. Development strength and weakness

### (1) Strength:

#### a. Economy:

1. Due to FATCA China version, Taiwanese merchants in Mainland continue to wired funds back.
2. The supply of land is limited and demand of owner-occupied or set assets is strong.
3. The novel pneumonia epidemic in mainland China in early 2020 has accelerated the return of Taiwanese companies to set up factories in Taiwan.

#### b. Fund:

1. Interest rate keeps stady low, and financial cost of builders and consumers are low.
2. Internationally, U.S.-China temporarily reached a trade agreement and major central banks around the world

released liquidity. The real estate market is still dominated by first time purchasers and rigid demand.

c. Policy and regulation:

1. Circle line is going to complete and open, therefore residential demand is increasing along the route.
2. Local governments lowered the “Assessed Land Value” and central government introduced the “Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings”.

(2) Weakness:

a. Economy:

1. Land of prime locations acquired not easily and cost of land and construction get higher.
2. The COVID-19 pneumonia is a global pandemic, and the reduced global movement may cause economic stagnation

b. Fund:

1. Novel coronavirus pneumonia "black swan" impacts global stock market
2. In response to the impact of Novel Coronavirus Pneumonia, the market may occasionally suffer from insufficient liquidity or excessive adjustment of fundamentals.

c. Policy and regulation:

1. The implement of “Integrated Housing and Land Tax”.
2. The rule of volume incentives is added the upper limit and the volume transference of road changes to cash equivalent.
- 3 Uncertainty on cross-strait policies.

(3) Response strategies:

Maintain finance stable, plan potential area and project within market, Develop long-term rental income assets.

elect excellent construct team carefully, create brand superiority and competitiveness.

(B) Usage and manufacturing processes for the company's main products

Hong-Pu's major product are developing housing, villa, store, market, office and parking lot by contracting contractor.

(C) Supply situation for the company's major raw materials

1. Land : acquire through purchase or joint venture. Though it is difficult for land acquiring in Taipei City, it is still possible to purchase or joint venture.
2. Construction: there are more than 600 grade A contractors in greater Taipei area. No shortage or cartel concerns.

(D) In any year that account for purchase (sales) total value more than 10% for the two most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each

#### 1. Major Suppliers

##### Major Suppliers Information for the Last Two Calendar Years

(Unit: NT\$ thousands)

| Item          | 2018                  |           |         |                      | 2018                       |           |           |                      | 2020(As of March 31) (Note2) |             |             |                      |
|---------------|-----------------------|-----------|---------|----------------------|----------------------------|-----------|-----------|----------------------|------------------------------|-------------|-------------|----------------------|
|               | Company Name          | Amount    | Percent | Relation with Issuer | Company Name               | Amount    | Percent   | Relation with Issuer | Company Name                 | Amount      | Percent     | Relation with Issuer |
| 1             | Mr. Chen and 2 others | 841,500   | 48.43%  | None                 | New Taipei City Government | 3,068,853 | 63.35%    | None                 | Mr. Li and 14 others         | 761,239,100 | 80.52%      | None                 |
| 2             | Mr. Liu and 2 others  | 249,998   | 14.39%  | None                 | Mr. Lin and 9 others       | 790,816   | 16.33%    | None                 | -                            | -           | -           | -                    |
| 3             | -                     | -         | -       | -                    | -                          | -         | -         | -                    | -                            | -           | -           | -                    |
| 4             | -                     | -         | -       | -                    | -                          | -         | -         | -                    | -                            | -           | -           | -                    |
| Others        |                       | 646,036   | 37.18%  | -                    | Others                     |           | 984,418   | 20.32%               | Others                       |             | 184,114,742 | 19.48%               |
| Net Purchases |                       | 1,737,534 | 100.00% | -                    | Net Purchases              |           | 4,844,087 | 100.00%              | Net Purchases                |             | 945,353,842 | 100.00%              |

Note 1: Major suppliers mean each commanding 10%-plus share of annual order volume.

Note2: As of publication of annual report, recent certified or reviewed financial data of supplier whose stock listed on TSE or GreTai Securities Market should be disclosed. °

The reason of change: The change of purchase amount from suppliers is due to projects completed and projects started in last two years.

#### 2. Major Clients

##### Major Clients Information for the Last Two Calendar Years

(Unit: NT\$ thousands)

| Item                   | 2018         |           |         |                      | 2019                   |        |           |                      | 2020(As of March 31) (Note 2) |         |           |                      |
|------------------------|--------------|-----------|---------|----------------------|------------------------|--------|-----------|----------------------|-------------------------------|---------|-----------|----------------------|
|                        | Company Name | Amount    | Percent | Relation with Issuer | Company Name           | Amount | Percent   | Relation with Issuer | Company Name                  | Amount  | Percent   | Relation with Issuer |
| 1                      | -            | -         | -       | -                    | -                      | -      | -         | -                    | Life Technologies Co., Ltd.   | 170,855 | 16.41%    | None                 |
| 2                      | -            | -         | -       | -                    | -                      | -      | -         | -                    | Digital Tax Tech              | 130,303 | 12.52%    | None                 |
| 3                      | -            | -         | -       | -                    | -                      | -      | -         | -                    | -                             | -       | -         | -                    |
| Others                 |              | 3,918,005 | 100.00% | -                    | Others                 |        | 2,885,896 | 100.00%              | Others                        |         | 739,754   | 71.07%               |
| Net Operating Revenues |              | 3,918,005 | 100.00% | -                    | Net Operating Revenues |        | 2,885,896 | 100.00%              | Net Operating Revenues        |         | 1,040,912 | 100.00%              |

Note 1: Major Clients mean each commanding 10%-plus share of annual sales volume.

Note2: As of publication of annual report, recent certified or reviewed financial data of client whose stock listed on TSE or GreTai Securities Market should be disclosed.

The reason of change: Due to the nature of development industry, there are no specific customers.

(E) An indication of the production volume for the two most recent fiscal years

(Unit: NT\$ thousands)

| Output<br>Major Products<br>(or by departments) | Year | 2018                |                             | 2019                |                             |
|---|------|---------------------|-----------------------------|---------------------|-----------------------------|
|   |      | Volume<br>(Housing) | Amount                      | Volume<br>(Housing) | Amount                      |
| House   |      | 67                  | 1,809,600                   | 5                   | 1,328,390                   |
| Parking lot                                     |      | 117                 | (Included Parking lot cost) | 58                  | (Included Parking lot cost) |
| Rental  |      | -                   | -                           | -                   | -                           |
| Total   |      | 184                 | 1,809,600                   | 63                  | 1,328,390                   |

(F) An indication of the volume of units sold for the two most recent fiscal years

(Unit: NT\$ thousands)

| Volume<br>Product                     | Year | 2018     |           |         |        | 2019     |           |         |        |
|---------------------------------------|------|----------|-----------|---------|--------|----------|-----------|---------|--------|
|                                       |      | Domestic |           | Foreign |        | Domestic |           | Foreign |        |
|                                       |      | Volume   | Amount    | Volume  | Amount | Volume   | Amount    | Volume  | Amount |
| Sales Revenue<br>(House, Parking lot) |      | 685      | 3,918,005 | -       | -      | 685      | 2,853,323 | -       | -      |
| Rental                                |      | 54       | 20,175    | -       | -      | 54       | 32,573    | -       | -      |
| Land                                  |      | -        | -         | -       | -      | -        | -         | -       | -      |
| Total                                 |      | 739      | 2,685,328 | -       | -      | 462      | 2,885,896 | -       | -      |

### C. Human Resources :

April 10, 2020

| Year                      |                      | 2018  | 2019  | As of Apr. 10, 2020 |
|---------------------------|----------------------|-------|-------|---------------------|
| Number of staff           | Employee             | 15    | 17    | 17                  |
|                           | Engineering employee | 11    | 9     | 8                   |
|                           | Total                | 26    | 26    | 25                  |
| Average age               |                      | 47    | 47    | 47                  |
| Average length of service |                      | 10.19 | 9.0   | 11.5                |
| Education background      | Doctor               | -     | -     | -                   |
|                           | Master               | 11.6% | 18.0% | 20%                 |
|                           | Bachelor             | 76.9% | 70.0% | 68.5%               |
|                           | High school          | 11.5% | 12.0% | 11.5%               |
|                           | Other                | -     | -     | -                   |



## D. Disbursements for environmental protection

a. Pursuant to laws, facilities should apply for the permit or the pollution of pollution discharge permit or pollution control costs should be paid or environmental protection should be set up dedicated units who were ,Its claim, the case of payment instructions or established.

Investment in our by the construction company to build the case for labor and materials or way of contracting not-included contract, Construction process of environmental protection, by the contractor company responsible. However, the concept based on Environmental Protection, Our for the engineering construction process, Contract manufacturers are strictly required to do environmental protection,

So the last two years has not suffered losses due to pollution of the environment,

no significant environmental expenditures anticipated future.

b. Companies on the prevention of environmental pollution on the investment of major equipment and use and could be beneficial : None

c. Last three year the company to improve the environment through pollution, the event has pollution dispute, And should explain the deal through :

Our contracts with construction companies in the construction period stipulated in the environmental responsibility of a construction plant, responsible for overseeing the company. In the prevention of pollution Our on the following measures :

1. Geological and Adjacent Building status as the selection of appropriate construction methods to reduce noise and vibration.
2. Erection of fence around the building to prevent dust or debris falling.
3. Set the closed conduit from garbage strewn garbage transfer process.
4. Designated waste placement, periodic deliveries of disposable workers.
5. Regular employee base of gutter cleaning, maintenance of the surrounding environment in order to maintain smooth Health.

d. The last three years the company suffered losses due to pollution of the environment (including compensation) : None

e. Pollution and improve current earnings, competitive position and capital expenditures over the next three years and its significant environmental capital expenditures are expected: None

## E. Labor relations

a. Various staff welfare measures, education, training, retirement system and its implementation of the agreement between the case and the labor and the situation of the protection of workers

1. Our provided the welfare system as follows:

- (1) Housing benefits: All regular employees Our to purchase the company invest in the construction of the Product, are entitled to a discount
- (2) Car borrowing: The Company provides a staff car borrowing approach.
- (3) Emergency borrowing: Where the company the official staff of probation emergency occurs, it may Borrow less than 6 months in advance of salary, and to provide a staff of emergency borrowing Measures.

2. Employee Welfare Committee Our to provide the following benefits:

- (1) Domestic and foreign tourist activities: To encourage employees to engage in the leisure, where the Employees of the Company may from time to time to participate in the employee benefits committee organized by domestic and foreign tourism. Tourism activities and is home to the subsidy approach.

(2) Gifts and education grants: all regular employees who have enjoyed the company birth, wedding Gifts, bereavement of themselves and their families are offered each semester Dianyi and education grants for their employees. And to provide a staff of gifts, grants approach.

(3) Achievements of Employees' Welfare Committee in 2019:

| Welfare              | Item                        | Amount(NT dollars) |
|----------------------|-----------------------------|--------------------|
| Benefits             | Weddings and funerals       | 21,600             |
|                      | Emergency Allowances        | 34,400             |
| Educational subsidy  | Child education subsidy     | 69,000             |
| Recreational subsidy | Leisure and sports activity | 1,082,000          |
|                      | Club activity               | 271,381            |
|                      | Recreation and facility     | 720,536            |
|                      | Others                      | 23,627             |

3. The case with the implementation of the retirement system:

(1) Employees Retirement System has set the year 1992, the implementation of, and has been seen by The Ministry of Finance, Taipei National Tax Administration, filing approval set down only as of 12/31/2019, the cumulative deposited in the Central Trust of the retirement reserve account has Reached NT\$19,043 thousand Dollars.

(2) Our in accordance with the provisions of the labor pension contribution of 6%

4. Collective agreement: The company has always been harmonious labor relations, no labor disputes, the Situation is therefore not labor agreement

b. The Company is to enhance the quality of human resources and development advantages, there education and training to implement sustainable management practices to maintain the company foundation and development, education and training system is divided into Our internal training and external training camp.

c. The last three years the company suffered due to loss of labor disputes and to expose current and future estimated amount of possible response measures: None

d. Protection measures for working environment and employees' safety:

1. The company's construction site is equipped with protective nets, safety helmets, safety railings, safety ropes and other safety measures
2. The company's workplace is equipped with medical emergency kits, fire extinguishers and other equipments.
3. The company holds employee safety and health education and training announcements quarterly.
4. The company purchases employee group insurance. The insurable benefits include accident insurance, accident medical treatment and hospitalization medical protection.

e. The key points of the company's employees' ethical code of conduct are as follows:

Article 2 The contents of code are as follows:

1. Prevention of conflicts of interest:

- (1) The directors and managers of the company shall perform their duties in an objective and efficient manner, and shall not make themselves, spouse, parents, children or relatives within the second degree, obtained improper benefits in the execution of business or based on their positions in the company.
- (2) When the company has a monetary loan, provisions of guarantee, material asset transactions or purchases (sales) of goods, etc., it should be handled in accordance with the company's internal processing procedures and other relevant laws and regulations.
- (3) The management department should make policies to prevent conflicts of interest and provide appropriate methods for the directors or managers of the company to proactively state whether they



have potential conflicts of interest with the company.

2.Avoidance of opportunity to self-interest:

When the company has a profit opportunity, the director or manager is responsible for increasing the legitimate benefits that the company can obtain, and the following matters should be prohibited:

- (1) Opportunities for obtaining personal benefits through the use of company property, information or through the convenience of duties
- (2) Obtaining private benefits through the use of company property, information or through the convenience of duties.
- (3) Competition with the company.

3. Duty of confidentiality:

The directors or managers of the company shall be obliged to keep confidential the information of the company itself or its purchase (sales) customers, unless authorized or disclosed by law.

The information that should be kept confidential in the preceding paragraph includes all undisclosed information that may be used by competitors and may damage the company or customers due to leak.

4. Fair trade:

The company's directors or managers should treat the company's purchase (sales) customers, competitors and employees fairly, and must not manipulate, hide or misuse the information learned based on their duties, make misrepresentations of important matters or other unfair transaction ways to gain improper benefits.

5. Protect and properly use company assets:

The directors or managers of the company are responsible for protecting the company' s assets and ensuring that they can be effectively and legally used in official business, so as not to affect the company' s profitability.

6.Comply with laws and regulations:

The company shall strengthen the promotion and compliance of the Securities and Exchange Act and other laws and regulations with regard to directors and managers.

7.Encourage reporting any illegal or ethical violations:

The company should strengthen the promotion of ethical concepts and encourage employees to report to the audit committee, managers, internal audit officers or other appropriate personnel when they suspect or discover violations of laws, regulations or ethical conduct codes.

The management department should make any relevant process or mechanism for reporting any illegal or violation of the codes in the preceding paragraph, and let employees know that the company will do its best to protect the safety of the reporters from revenge.

8.Disciplinary measures

When a director or manager of the company violates the codes, the company may punish the violator in accordance with the relevant regulations according to the severity of the circumstances, and immediately disclose the information such as violation date, cause of violation, violation of guidelines and handling situation.

The company should also make a related complaint system to provide remedies for the violator of the codes of ethics.

## F.Important contracts

| Contract     | Party                          | Date            | Engineering                         | Restriction |
|--------------|--------------------------------|-----------------|-------------------------------------|-------------|
| Construction | Guo Yao Construction Co., Ltd. | 2017.08~2020.03 | 041060434 hotel project             | NA          |
| Construction | Acter Co.,Ltd.                 | 2017.12~2020.03 | 041060434 Electrical and Mechanical | NA          |



## VI. Financial Information

### A. Abbreviated condensed balance sheets and comprehensive income statements for the past five fiscal years

#### a. Condensed balance sheet & comprehensive income statement

##### 1. condensed balance sheet- IFRS

Unit: Thousands of NT dollars

| Year<br>Item                    |                     | Financial information for the last five years (Note 1) |  |  |               |            | Financial information up to March 31, 2020 (Note 2) |
|---------------------------------|---------------------|--|--|--|---------------|------------|---|
|                                 |                     |  |  |  | 2018 (Note 1) | 2019       |   |
| Current assests                 |                     |  |  |  | 15,751,740    | 19,580,090 | 18,580,019  |
| Property, Plant and Equipment   |                     |  |  |  | 86,238        | 83,174     | 82,605  |
| Intangible assets               |                     |  |  |  |               | -          | -   |
| Other assets                    |                     |  |  |  | 261,508       | 142,570    | 1,095,541   |
| Total assets                    |                     |  |  |  | 16,099,486    | 19,805,834 | 19,758,165  |
| Current liabilities             | Before distribution |  |  |  | 4,443,37      | 7,831,533  | 7,604,156   |
|                                 | After distribution  |  |  |  |               | -          | (Note 2 )   |
| Non-current liabilities         |                     |  |  |  | 7,252         | 10,815     | 10,615  |
| Total liabilities               | Before distribution |  |  |  | 4,450,622     | 7,842,378  | 7,614,771   |
|                                 | After distribution  |  |  |  |               | -          | (Note 2 )   |
| Attributable to parent's equity |                     |  |  |  |               | -          | -   |
| Cpaital stock                   |                     |  |  |  | 3,328,087     | 3,328,087  | 3,328,087   |
| Capital surplus                 |                     |  |  |  | 2,041,583     | 2,042,348  | 2,042,348   |
| Retained earnings               | Before distribution |  |  |  | 6,288,723     | 6,563,641  | 6,743,834   |
|                                 | After distribution  |  |  |  |               |            | (Note 2 )   |
| Other equity                    |                     |  |  |  | (9,529)       |            | -   |
| Treasury stock                  |                     |  |  |  |               |            | -   |
| Non-controlling interests       |                     |  |  |  | -             | 29,380     | 29,125  |
| Total equity                    | Before distribution |  |  |  | 11,648,864    | 11,963,456 | 12,143,394  |
|                                 | After distribution  |  |  |  |               | -          | (Note 2 )   |

Note 1: The company applies the consolidated financial statements for the first time in the year of 2018. Please refer to the instructions of individual statement instructions.

Note 2: The financial information of the first quarter in 2020 is being reviewed by CPA, and there is no distribution.



## 1-1.condensed balance sheet- IFRS

| Year<br>Item                    |                     | Financial information for the last five years (Note 1) |                       |                       |                       |            |
|---------------------------------|---------------------|--|-----------------------|-----------------------|-----------------------|------------|
|                                 |                     | 2015   | 2016                  | 2017                  | 2018                  | 2019       |
| Current assests                 |                     | 19,506,615   | 16,593,983            | 17,007,856            | 15,697,656            | 19,530,592 |
| Property, Plant and Equipment   |                     | 78,186   | 79,116                | 77,203                | 86,238                | 83,174     |
| Intangible assets               |                     | -  | -                     | -                     | -                     | -          |
| Other assets                    |                     | 702,500  | 582,135               | 694,174               | 314,268               | 162,275    |
| Total assets                    |                     | 20,287,301   | 17,255,234            | 17,779,233            | 16,098,162            | 19,776,041 |
| Current liabilities             | Before distribution | 8,861,100  | 5,660,968             | 6,109,885             | 4,442,046             | 7,831,150  |
|                                 | After distribution  | 9,726,402<br>(Note 3)                                  | 6,359,866<br>(Note 4) | 6,609,098<br>(Note 5) | 4,109,237<br>(Note 6) | (Note 7)   |
| Non-current liabilities         |                     | 5,074  | 2,513                 | 2,085                 | 7,252                 | 10,815     |
| Total liabilities               | Before distribution | 8,866,174  | 5,663,481             | 6,111,970             | 4,449,298             | 7,841,965  |
|                                 | After distribution  | 9,731,476  | 6,362,379             | 6,611,183             | 4,782,107             | (Note 7)   |
| Attributable to parent's equity |                     | -  | -                     | -                     | -                     | -          |
| Cpaital stock                   |                     | 3,328,087  | 3,328,087             | 3,328,087             | 3,328,087             | 3,328,087  |
| Capital surplus                 |                     | 2,041,583  | 2,041,583             | 2,041,583             | 2,041,583             | 2,042,348  |
| Retained earnings               | Before distribution | 6,000,434  | 6,203,493             | 6,287,130             | 6,288,723             | 6,563,641  |
|                                 | After distribution  | 5,135,132  | 5,504,595             | 5,787,917             | 5,955,914             | (Note 7)   |
| Other equity                    |                     | 51,023   | 18,590                | 10,463                | (9,529)               | -          |
| Treasury stock                  |                     | -  | -                     | -                     | -                     | -          |
| Non-controlling interests       |                     | -  | -                     | -                     | -                     | -          |
| Total equity                    | Before distribution | 11,421,127   | 11,591,753            | 11,667,263            | 11,648,864            | 11,934,076 |
|                                 | After distribution  | 10,555,825   | 10,892,855            | 11,168,050            | 11,168,050            | (Note 7)   |

Note 1: 2015-2019 the above financial data has audited or review by CPA.

Note 2: The financial information of the first quarter in 2019 is being reviewed by CPA, and there is no distribution.

Note3: Retained earnings after distribution in 2015= retained earnings before distribution in 2016-cash dividend NT\$865,302,000

Nore4: Retained earnings after distribution in 2016= retained earnings before distribution in 2017-cash dividend NT\$698,898,000

Note5: Retained earnings after distribution in 2017= retained earnings before distribution in 2018-cash dividend NT\$499,213,000

Note6: Retained earnings after distribution in 2018= retained earnings before distribution in 2019-cash dividend NT\$332,809,000

Note7: The distribution of 2019 retained earnings has not determined by shareholders' meeting.

Note8: Property, Plant and Equipment never revalued assets.

## 2. Condensed comprehensive income statement-IFRS

Unit: Thousands of NT dollars

| Item \ Year  | Financial information for the last five years (Note 1) |  |  |                  |                  | Financial information up to March 31, 2020 (Note 2) |
|--|--|--|--|------------------|------------------|---|
|  |  |  |  | 2018<br>(Note 1) | 2019<br>(Note 1) |   |
| Operating revenue  |  |  |  | 3,918,005        | 2,885,896        | 1,040,912   |
| Operating profit   |  |  |  | 650,889          | 760,149          | 241,574   |
| Operating income   |  |  |  | 432,625          | 566,066          | 185,991   |
| Non-operating income and expense                                     |  |  |  | 88,217           | 114,627          | 23,722  |
| Income before tax  |  |  |  | 520,842          | 680,693          | 209,713   |
| Continuing operating net income                                      |  |  |  | 444,704          | 606,414          | 179,938   |
| Discontinuing operating loss   |  |  |  | -                | -                | -   |
| Net income (loss)  |  |  |  | 444,704          | 606,414          | 179,938   |
| Other comprehensive income (After-tax amount)                        |  |  |  | 2,351            | 9,529            | 179,938   |
| Total comprehensive income   |  |  |  | 447,055          | 615,943          | 179,938   |
| Income attributable to parent  |  |  |  | 447,055          | 607,727          | 180,193   |
| Income attributable to non-controlling interests                     |  |  |  | -                | (1,313)          | (255)   |
| Total comprehensive income attributable to parent                    |  |  |  | 447,055          | 615,943          | 179,938   |
| Total comprehensive income attributable to non-controlling interests |  |  |  | -                | (1,313)          | (255)   |
| Earning per share(NT\$)  |  |  |  | 1.34             | 1.83             | 0.54  |

Note 1: The company applies the consolidated financial statements for the first time in the year of 2018. Please refer to the instructions of individual statement instructions.

Note 2: The financial information of the first quarter in 2020 is being reviewed by CPA, and there is no distribution.



## 2-1. Condensed comprehensive income statement-IFRS(個體報表)

Unit: Thousands of NT dollars

| Item \ Year  | Financial information for the last five years (Note 1) |           |           |           |           |
|--|--|-----------|-----------|-----------|-----------|
|  | 2015   | 2016      | 2017      | 2018      | 2019      |
| Operating revenue  | 5,050,755  | 4,788,794 | 2,685,328 | 3,918,034 | 2,886,010 |
| Operating profit   | 1,833,896  | 1,165,198 | 843,058   | 650,918   | 760,263   |
| Operating income   | 1,579,543  | 1,016,523 | 710,304   | 433,195   | 568,363   |
| Non-operating income and expense                                     | (21,425)   | 118,170   | 181,419   | 87,647    | 113,643   |
| Income before tax  | 1,558,118  | 1,134,693 | 891,723   | 520,842   | 682,006   |
| Continuing operating net income                                      | 1,466,340  | 1,068,361 | 782,535   | 444,704   | 607,727   |
| Discontinuing operating loss   | -  | -         | -         | -         | -         |
| Net income (loss)  | 1,466,340  | 1,068,361 | 782,535   | 444,704   | 607,727   |
| Other comprehensive income<br>(After-tax amount)                     | (12,359)   | (32,433)  | (8,127)   | 2,351     | 9,529     |
| Total comprehensive income   | 1,453,981  | 1,035,928 | 774,408   | 447,055   | 617,256   |
| Income attributable to parent  | 1,453,981  | 1,035,928 | 774,408   | 447,055   | 617,256   |
| Income attributable to non-controlling interests                     | -  | -         | -         | -         | -         |
| Total comprehensive income attributable to parent                    | 1,453,981  | 1,035,928 | 774,408   | 447,055   | 617,256   |
| Total comprehensive income attributable to non-controlling interests | -  | -         | -         | -         | -         |
| Earning per share(NT\$)  | 4.41   | 3.21      | 2.35      | 1.34      | 1.83      |

Note 1: 2014-2018 the above financial data has audited or review by CPA.

Note 2: The financial information of the first quarter in 2019 is being reviewed by CPA, and there is no distribution.

## b. Name of CPA within five years and auditing opinion given

| Year | Name of accounting firm | CPA                    | Auditing opinion    |
|------|-------------------------|------------------------|---------------------|
| 2014 | KPMG                    | H.S. Lin & Y.F. Shu    | Unqualified Opinion |
| 2015 | KPMG                    | H.S. Lin & Y.F. Shu    | Unqualified Opinion |
| 2016 | KPMG                    | C.S.Wang & H.S. Lin    | Unqualified Opinion |
| 2017 | KPMG                    | C.S.Wang & H.S. Lin    | Unqualified Opinion |
| 2018 | KPMG                    | C.W. CHUANG & C.S.Wang | Unqualified Opinion |
| 2019 | KPMG                    | C.W. CHUANG & C.S.Wang | Unqualified Opinion |

## B. Financial analysis for the past five years

Financial analysis of the applicable of IFRS

Unit: Thousands of NT dollars

| Year (Note 1)<br>Financial analysis (Note 3) |  | Financial information for the last five years<br>(Note 1) |  |  |                    |                     | Financial<br>information up to<br>March 31, 2020<br>(Note 2) |
|--|--|---|--|--|--------------------|---------------------|--|
|  |  |   |  |  | 2018<br>(Note 1)   | 2019<br>(Note 1)    |  |
| Financial<br>structure<br>(%)                | Debt of long fund to bank (%)                        |   |  |  | 27.64              | 39.59<br>(Note 3)   | 38.53  |
|  | Ratio of property, plant and equipment to assets (%) |   |  |  | 13516.21           | 14,396.65           | 14,713.40  |
| Solvency                                     | Current ratio(%)                                     |   |  |  | 354.49<br>(Note 4) | 250.01<br>(Note 4)  | 244.34   |
|  | Quick ratio(%)                                       |   |  |  | 26.21<br>(Note 4)  | 23.73               | 27.32  |
|  | Times interest earned ratio(times)                   |   |  |  | 16.05<br>(Note 5)  | 13.01               | 10.56  |
| Operating<br>ability                         | Account receivable turnover(times)                   |   |  |  | 51.61<br>(Note 6)  | 30.41<br>(Note 5)   | 35.42  |
|  | Days sales in account receivable                     |   |  |  | 7<br>(Note 6)      | 12<br>(Note 5)      | 10   |
|  | Inventory turnover(times)                            |   |  |  | 0.21<br>(Note 7)   | 0.13<br>(Note 5)    | 0.18   |
|  | Account payable turnover(times)                      |   |  |  | 7.76<br>(Note 7)   | 8.19                | 18.94  |
|  | Average days in sales                                |   |  |  | 1738<br>(Note 7)   | 2,808<br>(Note 5)   | 2,027  |
|  | Property, plant and equipment turnover(times)        |   |  |  | 47.94<br>(Note 6)  | 34.06<br>(Note 5)   | 50.23  |
|  | Total assets turnover(times)                         |   |  |  | 0.23<br>(Note 6)   | 0.16<br>(Note 5)    | 0.21   |
| Profitability                                | Ratio of return on total assets (%)                  |   |  |  | 2.78<br>(Note 6)   | 3.63<br>(Note 6)    | 0.99   |
|  | Ratio of return on equity (%)                        |   |  |  | 3.81<br>(Note 6)   | 5.13<br>(Note 6)    | 1.49   |
|  | Income before tax Ratio to issued capital stock(%)   |   |  |  | 15.64<br>(Note 6)  | 20.45<br>(Note 6)   | 6.30   |
|  | Profit ratio (%)                                     |   |  |  | 11.35<br>(Note 6)  | 21.01<br>(Note 6)   | 17.28  |
|  | Earning per share(NT\$)                              |   |  |  | 1.34<br>(Note 6)   | 1.83<br>(Note 6)    | 0.54   |
| Cash flow                                    | Cash flow ratio(%)                                   |   |  |  | 24.53<br>(Note 8)  | (35.13)<br>(Note 7) | 2.91   |
|  | Cash flow adequacy ratio(%)                          |   |  |  | 306.29             | 47.27<br>(Note 7)   | 306.29   |
|  | Cash re-investment ratio(%)                          |   |  |  | 5.04<br>(Note 8)   | (25.64)<br>(Note 7) | 1.81   |
| Balance                                      | Operation balance                                    |   |  |  | 1.21               | 1.13                | 1.01   |
|  | Financial balance                                    |   |  |  | 1.08               | 1.11                | 1.13   |

Analysis of financial ratio change in the last two years (if the difference does not exceed 20%, the analysis is not required.)

Note 1: The company applies the consolidated financial statements for the first time in the year of 2018. Please refer to the instructions of individual statement instructions.



### Financial analysis of the applicable of IFRS

| Financial analysis (Note 3)   |  | Financial information for the last five years<br>(Note 1) |          |          |          |                     |
|---|--|---|----------|----------|----------|---------------------|
|   |  | 2015  | 2016     | 2017     | 2018     | 2018                |
| Financial structure (%)   | Debt of long fund to bank (%)                        | 43.70   | 32.82    | 34.37    | 27.63    | 39.65<br>(Note 3)   |
|   | Ratio of property, plant and equipment to assets (%) | 14607.63  | 14651.59 | 15115.15 | 13516.21 | 14361.32            |
| Solvency  | Current ratio(%)                                     | 220.13  | 293.12   | 278.36   | 353.38   | 249.39<br>(Note 4)  |
|   | Quick ratio(%)                                       | 12.28   | 12.27    | 17.54    | 25307    | 23.14<br>(Note 4)   |
|   | Times interest earned ratio(times)                   | 38.58   | 72.99    | 30.97    | 16.05    | 13.03<br>(Note 5)   |
| Operating ability   | Account receivable turnover(times)                   | 61.42   | 67.53    | 32.78    | 51.61    | 30.41<br>(Note 6)   |
|   | Days sales in account receivable                     | 6   | 5        | 11       | 7        | 12<br>(Note 6)      |
|   | Inventory turnover(times)                            | 0.17  | 0.21     | 0.11     | 0.21     | 0.13<br>(Note 7)    |
|   | Account payable turnover(times)                      | 4.63  | 5.88     | 3.68     | 7.76     | 8.19<br>(Note 7)    |
|   | Average days in sales                                | 2147  | 1738     | 3318     | 1738     | 2808<br>(Note 7)    |
|   | Property, plant and equipment turnover(times)        | 64.33   | 60.88    | 34.35    | 47.94    | 34.07<br>(Note 6)   |
|   | Total assets turnover(times)                         | 0.24  | 0.25     | 0.15     | 0.23     | 0.16<br>(Note 6)    |
| Profitability   | Ratio of return on total assets (%)                  | 7.20  | 5.76     | 4.6      | 2.78     | 3.64<br>(Note 6)    |
|   | Ratio of return on equity (%)                        | 13.29   | 9.28     | 6.72     | 3.81     | 5.15<br>(Note 6)    |
|   | Income before tax Ratio to issued capital stock(%)   | 46.81   | 34.09    | 26.79    | 13.01    | 20.49<br>(Note 6)   |
|   | Profit ratio (%)                                     | 29.03   | 22.30    | 29.14    | 11.35    | 21.05<br>(Note 6)   |
|   | Earning per share(NT\$)                              | 4.41  | 3.21     | 2.35     | 1.34     | 1.83<br>(Note 6)    |
| Cash flow   | Cash flow ratio(%)                                   | 48.02   | (7.28)   | 12.19    | 24.63    | (35.09)<br>(Note 8) |
|   | Cash flow adequacy ratio(%)                          | 57.69   | 101.07   | 103.62   | 306.44   | 47.40<br>(Note 8)   |
|   | Cash re-investment ratio(%)                          | 31.27   | (10.97)  | 0.39     | 5.11     | (25.74)<br>(Note 8) |
| Balance   | Operation balance                                    | 1.04  | 1.09     | 1.04     | 1.21     | 1.12                |
|   | Financial balance                                    | 1.02  | 1.01     | 1.04     | 1.08     | 1.11                |
| Analysis of financial ratio change in the last two years (if the difference does not exceed 20%, the analysis is not required.) |  |   |          |          |          |                     |

Note 1: 2015-2019the above financial data has audited or review by CPA.

Note 2: The financial information of the first quarter in 2019 is being reviewed by CPA.

Note 3: Formulas of financial ratio are as follow:

1. Financial structure:

(1)Debt of long fund to bank property and equipment=total liabilities/total assets

(2)Ratio of property, plant and quipment to assets =(total equity+non-current liabilities)/net property, plant and quipment

2. Solvency

(1)Current ratio=current assets/current liabilities

(2)Quick ratio=(current assets-inventory-prepaid expense)/current liabilities

(3) Times interest earned ratio = net income before tax and interest expense / interest expense

### 3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable resulted from business operation) = net sales / average balance of account receivable (including accounts receivable and notes receivable resulted from business operation)

(2) Days sales in account receivable = 365 / account receivable turnover

(3) Inventory turnover = cost of goods sold / average inventory

(4) Account payable turnover (including accounts payable and notes payable resulted from business operation) = operating costs / average balance of account payable (including accounts payable and notes payable resulted from business operation)

(5) Average days in sales = 365 / inventory turnover

(6) Fixed property, plant and equipment turnover = net sales / net property, plant and equipment

(7) Total assets turnover = net sales / average total assets

### 4. Profitability

(1) Ratio or return on total assets = [net income + interest expense \* (1 - tax rate)] / average total assets

(2) Ratio of return on equity = net income / average total equity

(3) Profit ratio = net income / net sales

(4) Earnings per share = (attributable to parent's equity - preferred stock dividend) / weighted average stock shares issued

### 5. Cash flow

(1) Cash flow ratio = net cash flow from operating activity / current liabilities

(2) Cash flow adequacy ratio = (net cash flow from operating activities within five year / (capital expenditure + inventory increase + cash dividend) within five year

(3) Cash re-investment ratio = (net cash flow from operating activity - cash dividend) / (total property, plant and equipment + long-term investment + other non-current assets + working capital)

### (6) Balance

Operation balance = (net operating income - operating variable cost and expense) / operating income

Financial balance = operating income / (operating income - interest expense)

Note 3: Due to short-term borrowings decreased significantly, current liabilities decreased.

Note 4: Purchasing land inventories through borrowings increases current assets and total assets.

Note 5: Because only one newly completed project, "World Trade Plaza" was booked revenues, in addition, some delivered units of "Hong Pu Park", "Leisurely Days", "Economy and Trade", "WenDe", "AMAX", "Paris Mansion", "Hong Pu New Star", and "Light Year-the One" were booked in revenues. Therefore, revenues and costs decreased in 2019 and due to the increase in accounts receivable at the end of the period compared with 2018.

Note 6: Although both revenues and costs have decreased in 2019, gross profit increased. Therefore, an increase in net profit in 2019.

Note 7: In this year, some of the customers paid the houses through installment payment, resulting in an increase in accounts receivable at the end of 2019 compared with 2018, and the net cash flow of operating activities decreased due to the purchase of land inventories.



### **C. Supervisors' Report in the Most Recent Year**

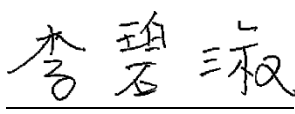
Supervisors's Review Report: Not applicable as the Company set up the Committee to replace the Supervisors.



**D.Audit Report by the Audit Committee****Audit Report by the Audit Committee**

The Board of Directors has submitted the Company's 2019 annual business report, financial statements and profit distribution proposal, among which the finance report has been entrusted to the certified public accountants, Chuang Chun Wei and Wang Chin Sun of KPMG Taiwan for auditing to generate an audit report. The audit Committee has verified the above-mentioned business report, financial statements and profit distribution proposal. No discrepancy is found and the committee hereby presents the report in accordance with Article 14-5 of the “Securities and Exchange Act” and Article 219 of the “Company Act” for your approval.

Hong Pu Real Estate Development Co., Ltd.

Convener:   
B.S. LI

April 15, 2020

## **D. Financial Statements for the Years Ended December 31, 2019 and 2018, and Independent Auditors' Report**

### **Independent Auditors' Report**

To the Board of Directors of Hong Pu Real Estate Development Co., Ltd.:

#### **Opinion**

We have audited the financial statements of Hong Pu Real Estate Development Co., Ltd. ("the Company"), which comprise the balance sheets as of December 31, 2019 and 2018, the statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

##### **1. Recognition of Revenue**

Please refer to note 4 (o) for the relevant accounting policy regarding recognition of revenue, and refer to note 6 (o) for relevant disclosures.

Description of key audit matter:

The main operation income of the Company is derived from the sales of premises.

Therefore, the recognition of revenue has been identified as one of the key audit matters in conducting the examination of the financial statement.

How the matter was addressed in our audit:

Our principal audit procedures included:

- Comparison of the policy concerning the revenue recognition with the accounting standards, in order to assess the appropriateness of the policy adopted by the Company.
- Inspect the main compositions of the revenue through review the sales contract to verify the authenticity of transaction and confirm whether the timing of recognition matches with accounting policies and standards.

We also examine the appropriateness of disclosure of the revenue recognition policy of the Company and so does other information. So as to ensure if any significant abnormality exists, we review the sales contract with the timing of transfer completion of the property and property rights as well as assess the revenue recognition policy of the Company applied in accordance with the relevant Accounting Bulletins.

## 2. Valuation of Inventories

Please refer to note 4 (g) for accounting policy regarding the inventories valuation; refer to note 5 for accounting estimation and assumption of the inventories valuation; please refer to note 6 (d) for relevant inventory disclosures.

Description of key audit matter:

In the financial statements, inventory is measured at the lower of the cost and net realizable value. Market turns inactive and the sales volumes of real estate tends downward due to the law, regulation and economic cycle. As a result, the related product price may vary, which would increase the risk of the inventory cost over its net realizable value.

How the matter was addressed in our audit:

Our Principal audit procedures included:

- Evaluate whether the accounting policy adjustments are in accordance with business cycle and other economic decree.
- Evaluate whether the market data provided has been updated on regular or irregular basis to reflect the real economic situation.
- Our audit procedures included discussing the current market tendencies and business strategies with management, and obtaining the sufficient audit evidence to assure the accurateness of the inventory assessment.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit Committee or supervisors) are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chuang Chun Wei and Wang Chin Sun.

KPMG

Taipei, Taiwan (Republic of China)  
March 18, 2020

#### **Notes to Readers**

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

The independent auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and financial statements, the Chinese version shall prevail.

## Balance Sheets

(expressed in thousands of New Taiwan dollars)

## Total assets

- 60 -

(English Translation of Financial Statements Originally Issued in Chinese)  
HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars Except Earnings per Share)

|  |  | 2019              |            | 2018             |            |
|--|--|-------------------|------------|------------------|------------|
|  |  | Amount            | %          | Amount           | %          |
| <b>Operating revenue:</b>                                      |  |                   |            |                  |            |
| 4300   | Rental revenue (notes 6(j) (o) and 7)  | \$ 32,687         | 1          | 20,204           | -          |
| 4511   | Construction contract revenue (notes 6(o))   | 2,913,916         | 101        | 3,977,559        | 102        |
| 4519   | Less: Construction contract revenue returns and discount   | <u>60,593</u>     | <u>2</u>   | <u>79,729</u>    | <u>2</u>   |
| <b>Net operating revenue</b>                                   |  | <u>2,886,010</u>  | <u>100</u> | <u>3,918,034</u> | <u>100</u> |
| <b>Operating cost:</b>   |  |                   |            |                  |            |
| 5300   | Rental Cost  | 3,765             | -          | 915              | -          |
| 5510   | Construction contract cost   | <u>2,121,982</u>  | <u>74</u>  | <u>3,266,201</u> | <u>83</u>  |
| <b>Net operating cost</b>                                      |  | <u>2,125,747</u>  | <u>74</u>  | <u>3,267,116</u> | <u>83</u>  |
| <b>Gross profit</b>  |  | <u>760,263</u>    | <u>26</u>  | <u>650,918</u>   | <u>17</u>  |
| <b>Operating expenses(note6(k)and7):</b>                       |  |                   |            |                  |            |
| 6100   | Selling expenses   | 150,550           | 5          | 170,789          | 5          |
| 6200   | Administrative expenses  | 41,350            | 1          | 46,684           | 1          |
| 6450   | Impairment loss determined in accordance with IFRS 9 (note 6(c))   | <u>-</u>          | <u>-</u>   | <u>250</u>       | <u>-</u>   |
| <b>Total operating expenses</b>                                |  | <u>191,900</u>    | <u>6</u>   | <u>217,723</u>   | <u>6</u>   |
| <b>Operating income</b>  |  | <u>568,363</u>    | <u>20</u>  | <u>433,195</u>   | <u>11</u>  |
| <b>Non-operating income and expenses:</b>                      |  |                   |            |                  |            |
| 7010   | Other income (note 6(q)and7)   | 51,576            | 2          | 101,240          | 2          |
| 7020   | Other gains and losses (note 6(q))   | 121,091           | 4          | (4,034)          | -          |
| 7050   | Finance costs (note 6(q))  | (56,662)          | (2)        | (34,588)         | (1)        |
| 7060   | Share of profit of investment in associates and subsidiaries accounted for using equity method (note 6(f)) | <u>(2,362)</u>    | <u>-</u>   | <u>25,029</u>    | <u>1</u>   |
| <b>Total non-operating income and expenses</b>                 |  | <u>113,643</u>    | <u>4</u>   | <u>87,647</u>    | <u>2</u>   |
| 7900   | <b>Profit before tax</b>   | 682,006           | 24         | 520,842          | 13         |
| 7951   | <b>Less: income tax expenses (note 6(l))</b>   | <u>74,279</u>     | <u>3</u>   | <u>76,138</u>    | <u>2</u>   |
| 8200   | <b>Profit</b>  | <u>607,727</u>    | <u>21</u>  | <u>444,704</u>   | <u>11</u>  |
| <b>Other comprehensive income (loss) (note 6(p)):</b>          |  |                   |            |                  |            |
| 8360   | <b>Items that may be reclassified subsequently to profit or loss:</b>                                      |                   |            |                  |            |
| 8361   | Financial statements translation differences for foreign operations  | -                 | -          | 2,351            | -          |
| 8365   | Interest directly related to non-current asset that will be reclassified to profit or loss                 | 9,529             | -          | -                | -          |
| 8399   | Income tax expense relating to components of other comprehensive income (loss)                             | <u>-</u>          | <u>-</u>   | <u>-</u>         | <u>-</u>   |
| 8300   | <b>Other comprehensive income (after tax)</b>  | <u>9,529</u>      | <u>-</u>   | <u>2,351</u>     | <u>-</u>   |
| 8500   | <b>Total comprehensive income</b>  | <u>\$ 617,256</u> | <u>21</u>  | <u>447,055</u>   | <u>11</u>  |
| <b>Earnings per share (in dollars), after tax (note 6(q)):</b> |  |                   |            |                  |            |
| <b>Basic earnings per share</b>                                |  | <u>\$ 1.83</u>    |            | <u>1.34</u>      |            |
| <b>Diluted earnings per share</b>                              |  | <u>\$ 1.82</u>    |            | <u>1.33</u>      |            |

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**

**Statements of Changes in Equity**

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

(Expressed in thousands of New Taiwan dollars)

|  | Common stock | Capital surplus | Retained earnings |                 |                         | Other equity adjustments |   |  |  | Total equity |
|--|--------------|-----------------|-------------------|-----------------|-------------------------|--------------------------|---|--|--|--------------|
|  |              |                 | Legal reserve     | Special reserve | Unappropriated earnings | Total                    | Financial statements translation differences for foreign operations | Unrealized gain (loss) on valuation of available-for-sale financial assets | Interest directly related to non-current asset |              |
| <b>Balance at January 1, 2018</b>            | \$ 3,328,087 | 2,041,583       | 1,734,163         | -               | 4,552,967               | 6,287,130                | (11,880)  | -  | 22,343   | 11,667,263   |
| Effects of retrospective application         | -            | -               | -                 | -               | 56,102                  | 56,102                   | -   | -  | (22,343)                                       | 33,759       |
| Balance on January 1, 2018 after adjustments | 3,328,087    | 2,041,583       | 1,734,163         | -               | 4,609,069               | 6,343,232                | (11,880)  | -  | -  | 11,701,022   |
| Net income                                   | -            | -               | -                 | -               | 444,704                 | 444,704                  | -   | -  | -  | 444,704      |
| Other comprehensive income (loss)            | -            | -               | -                 | -               | -                       | -                        | 2,351   | -  | -  | 2,351        |
| Total comprehensive income (loss)            | -            | -               | -                 | -               | 444,704                 | 444,704                  | 2,351   | -  | -  | 447,055      |
| Appropriations and distributions:            |              |                 |                   |                 |                         |                          |   |  |  |              |
| Legal reserve                                | -            | -               | 78,254            | -               | (78,254)                | -                        | -   | -  | -  | -            |
| Cash dividends                               | -            | -               | -                 | -               | (499,213)               | (499,213)                | -   | -  | -  | (499,213)    |
| Other  | -            | -               | -                 | -               | -                       | -                        | 9,529   | (9,529)  | -  | -            |
| <b>Balance at December 31, 2018</b>          | 3,328,087    | 2,041,583       | 1,812,417         | -               | 4,476,306               | 6,288,723                | -   | (9,529)  | -  | 11,648,864   |
| Net income                                   | -            | -               | -                 | -               | 607,727                 | 607,727                  | -   | -  | -  | 607,727      |
| Other comprehensive income (loss)            | -            | -               | -                 | -               | -                       | -                        | -   | 9,529  | -  | 9,529        |
| Appropriations and distributions:            |              |                 |                   |                 |                         |                          |   |  |  |              |
| Legal reserve                                | -            | -               | -                 | -               | 607,727                 | 607,727                  | -   | 9,529  | -  | 617,256      |
| Special reserve                              | -            | -               | 44,470            | -               | (44,470)                | -                        | -   | -  | -  | -            |
| Cash dividends                               | -            | -               | -                 | 9,529           | (9,529)                 | -                        | -   | -  | -  | -            |
| Disposal of investment using equity method   | -            | 765             | -                 | -               | (332,809)               | (332,809)                | -   | -  | -  | (332,809)    |
| <b>Balance at December 31, 2019</b>          | \$ 3,328,087 | 2,042,348       | 1,856,887         | 9,529           | 4,697,225               | 6,563,641                | -   | -  | -  | 11,934,076   |

See accompanying notes to financial statements.



(English Translation of Financial Statements Originally Issued in Chinese)  
HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

|   | 2019                | 2018           |
|---|---------------------|----------------|
| <b>Cash flows from (used in) operating activities:</b>                                      |                     |                |
| Profit before income tax  | \$ 682,006          | 520,842        |
| <b>Adjustments:</b>   |                     |                |
| Adjustments to reconcile profit and loss:   |                     |                |
| Expected credit loss for bad debt expense   | -                   | 250            |
| Depreciation expense  | 2,779               | 3,452          |
| Amortization expense  | 131                 | 126            |
| Net profit on financial assets at fair value through profit or loss                         | (3,295)             | (263)          |
| Interest expenses   | 56,662              | 34,588         |
| Interest income   | (2,310)             | (989)          |
| Dividend income   | (423)               | (996)          |
| Recognized shares of profit of investment in associates accounted for using equity method   | 2,362               | (25,029)       |
| Gains on disposal of non-current asset  | (138,618)           | -              |
| Total adjustments to reconcile profit and loss  | (82,712)            | 11,139         |
| Net changes in operating assets and liabilities:  |                     |                |
| Financial asset at fair value through profit or loss  | 17,878              | 19,372         |
| Notes receivable  | (19,539)            | 22,677         |
| Accounts receivable   | (29,363)            | (11,997)       |
| Other receivable—related parties  | (1,392)             | -              |
| Inventories   | (3,112,821)         | 1,419,846      |
| Prepayments   | 17,472              | 5,855          |
| Other current assets  | 4,532               | 4,276          |
| Incremental costs of obtaining a contract   | (106,856)           | 22,255         |
| Other financial assets  | (178,233)           | 170,908        |
| Notes payable   | (55,869)            | 21,799         |
| Accounts payable  | (41,612)            | (246,867)      |
| Other payable   | 70,311              | 83,635         |
| Current contract liabilities  | 264,137             | (802,143)      |
| Other current liabilities   | (1,327)             | 5,270          |
| Total changes in operating assets / liabilities, net  | (3,172,682)         | 714,886        |
| Total adjustments   | (3,255,394)         | 726,025        |
| Cash generated from operations  | (2,573,388)         | 1,246,867      |
| Interest received   | 2,310               | 989            |
| Interest paid   | (85,148)            | (75,225)       |
| Income tax paid   | (91,968)            | (78,188)       |
| <b>Net cash flows from (used in) operating activities</b>                                   | (2,748,194)         | 1,094,443      |
| <b>Cash flows from (used in) investing activities:</b>                                      |                     |                |
| Return of capital of investments accounted for using equity method due to capital reduction | 230,871             | 222,059        |
| Disposal of subsidiaries  | 31,458              | -              |
| Price of disposal of non-current asset  | 170,532             | -              |
| Acquisition of property, plant and equipment  | -                   | (12,487)       |
| Increase in refundable deposits   | (1,178,626)         | (77,431)       |
| Decrease in refundable deposits   | 1,166,983           | 412,296        |
| Decrease (increase) in other assets   | 10,267              | 7,967          |
| Dividends received  | 423                 | 996            |
| Acquisition of investments accounted for using equity method                                | -                   | (64,200)       |
| <b>Net cash flows from (used in) investing activities</b>                                   | 431,908             | 489,200        |
| <b>Cash flows from (used in) financing activities:</b>                                      |                     |                |
| Increase in short-term borrowings   | 5,500,000           | 2,577,000      |
| Decrease in short-term borrowings   | (2,290,000)         | (2,857,000)    |
| Increase in short-term commercial paper payable   | 7,860,691           | 9,973,186      |
| Decrease in short-term commercial paper payable   | (7,898,362)         | (10,415,666)   |
| Decrease in other non-liabilities   | 3,563               | 5,167          |
| Cash dividends paid   | (332,809)           | (499,213)      |
| <b>Net cash flows used in financing activities</b>  | 2,843,083           | (1,216,526)    |
| Net increase in cash and cash equivalents   | 526,797             | 367,117        |
| Cash and cash equivalents, at beginning of period   | 611,067             | 243,950        |
| Cash and cash equivalents, at end of period   | <u>\$ 1,137,864</u> | <u>611,067</u> |

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)  
**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**

**Notes to Financial Statements**

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

(expressed in thousands of New Taiwan dollars unless otherwise specified)

**1. ORGANIZATION AND BUSINESS SCOPE**

Company was established on October 5, 1988, and changed into Hong Pu Real Estate Development Co., Ltd. (“the Company”) in 1990. The Company was approved to be a public company by the Securities and Futures Commission (“SFC”) of the Republic of China (“ROC”) on March 23, 1991, and was listed on the Taiwan Stock Exchange on December 21, 1995. The Company primarily engages in the business of construction, sales, and leasing of residential and commercial buildings.

Based on the resolution of the Board of Directors on July 15, 2004, the Company, which is the surviving company, completed its merger with Hung Yuan. The merger was a simple merger. After the merger, the name of the Company remained as Hong Pu Real Estate Development Co., Ltd.

**2. THE AUTHORIZATION OF FINANCIAL STATEMENTS**

The financial statements were approved and authorized for issue by the Board of Directors on March 18, 2020.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

The Company assessed that the initial application of the above IFRSs would not have any material impact on the financial statements.

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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

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

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

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

| <u>New, Revised or Amended Standards and Interpretations</u>   | <u>Effective date<br/>per IASB</u>      |
|--|---|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture” | Effective date to be determined by IASB |
| IFRS 17 “Insurance Contracts”  | January 1, 2021                         |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”  | January 1, 2022                         |

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards,

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the financial statements have been prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured value.

(ii) Functional and presentation currency

The functional currency of each entity is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

#### (d) Classification of current and non-current assets and liabilities

As the Company's operating cycle is longer than a year, assets and liabilities related to the operation are classified as current or non-current by their operating cycle. An asset not related to the operation is classified as current under one of the following criteria, and all other assets are classified as non-current:

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability not related to the operation as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

#### (e) Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash and cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

#### (f) Financial instruments

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

##### (i) Financial assets

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

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

##### 1) Financial assets measured at amortized cost

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

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

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

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

2) Fair value through other comprehensive income (FVOCI )

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

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

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

3) Fair value through profit or loss (FVTPL)

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

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

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

4) Business model assessment

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

5) Impairment of financial assets

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

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

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

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



## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

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

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade' which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

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

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

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

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

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

#### 6) Derecognition of financial assets

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

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

#### (ii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### 2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

#### 3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

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

#### 4) Derecognition of financial liabilities

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

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

#### 5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### (g) Inventories

The Company capitalizes the acquisition costs and interest expenses paid for land as prepayments for the land before the ownership of the land is transferred, and records them as “Prepayment for land purchases”. After the ownership of the land is transferred, it is recorded as “Land held for development”, and as “Construction-in-progress— land” when the construction has begun. Construction costs and expenses which can be allocated by construction site are recorded as “Construction-in-progress— project”. After the completion of the construction, the costs are transferred to “Properties and land held for sale”. The inventories, which include “Land held for development”, “Construction-in-progress— land”, “Construction-in-progress— project”, and “Properties and land held for sale” are stated at the lower of cost and net realizable value at the reporting date. An allowance for loss on decline in market value will be recorded if the net realizable value is lower than the cost at the reporting date.

Interest expense from borrowing used in construction-in-progress (projects and land) is capitalized before the construction is completed, and is stated as inventory costs.

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

(h) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are highly probable to be recovered primarily through sale rather than through continuing use, are reclassified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to assets not within the scope of IAS 36 – *Impairment of Assets*. Such assets will continue to be measured in accordance with the Company's accounting policies.

Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of the cumulative impairment loss than has been recognized.

Once classified as held for sale intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(i) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less any accumulated impairment losses.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

Gain and losses, resulting from the transactions between the Company and an associate are recognized only to the extent unrelated Company's interests in the associate.

When the Company's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate.

(j) Investment in subsidiaries

The Company uses the equity method to evaluate an investee that it controls in preparing the financial statements. Under the equity method, the net income, other comprehensive income, and shareholders' equity in the financial reports of the Company and the net income, other comprehensive income, and shareholders' equity that belongs to the Company in the consolidated financial reports should be the same.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over a subsidiary are accounted for as equity transactions with owners.

(k) Investment property

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

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

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

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Land is not depreciated.

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

- |                    |            |
|--------------------|------------|
| 1) Buildings       | 3~55 years |
| 2) Other equipment | 4~8 years  |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Reclassification to investment property

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

(m) Leases

Applicable from January 1, 2019

(i) As a lessor

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

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

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

The lessor recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The lessor recognizes the interest income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(n) Impairment — non-financial assets

Non-financial assets other than inventories and non-current assets held for sale are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset has been allocated.

The recoverable amount for individual asset or a CGU is the higher of its fair value less costs to sell and its value-in-use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount, and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

The Company should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If, and only if, there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognized, the Company shall reverse the impairment loss to the recoverable amount, to the extent that the carrying value of the asset or the CGU does not exceed its amortized cost before an impairment is recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet available in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(o) Revenue

(i) Revenue from contracts with customers

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

1) Land development and sales of real estate

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

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

2) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer to be significant financial components. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.



**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(ii) Contract costs

1) Incremental costs of obtaining a contract

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

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

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Termination benefits

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

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(q) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

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

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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

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

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

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

(Continued)

## **HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**

### **Notes to Financial Statements**

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(r) Earnings per share (EPS)

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee compensation.

(s) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). Operating results of the operating segment are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY**

The preparation of the consolidated financial statements, in conformity with the Regulations and the IFRSs endorsed by the FSC, requires management to make judgments estimates and assumptions that affect the application of the accounting policies and reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

### **1. Valuation of Inventory**

Inventories are stated at lower of cost and net realizable value, and the assessment of net realizable value is determined based on the current sales market. Any change in the real sales market may have significant effect on the result of estimation. Please refer to note 6(d) for the estimation of inventory valuation.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

The Company's accounting policies and disclosures include measuring financial and non-financial assets and liabilities by fair value. Related internal control policies have been established, which include forming the valuation group to conduct independent verification on all significant fair value measurement (including level 3 inputs). The valuation group periodically reviews significant unobservable inputs and adjustments. If the input data for valuation models is provided by external third parties (such as agency and pricing service institution), the valuation group would evaluate the evidence supporting such input data in order to ensure that the fair value measurement and hierarchy meet the IFRSs.

The Company strives to use market observable inputs when measuring assets and liabilities. Fair value hierarchy is based on the input used when valuating, and the definition is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: input for the asset or liability is not based on the observable market information. (i.e. non-observable parameter.)

### 6. SIGNIFICANT ACCOUNTING DISCLOSURE

#### (a) Cash and cash equivalents

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Cash on hand   | \$ 353                       | 203                          |
| Demand deposits  | 1,137,511                    | 560,887                      |
| Cash equivalents   | <u>-</u>                     | <u>49,977</u>                |
| Cash and cash equivalents in the statement of cash flows | <b><u>\$ 1,137,864</u></b>   | <b><u>611,067</u></b>        |

Please refer to note 6(v) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

#### (b) Financial assets and liabilities at fair value through profit or loss

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Mandatorily measured at fair value through profit or loss: |                              |                              |
| Non-derivative financial assets                            |                              |                              |
| Stocks listed on domestic markets                          | <b><u>\$ 4,268</u></b>       | <b><u>18,851</u></b>         |

Please refer to note 6(r) for the credit, currency, interest and market price risk of the financial instruments of the Company. As of December 31, 2019 and 2018, the financial assets were not pledged.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(c) Note and trade receivables

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Notes receivable                             | \$ 51,719                    | 32,180                       |
| Trade receivables—measured as amortized cost | 67,624                       | 38,261                       |
| Total  | <b><u>\$ 119,343</u></b>     | <b><u>70,441</u></b>         |

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision were determined as follows:

|         | <b>December 31, 2019</b>         |  |                                     |
|---------|----------------------------------|--|-------------------------------------|
|         | <b>Gross carrying<br/>amount</b> | <b>Weighted-<br/>average loss<br/>rate</b> | <b>Loss allowance<br/>provision</b> |
| Not due | <b><u>\$ 119,343</u></b>         | <u>-</u>                                   | <u>-</u>                            |

|         | <b>December 31, 2018</b>         |  |                                     |
|---------|----------------------------------|--|-------------------------------------|
|         | <b>Gross carrying<br/>amount</b> | <b>Weighted-<br/>average loss<br/>rate</b> | <b>Loss allowance<br/>provision</b> |
| Not due | <b><u>\$ 70,441</u></b>          | <u>-</u>                                   | <u>-</u>                            |

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

|                              | <b>2019</b>        | <b>2018</b>     |
|------------------------------|--------------------|-----------------|
| Balance on January 1         | \$ -               | -               |
| Impairment losses recognized | -                  | 250             |
| Amounts written off          | -                  | (250)           |
| Balance on December 31       | <b><u>\$ -</u></b> | <b><u>-</u></b> |

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(d) Inventories

Please refer to note 8 for inventories pledged as collateral as of December 31, 2019 and 2018.

|   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|------------------------------|------------------------------|
| Properties and land held for sale                                       | \$ 4,166,584                 | 4,436,058                    |
| Construction-in-progress — land   | 4,256,082                    | 5,203,075                    |
| Construction-in-progress — projects                                     | 1,845,082                    | 2,129,095                    |
| Land held for development   | 7,461,603                    | 3,025,075                    |
| Prepayments for land purchase   | 39,668                       | -                            |
| Less: allowance for loss on decline in market value<br>and obsolescence | <u>(90,380)</u>              | <u>(255,080)</u>             |
|   | <b><u>\$ 17,678,639</u></b>  | <b><u>14,538,223</u></b>     |

(i) The capitalized interests of land held for development and construction in progress were \$27,595 thousand and \$39,380 thousand in the year of 2019 and 2018, respectively.

(ii) In 2019, and 2018 the reversal of write-downs amounted to \$164,700 thousand and \$191,300 thousand, respectively, due to the increase in market demand.

(e) Non-current assets held for sale

On December 26, 2018, a resolution was passed by the Board of Directors to dispose the remaining investment of the Group in its associates at the price of USD \$6,224 thousand after capital reduction of USD \$7,576 thousand. As of December 31, 2019, the transaction had been completed as follows:

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Investments accounted for using equity method  | \$ <u>-</u>                  | <u>253,256</u>               |
| Amount of cumulative income or expense recognized in other<br>comprehensive income relating to the non-current assets<br>classified as held for sale |                              |                              |
| Foreign exchange differences arising from foreign<br>operation   | <u>\$ -</u>                  | <u>(9,529)</u>               |

(f) Investments accounted for using equity method

A summary of the Company's financial information for investments accounted for using equity method at the reporting date is as follows:

|            | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|------------|------------------------------|------------------------------|
| Subsidiary | <u>\$ 30,579</u>             | <u>63,634</u>                |

(i) Subsidiaries

Please refer to the consolidated financial statement for the year ended 2019.

The Company's financial information for investments accounted for using the equity method  
(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

that are individually insignificant was as follows:

|   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|------------------------------|------------------------------|
| The Company's share of:                   |                              |                              |
| Net income from continuing operations     | \$ (2,362)                   | 25,029                       |
| Other comprehensive income                | <u>-</u>                     | <u>2,351</u>                 |
| Total comprehensive income for the period | <u><u>\$ (2,362)</u></u>     | <u><u>27,380</u></u>         |

The Company reclassified investments in associate accounted for using equity method as non-current assets held for sale, and please refer to note 6(e).

- (ii) The Company disposed 49% of its equity ownership in Chuan Yue Real Estate Development Co., Ltd. at an amount of \$31,458 thousand on June 28, 2019 without losing control over it.

The following summarizes the effect of change in equity of the parent due to changes in the ownership interest of subsidiaries:

|  | <b>December 31,<br/>2019</b> |
|--|------------------------------|
| Book value of the non-controlling interest                                   | \$ 30,693                    |
| Consideration transferred from non-controlling interest                      | <u>31,458</u>                |
| Capital surplus-difference between the consideration and the carrying amount | <u><u>\$ (765)</u></u>       |

- (iii) Collateral

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

- (g) Property, plant and equipment

- (i) The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018 are as follows:

|                                     | <b>Land</b>             | <b>Buildings</b>     | <b>Other<br/>Facilities</b> | <b>Total</b>          |
|-------------------------------------|-------------------------|----------------------|-----------------------------|-----------------------|
| <b>Cost or deemed cost:</b>         |                         |                      |                             |                       |
| Balance at January 1, 2019          | \$ 54,131               | 65,988               | 16,717                      | 136,836               |
| Other                               | <u>-</u>                | <u>(285)</u>         | <u>-</u>                    | <u>(285)</u>          |
| Balance at December 31, 2019        | <u><u>\$ 54,131</u></u> | <u><u>65,703</u></u> | <u><u>16,717</u></u>        | <u><u>136,551</u></u> |
| Balance at January 1, 2018          | \$ -                    | -                    | 14,006                      | 14,006                |
| Transfer from investment properties | 54,131                  | 56,212               | -                           | 110,343               |
| Addition                            | <u>-</u>                | <u>9,776</u>         | <u>2,711</u>                | <u>12,487</u>         |
| Balance at December 31, 2018        | <u><u>\$ 54,131</u></u> | <u><u>65,988</u></u> | <u><u>16,717</u></u>        | <u><u>136,836</u></u> |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

|  | <u>Land</u>             | <u>Buildings</u>     | <u>Other<br/>Facilities</u> | <u>Total</u>         |
|--|-------------------------|----------------------|-----------------------------|----------------------|
| <b>Depreciation and impairment loss:</b> |                         |                      |                             |                      |
| Balance at January 1, 2019               | \$ 7,869                | 31,564               | 11,165                      | 50,598               |
| Depreciation for the year                | <u>-</u>                | <u>1,246</u>         | <u>1,533</u>                | <u>2,779</u>         |
| Balance at December 31, 2019             | <u><u>\$ 7,869</u></u>  | <u><u>32,810</u></u> | <u><u>12,698</u></u>        | <u><u>53,377</u></u> |
| Balance at January 1, 2018               | \$ -                    | -                    | 9,734                       | 9,734                |
| Depreciation for the year                | -                       | 2,021                | 1,431                       | 3,452                |
| Transfer from Investment Property        | <u>7,869</u>            | <u>29,543</u>        | <u>-</u>                    | <u>37,412</u>        |
| Balance at December 31, 2018             | <u><u>\$ 7,869</u></u>  | <u><u>31,564</u></u> | <u><u>11,165</u></u>        | <u><u>50,598</u></u> |
| Carrying value:                          |                         |                      |                             |                      |
| Balance at December 31, 2019             | <u><u>\$ 46,262</u></u> | <u><u>32,893</u></u> | <u><u>4,019</u></u>         | <u><u>83,174</u></u> |
| Balance at December 31, 2018             | <u><u>\$ 46,262</u></u> | <u><u>34,424</u></u> | <u><u>5,552</u></u>         | <u><u>86,238</u></u> |
| Balance at January 1, 2018               | <u><u>\$ -</u></u>      | <u><u>-</u></u>      | <u><u>4,272</u></u>         | <u><u>4,272</u></u>  |

(ii) Collateral

As of December 31, 2019 and 2018, the property, plant and equipment of the Company had been pledged as collateral, please refer to note 8.

(h) Investment Properties

|  | <u>Land and<br/>improvements</u> | <u>Buildings</u>     | <u>Total</u>            |
|--|----------------------------------|----------------------|-------------------------|
| <b>Cost:</b>                               |                                  |                      |                         |
| Balance as at January 1, 2018              | \$ 54,131                        | 56,212               | 110,343                 |
| Transfer to Property, Plant and Equipment  | <u>(54,131)</u>                  | <u>(56,212)</u>      | <u>(110,343)</u>        |
| Balance as at December 31, 2018            | <u><u>\$ -</u></u>               | <u><u>-</u></u>      | <u><u>-</u></u>         |
| <b>Depreciation and impairment losses:</b> |                                  |                      |                         |
| Balance as at January 1, 2018              | \$ 7,869                         | 29,543               | 37,412                  |
| Depreciation for the year                  | <u>(7,869)</u>                   | <u>(29,543)</u>      | <u>(37,412)</u>         |
| Balance as at December 31, 2018            | <u><u>\$ -</u></u>               | <u><u>-</u></u>      | <u><u>-</u></u>         |
| Carrying amount :                          |                                  |                      |                         |
| Balance as at December 31, 2018            | <u><u>\$ -</u></u>               | <u><u>-</u></u>      | <u><u>-</u></u>         |
| Balance as at January 1, 2018              | <u><u>\$ 46,262</u></u>          | <u><u>26,669</u></u> | <u><u>72,931</u></u>    |
| Fair value :                               |                                  |                      |                         |
| Balance as at December 31, 2018            |                                  |                      | <u><u>\$ -</u></u>      |
| Balance as at January 1, 2018              |                                  |                      | <u><u>\$ 73,088</u></u> |

During 2018, the investment properties were transferred to property, plant and equipment for self-use because the lease contract of the office expired.

The fair value of the investment property was determined by referring to the average market price of similar real estate after deducting related expenses.

(Continued)



**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(i) Short-term notes and bills payable

Details of short-term notes and bills payable as of December 31, 2019 and 2018 are summarized as follows:

| <b>December 31, 2019</b>  |                 |                                  |                   |                            |
|---------------------------|-----------------|----------------------------------|-------------------|----------------------------|
|                           | <b>Currency</b> | <b>Interest rate<br/>collars</b> | <b>Expiration</b> | <b>Amount</b>              |
| Secured bank loans        | TWD             | 1.50%~1.86%                      | 2021              | \$ 4,787,000               |
| Unsecured bank loans      | TWD             | 1.66%                            | 2020              | 310,000                    |
| Commercial paper payables | TWD             | 0.5%~1.50%                       | 2020              | 1,805,417                  |
| Total                     |                 |                                  |                   | <u><u>\$ 6,902,417</u></u> |
| Current                   |                 |                                  |                   | \$ 6,902,417               |
| Non-current               |                 |                                  |                   | -                          |
| Total                     |                 |                                  |                   | <u><u>\$ 6,902,417</u></u> |

| <b>December 31, 2018</b>  |                 |                                  |                   |                            |
|---------------------------|-----------------|----------------------------------|-------------------|----------------------------|
|                           | <b>Currency</b> | <b>Interest rate<br/>collars</b> | <b>Expiration</b> | <b>Amount</b>              |
| Secured bank loans        | TWD             | 1.85%                            | 2021              | \$ 1,437,000               |
| Unsecured bank loans      | TWD             | 1.78%                            | 2019              | 450,000                    |
| Commercial paper payables | TWD             | 0.51%~1.49%                      | 2019              | 1,843,088                  |
| Total                     |                 |                                  |                   | <u><u>\$ 3,730,088</u></u> |
| Current                   |                 |                                  |                   | \$ 3,730,088               |
| Non-current               |                 |                                  |                   | -                          |
| Total                     |                 |                                  |                   | <u><u>\$ 3,730,088</u></u> |

For information on the Company's interest risk, currency risk, and liquidity risk, see note 6(r).

Please refer to note 8 for the pledge for borrowings.

(j) Operating lease

(i) Leases as lessor

The Company leases out its properties. The Company has classified these lease as operating lease because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follow:

|                     | <b>December 31,<br/>2019</b> |
|---------------------|------------------------------|
| Less than one year  | \$ 60,050                    |
| One to two year     | 62,520                       |
| Two to three year   | 48,713                       |
| Three to four year  | 40,283                       |
| Four to five year   | 17,833                       |
| More than five year | <u>61,853</u>                |
|                     | <b><u>\$ 291,252</u></b>     |

The Company leases out its properties. The future minimum lease payments under non-cancellable leases are as follows:

|                            | <b>December 31,<br/>2018</b> |
|----------------------------|------------------------------|
| Less than one year         | \$ 20,095                    |
| Between one and five years | 49,715                       |
| More than five years       | <u>16,238</u>                |
|                            | <b><u>\$ 86,048</u></b>      |

(k) Employee benefits

(i) Defined benefit plans

The pension cost incurred from the defined contribution plans each amounted to \$32 thousand for both year ended December 31, 2019 and 2018

(i) Defined contribution plans

The Company set aside 6% of the contribution rate of the employee's monthly wages to the Labor Pension personal account of the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Company set aside a fixed amount to the Bureau of the Labor Insurance without the payment of additional legal or constructive obligations.

The pension cost incurred from the contributions to the Bureau of Labor Insurance amounted to \$1,074 thousand and \$1,165 thousand for the years ended December 31, 2019 and 2018, respectively.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(l) Income tax

(i) Income tax expense

The components of income tax in the years of 2019 and 2018 were as follows:

|  | <b>2019</b>      | <b>2018</b>   |
|--|------------------|---------------|
| Income tax expenses — current                  | \$ 74,279        | 76,138        |
| Income tax expenses — deferred                 | -                | -             |
| Income tax expenses from continuing operations | <u>\$ 74,279</u> | <u>76,138</u> |

The reconciliation of income tax expense and profit before tax for the years ended December 31, 2019 and 2018 were as follows:

|   | <b>2019</b>       | <b>2018</b>    |
|---|-------------------|----------------|
| Income before tax   | <u>\$ 682,006</u> | <u>520,842</u> |
| Estimated income tax calculated based on financial income before tax at domestic tax rate | \$ 136,401        | 104,168        |
| Tax-exempt income   | (118,711)         | (100,222)      |
| Land Value Increment Tax  | 64,453            | 55,631         |
| Surtax on undistributed earnings  | 9,826             | 20,507         |
| Others  | (17,690)          | (3,946)        |
| Total   | <u>\$ 74,279</u>  | <u>76,138</u>  |

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The details of unrecognized deferred tax assets were as follows:

|                                       | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---------------------------------------|------------------------------|------------------------------|
| Deductible temporary differences      | \$ 79,744                    | 102,137                      |
| The carryforward of unused tax losses | 143,603                      | 123,269                      |
|                                       | <u>\$ 223,347</u>            | <u>225,406</u>               |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of above items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

As of December 31, 2019, the information of the Company's unused to losses for which no deferred tax assets were recognized was as follows:

| <u>Year of loss</u> | <u>Unused amount</u> | <u>Expiration year</u> |
|---------------------|----------------------|------------------------|
| 2010                | \$ 153,862           | 2020                   |
| 2015                | 34,844               | 2025                   |
| 2017                | 14,183               | 2027                   |
| 2018                | 413,232              | 2028                   |
| 2019                | 101,893              | 2029                   |

- (3) The ROC income tax authorities have examined the Company's income tax returns for all years through 2017.

### (m) Capital and Other Equities

As of December 31, 2019 and 2018, the total value of authorized ordinary shares amounted to \$4,300,000 thousand. Face value of each share is \$10, which means in total, there were 430,000 thousand ordinary shares, of which 332,809 thousand were issued.

As of December 31, 2019 and 2018, the number of shares outstanding were both 332,809 thousand.

#### (i) Capital surplus

Balances of capital surplus at the reporting date were as follows:

|   | <u>December 31,<br/>2019</u> | <u>December 31,<br/>2018</u> |
|---|------------------------------|------------------------------|
| Share capital   | \$ 1,769,869                 | 1,769,869                    |
| Treasury share transactions   | 26,353                       | 26,353                       |
| Difference arising from subsidiary's share price and its carrying value | 765                          | -                            |
| Capital surplus—premium from merger                                     | 217,538                      | 217,538                      |
| Conversion right of convertible bonds                                   | 16,588                       | 16,588                       |
| Interest payable refund from bond conversion                            | 11,235                       | 11,235                       |
| Total   | <u><u>\$ 2,042,348</u></u>   | <u><u>2,041,583</u></u>      |

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

### Notes to Financial Statements

#### (ii) Unappropriated earnings

The Company's Articles of Incorporation stipulate that once the Company has annual profit, it shall first appropriate at least 1% of the profit to its employees and no more than 3% to its directors. The employee bonus may be paid in the form of new shares. Afterwards, the Company shall pay all taxes and dues, and then appropriate legal reserve (10%), unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital. The Company will appropriate the special capital reserve in accordance with the relevant laws and regulations or its operating needs. The distribution of any balance left over and unappropriated earnings at the beginning of the year is determined by the Board of Directors and approved by the stockholders at their annual meeting.

The Company's accumulated losses shall have been covered before any appropriating for the employee bonus. When the bonus is to be paid in the form of shares or cash, employees shall include those of subsidiaries of the Company who meet certain specific requirements.

Considering future capital demand and sound financial plan for sustainable development of the Company, the meeting of shareholders may resolve accordingly that part or all of the earnings will not be distributed, and that when there is distribution of earnings, cash dividends shall account for at least 20% of total cash and stock dividends. The remains will be paid in the form of shares to transfer retained earnings and capital surplus to capital.

##### 1) Legal reserve

According to the ROC Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of the total capital. When a company incurs no loss, it may, in pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of the legal reserve which exceeds 25% of the capital may be distribute.

##### 2) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on 6 April 2012, an increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as a special earnings reserve during earnings distribution. When the relevant assets were used, disposed of, or reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately.

##### 3) Earnings Distribution

Based on the resolutions approved by the stockholders' meetings on June 14, 2018, and June 11, 2017, the earnings for year 2018 and 2017 were distributed as follows:

|               | 2018                     |                | 2017                     |                |
|---------------|--------------------------|----------------|--------------------------|----------------|
|               | Attribution<br>per share | Amount         | Attribution<br>per share | Amount         |
| Cash Dividend | \$ 1.00                  | <u>332,809</u> | 1.50                     | <u>499,213</u> |

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**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

Information on the earnings appropriation proposed by the Company's Board of Directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(iii) Other equity

|  | Foreign exchange<br>differences<br>arising from<br>foreign operation | Interest directly<br>related to non-<br>current asset or<br>disposal group to<br>be sold | Available-for-<br>sale investments |
|--|--|--|------------------------------------|
| <b>Balance at January 1, 2019</b>              | \$ -   | (9,529)  |                                    |
| Interest directly related to non-current asset | -  | 9,529  | -                                  |
| <b>Balance at December 31, 2019</b>            | <u>\$ -</u>  | <u>-</u>   | <u>-</u>                           |
| <b>Balance at January 1, 2018</b>              | \$ (11,880)  | -  | 22,343                             |
| Effects of retrospective application           | -  | -  | (22,343)                           |
| Balance at January 1, 2018 after adjustments   | (11,880)   | -  | -                                  |
| Foreign exchange differences(net of tax):      |  |  |                                    |
| Associates                                     | 2,351  | -  | -                                  |
| Interest directly related to non-current asset | 9,529  | (9,529)  | -                                  |
| <b>Balance at December 31, 2018</b>            | <u>\$ -</u>  | <u>(9,529)</u>   | <u>-</u>                           |

(n) Earnings per share

(i) Basic Earnings per share

The calculation of basic earnings per share at December 31, 2019 that was based on the profit attributable to ordinary shareholders of the Company amounting to \$607,727 thousand (2017: \$444,704 thousand) and both the weighted average number of ordinary shares outstanding amounting to 332,809 thousand was calculated as follows:

1) Profit attributable to ordinary shareholders

|  | 2019              | 2018           |
|--|-------------------|----------------|
| Profit (loss) attributable to ordinary shareholders of the Company | \$ <u>607,727</u> | <u>444,704</u> |

(ii) Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2019 that was based on profit attributable to ordinary shareholders of the Company amounting to \$607,727 thousand (2018: \$444,704 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares amounting to 333,447 thousand (2018: 333,401 thousand) was calculated as follows.

1) Profit attributable to ordinary shareholders of the Company (diluted)

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
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|  | <b>2019</b>              | <b>2018</b>           |
|--|--------------------------|-----------------------|
| Profit (loss) attributable to ordinary shareholders of the Company (basic)   | \$ <u>607,727</u>        | <u>444,704</u>        |
| Profit (loss) attributable to ordinary shareholders of the Company (diluted) | \$ <u><b>607,727</b></u> | <u><b>444,704</b></u> |

2) Weighted-average number of ordinary shares (diluted)

|   | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| Weighted-average number of ordinary shares (basic)                  | 332,809               | 332,809               |
| Effect of employee stock bonus                                      | \$ <u>638</u>         | <u>592</u>            |
| Weighted-average number of ordinary shares (diluted) at 31 December | <u><b>333,447</b></u> | <u><b>333,401</b></u> |

(o) Revenue from contracts with customers

(i) Disaggregation of revenue

The details of revenue for the year ended December 31, 2018 was as follows:

|                               | <b>2019</b>                | <b>2018</b>             |
|-------------------------------|----------------------------|-------------------------|
| Primary geographical markets  |                            |                         |
| Taiwan                        | \$ <u><b>2,886,010</b></u> | <u><b>3,918,034</b></u> |
| Major products/services lines |                            |                         |
| Sale of land                  | \$ 1,896,557               | 2,535,843               |
| Sale of buildings             | 956,766                    | 1,361,987               |
| Lease of real estate          | <u>32,687</u>              | <u>20,204</u>           |
|                               | <u><b>\$ 2,886,010</b></u> | <u><b>3,918,034</b></u> |

(ii) Contract balances

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|------------------------------|
| Accounts receivable                        | \$ 67,624                    | 38,261                       | 26,514                       |
| Notes receivable                           | <u>51,719</u>                | <u>32,180</u>                | <u>54,857</u>                |
| Total                                      | <u><b>\$ 119,343</b></u>     | <u><b>70,441</b></u>         | <u><b>81,371</b></u>         |
| Contract liabilities — sale of real estate | <u><b>\$ 465,106</b></u>     | <u><b>200,969</b></u>        | <u><b>1,003,112</b></u>      |

(iii) Unearned revenues from sales and presales of properties and land held for sale registered and transferred into trusts. This trust amount is recorded as “other current assets”.

|                                | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--------------------------------|------------------------------|------------------------------|
| Other financial assets-current | \$ <u><b>180,463</b></u>     | <u>-</u>                     |

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As of December 31, 2019, the Company consigned the trustees to manage the capital received from its pre-sale of properties in accordance with the Trust agreements, wherein the trust will be terminated when the project is completed, when the permit to use the building is issued, and when the ownership of the building is first registered.

- (iv) Unearned revenues were from sales and pre-sales of properties and land held-for-sale.
- (v) As of December 31, 2019, the advance payments of presale projects named Hong Pu Summer Palace and Hong Pu Central Park have been entrusted as follows:
  - 1) The reports are in accordance with the sold contracts.
  - 2) Accrued trust amount on the base date is equal to the amount deposited into the trust account.
  - 3) The Company deposits the payment received from buyers into the specific trust account at the same period.
  - 4) There should be no delay in paying the deposit..
- (p) Directors' and supervisor's remuneration

The Company's Articles of Incorporation provide that, bonus to directors and profit sharing to employees of the Company were not more than 1% and not less than 3% of the remainder, respectively. When allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years. The Company's Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend.

The employee bonuses and directors' and supervisors' remuneration were recognized as cost of sales or operating expenses on specific percentage of net income. These amounts are calculated using the Company's profit before tax without the employee bonuses and directors' and supervisors' remuneration for each period. The Company recognized its employee bonuses of \$12,000 thousand in 2019 and \$9,000 thousand in 2018 respectively, as well as directors' and supervisors' remuneration of \$2,200 thousand in 2019 and \$2,200 thousand in 2018 respectively. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(Continued)



**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(q) Non-operating income and expenses

(i) Other income

The details of non-operating income and expenses for the years ended December 31, 2019 and 2018 were as follows:

|                 | <u>2019</u>             | <u>2018</u>           |
|-----------------|-------------------------|-----------------------|
| Interest income | \$ 2,310                | 989                   |
| Dividend income | 423                     | 996                   |
| Fee Revenue     | -                       | 10                    |
| Breach Revenue  | 37,798                  | 88,921                |
| Others          | <u>11,045</u>           | <u>10,324</u>         |
| Total           | <u><u>\$ 51,576</u></u> | <u><u>101,240</u></u> |

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018 were as follows:

|   | <u>2019</u>              | <u>2018</u>           |
|---|--------------------------|-----------------------|
| Gains on financial assets at fair value through profit or loss          | \$ 3,295                 | 263                   |
| Gain on disposal of non-current asset held for sale through profit loss | 138,618                  | -                     |
| Others  | <u>(20,822)</u>          | <u>(4,297)</u>        |
| Total   | <u><u>\$ 121,091</u></u> | <u><u>(4,034)</u></u> |

(iii) Finance costs

The details of finance costs for the years ended December 31, 2019 and 2018 were as follows:

|                            | <u>2019</u>               | <u>2018</u>               |
|----------------------------|---------------------------|---------------------------|
| Interest expenses          | \$ 84,257                 | 73,968                    |
| Less: Capitalized Interest | <u>(27,595)</u>           | <u>(39,380)</u>           |
| Total                      | <u><u>\$ 56,662</u></u>   | <u><u>34,588</u></u>      |
| Capitalized Interest Rate  | <u><u>1.42%~1.53%</u></u> | <u><u>1.02%~1.40%</u></u> |

(r) Financial Instrument

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

### 2) The concentration of credit risk

The Company's revenue is attributable to the sales transactions with a wide range of customer. So, there is no concentration of credit risk.

### (ii) Liquidity risk

The followings were the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

|                                      | <u>Carrying<br/>amount</u> | <u>Contractual<br/>cash flow</u> | <u>Within<br/>6 months</u> | <u>Within<br/>6-12months</u> | <u>1-2 years</u> | <u>2-5 years</u> | <u>More than<br/>5 years</u> |
|--------------------------------------|----------------------------|----------------------------------|----------------------------|------------------------------|------------------|------------------|------------------------------|
| <b>As of December 31, 2019</b>       |                            |                                  |                            |                              |                  |                  |                              |
| Non-derivative financial liabilities |                            |                                  |                            |                              |                  |                  |                              |
| Secured bank loans                   | \$ 4,787,000               | 4,851,102                        | 936,906                    | 2,025,109                    | 1,889,087        | -                | -                            |
| Unsecured Secured bank loans         | 310,000                    | 313,186                          | 2,566                      | 310,620                      | -                | -                | -                            |
| Commercial notes                     | 1,805,417                  | 1,810,000                        | 1,810,000                  | -                            | -                | -                | -                            |
| Notes and accounts payables          | 210,371                    | 210,371                          | 210,371                    | -                            | -                | -                | -                            |
|                                      | <u>\$ 7,112,788</u>        | <u>7,184,659</u>                 | <u>2,959,843</u>           | <u>2,335,729</u>             | <u>1,889,087</u> | <u>-</u>         | <u>-</u>                     |
| <b>As of December 31, 2018</b>       |                            |                                  |                            |                              |                  |                  |                              |
| Non-derivative financial liabilities |                            |                                  |                            |                              |                  |                  |                              |
| Secured bank loans                   | \$ 1,437,000               | 1,491,816                        | 13,249                     | 13,395                       | 26,571           | 1,438,601        | -                            |
| Unsecured bank loan                  | 450,000                    | 455,333                          | 3,994                      | 451,339                      | -                | -                | -                            |
| Commercial notes                     | 1,843,088                  | 1,853,000                        | 1,103,000                  | 750,000                      | -                | -                | -                            |
| Notes and accounts payables          | 308,177                    | 308,137                          | 308,137                    | -                            | -                | -                | -                            |
|                                      | <u>\$ 4,038,265</u>        | <u>4,108,286</u>                 | <u>1,428,380</u>           | <u>1,214,734</u>             | <u>26,571</u>    | <u>1,438,601</u> | <u>-</u>                     |

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

### (iii) Currency risk

#### 1) Exposure to currency risk

|                         | <u>December 31, 2019</u>    |                          |            | <u>December 31, 2018</u>    |                          |            |
|-------------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
|                         | <u>Foreign<br/>currency</u> | <u>Exchange<br/>rate</u> | <u>NTD</u> | <u>Foreign<br/>currency</u> | <u>Exchange<br/>rate</u> | <u>NTD</u> |
| <u>Financial assets</u> |                             |                          |            |                             |                          |            |
| USD                     | \$ 21,578                   | 29.98                    | 646,909    | 8,376                       | 30.715                   | 257,275    |

#### 2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from cash and cash equivalents that are determined in foreign currency and the investment accounted for using equity method, resulting in exchange differences on translation of financial statements. A Strengthening (weakening) 10 % of appreciation (depreciation) of the TWD against the USD as of December 31, 2019 and 2018, would have increased (decreased) profit of 2019 by \$64,691 thousand and other equity of 2018 by \$25,727 thousand. The analysis assumes that all other variables remain constant.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(iv) Interest risk

Please refer to the attached note for the liquidity risk management and the Company's interest rate exposure to its financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates on non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date.

If the interest rate increases / decreases by 50 basis points, the Company's net profit after tax would have increased (decreased) by \$26,618 thousand and \$20,485 thousand for the years ended December 31, 2019 and 2018 with all other variable factors that remain constant. This is mainly due to the Company's borrowings in floating variable rate.

(v) Other market price risk

If the price of the equity securities changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

| Equity price at reporting date | 2019                                 |                         | 2018                                 |                         |
|--------------------------------|--------------------------------------|-------------------------|--------------------------------------|-------------------------|
|                                | After-tax other Comprehensive income | After-tax profit (loss) | After-tax other Comprehensive income | After-tax profit (loss) |
| Increase 3%                    | \$ -                                 | 128                     | -                                    | 566                     |
| Decrease 3%                    | \$ -                                 | (128)                   | -                                    | (566)                   |

(vi) Fair value

1) Categories of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and liabilities including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

| December 31, 2019   |                    |            |         |         |       |
|---|--------------------|------------|---------|---------|-------|
|   | Carrying<br>amount | Fair value |         |         | Total |
|   |                    | Level 1    | Level 2 | Level 3 |       |
| <b>Financial assets at fair value through profit or loss</b>                              |                    |            |         |         |       |
| Non-derivative financial assets mandatorily measured at fair value through profit or loss | \$ 4,268           | 4,268      | -       | -       | 4,268 |
| Cash and cash equivalents   | 1,137,264          | -          | -       | -       | -     |
| Notes receivable and account receivable   | 119,343            | -          | -       | -       | -     |
| Other financial assets - current  | 180,463            | -          | -       | -       | -     |
| Subtotal  | 1,437,070          | -          | -       | -       | -     |
| <b>Total</b>  | \$ 1,441,338       | 4,268      | -       | -       | 4,268 |
| <b>Financial liabilities at amortized cost</b>  |                    |            |         |         |       |
| Bank Loans  | \$ 5,097,000       | -          | -       | -       | -     |
| Short-term notes and bills payable  | 1,805,417          | -          | -       | -       | -     |
| Notes payable and account payable   | 210,371            | -          | -       | -       | -     |
| Other payable   | 210,727            | -          | -       | -       | -     |
| Subtotal  | 7,323,515          | -          | -       | -       | -     |
| <b>Total</b>  | \$ 7,323,515       | -          | -       | -       | -     |

| December 31, 2018   |                    |            |         |         |        |
|---|--------------------|------------|---------|---------|--------|
|   | Carrying<br>amount | Fair value |         |         | Total  |
|   |                    | Level 1    | Level 2 | Level 3 |        |
| <b>Financial assets at fair value through profit or loss</b>                              |                    |            |         |         |        |
| Non-derivative financial assets mandatorily measured at fair value through profit or loss | \$ 18,851          | 18,851     | -       | -       | 18,851 |
| <b>Financial assets measured at amortized cost</b>  |                    |            |         |         |        |
| Cash and cash equivalents   | 611,067            | -          | -       | -       | -      |
| Notes receivable and account receivable   | 70,441             | -          | -       | -       | -      |
| Other financial assets - current  | 2,230              | -          | -       | -       | -      |
| Subtotal  | 683,738            | -          | -       | -       | -      |
| <b>Total</b>  | \$ 702,589         | 18,851     | -       | -       | 18,851 |
| <b>Financial liabilities at amortized cost</b>  |                    |            |         |         |        |
| Bank Loans  | \$ 1,887,000       | -          | -       | -       | -      |
| Short-term notes and bills payable  | 1,843,088          | -          | -       | -       | -      |
| Notes payable and account payable   | 308,137            | -          | -       | -       | -      |
| Other payable   | 141,307            | -          | -       | -       | -      |
| Subtotal  | \$ 4,179,532       | -          | -       | -       | -      |
| <b>Total</b>  | \$ 4,179,532       | -          | -       | -       | -      |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

2) Fair value valuation techniques of financial instruments not measured at fair value

Non-derivative financial liabilities

Financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument in an active market.

Fair value measurement is based on the latest quoted price and agreed-upon price if these prices are available in an active market. When market value is unavailable, the fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

(s) Management of financial risk

Overview

(i) By using financial instruments, the Company is exposed to risks as below:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of above risks, the objectives, policies and processes for measuring and managing risk. Please see other related notes for quantitative information.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors the risks which should be in compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by the Internal Audit. The internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's investment securities.

1) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. Since the Company's transactions are with the counterparties, and the contractually obligated counterparties are the banks, financial institutions, corporate organizations and government agencies with good credits, there are no compliance issues, and therefore, there is no significant credit risk.

2) Guarantees

As of December 31, 2019 and 2018, there is no guarantee outstanding.

(iv) Liquidity risk

The Company manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Company's management supervises the banking facilities and ensures that they are in compliance with the terms of the loan agreements.

The loans and borrowings from the bank form an important source of liquidity for the Company. The Company has unused short-term bank facilities of \$5,311,000 thousand and \$4,168,000 thousand as at 31 December 31, 2019 and 2018.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Company is not exposed to currency risk on sales, purchases and borrowings that are denominated in a New Taiwan Dollars (TWD).

2) Interest rate risk

The Company's borrowings bear floating interest rate. The Company reduces the interest risks by negotiating the loan interest rates frequently with banks.

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

(t) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

|                                 | December 31,<br>2019 | December 31,<br>2018 |
|---------------------------------|----------------------|----------------------|
| Total liabilities               | \$ 7,841,965         | 4,449,298            |
| Less: cash and cash equivalents | <u>(1,137,864)</u>   | <u>(611,067)</u>     |
| Net debt                        | <u>\$ 6,704,101</u>  | <u>3,838,231</u>     |
| Total equity                    | <u>\$ 11,934,076</u> | <u>11,648,864</u>    |
| Debt to equity ratio            | <u>56.17 %</u>       | <u>32.95 %</u>       |

There were no changes in the Company's approach to capital management during the year.

(u) Investing and financing activities not affecting current cash flow

There was no investing and financing activity not affecting cash flow as of December 31, 2019 and 2018.

### 7. Related-party transactions

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the financial statements.

| Name related party                         | Relationship with the Company |
|--|-------------------------------|
| J.H. Tuan                                  | The chairman of the Company   |
| IG Construction Co., Ltd.                  | An associate                  |
| Hsin Pei Real Estate Development Co., Ltd. | An associate                  |
| Hong Pu Welfare and Charity Foundation     | Other related parties         |

(b) Related party transactions

(i) Endorsements and guarantees

The chairman of the company was the guarantor for the Company's loans from financial institutions.

(ii) Leases

The related party rented an office building from the Company to be used as its headquarter. A five-year lease contract was signed with the contract price of \$884 thousand, in which the rental fee is determined based on the nearby office rental rates. For the years 2019 and 2018, the Company's rent revenues with related parties were both \$114 thousand. As of December 31, 2019 and 2018, the accounts receivables generated by the aforementioned rent revenue have been received.

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# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

### (iii) Others

The Company has signed a contract concerning a joint-construction investment in project "012310247" with Hsin Pei Real Estate Development Co., Ltd. during June 2017. According to the agreement, the Company accounts for 33.9% of the project and charges 6% management fee based on cost allocated to Hsin Pei Real Estate Development Co., Ltd.

The Company offers management services to its subsidiaries. As of December 31, 2019 the accounts receivables of \$1,392 thousands, recorded as "accounts-receivables – related parties ." has not been received.

The Company donated to the Hong Pu Social Welfare Foundation the amount of \$1,200 thousands and \$2,000 thousands in 2019 and 2018, respectively.

### (c) Key management personnel compensation

|                              | <b>2019</b>     | <b>2018</b>   |
|------------------------------|-----------------|---------------|
| Short-term employee benefits | \$ 8,651        | 9,899         |
| Retirement benefits          | 234             | 234           |
| Other long-term benefits     | -               | -             |
| Resignation benefits         | -               | -             |
| Share-based payment          | -               | -             |
| Total                        | <b>\$ 8,885</b> | <b>10,133</b> |

## 8. Pledged assets

As of December 31, 2019 and 2018, the carrying values of pledged assets were as follows:

| <b>Pledged assets</b>             | <b>Pledged to secure</b>                   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|-----------------------------------|--|------------------------------|------------------------------|
| Construction-in-progress – land   | Short-term bills payable, short-term loans | \$ 4,256,082                 | 5,203,075                    |
| Land held for development         | Short-term bills payable, short-term loans | 5,021,910                    | 1,679,232                    |
| Properties and land held for sale | Short-term bills payable, short-term loans | 1,746,764                    | 522,480                      |
| Property, Plant and Equipment     | Short-term bills payable                   | 79,155                       | 80,686                       |
| Investment properties             | Short-term bills payable                   | -                            | -                            |
|                                   |  | <b>\$ 11,103,911</b>         | <b>7,485,473</b>             |

## 9. Commitments and contingencies

As of December 31, 2019, the Company had issued promissory notes of \$9,887,000 thousand to financial institutions for their provision of repayment guarantees.

As of December 31, 2019, the total contract amount of the Company's construction projects was \$750,604 thousand, of which \$580,418 thousand had been paid and recorded as "inventory."

(Continued)



# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

As of December 31, 2019, the total contract amount of the Company's advanced-sell projects was \$3,789,820 thousand of which \$465,106 thousand had been received and recorded as "current contract liabilities."

As of December 31, 2019, the total contract amount of the Company's prepayments for land purchase were \$71,058 thousand, of which \$29,631 thousand had been paid and recorded as "inventories".

The Company has signed project "061120014" joint construction agreement with ten non-related parties, Mrs. Yang and five others, on June 2010; and Mr. Pan and three others on September 2011. As of December 31, 2019, in accordance with the joint construction agreement, the Company has paid a promissory amount of \$11,390 thousand to the land owners and recorded it as refundable deposits.

The Company has signed project "012310247" joint construction agreement with nine non-related parties, Mrs. Lin and eight others, on May 2014 and on July 2015. As of December 31, 2019, in accordance with the joint construction agreement, the Company has paid a promissory amount of \$121,234 thousand to the land owners and recorded it as "other current assets"

The Company has signed project "032310150" joint construction agreement with non-related parties, Mr. Chen and eight others, in October, November and December 2019. As of December 31, 2019, the Company has paid a promissory of \$121,234 thousand to the land owners and recorded it as "refundable deposit". in accordance with the joint construction agreement.

The Company engaged with IBFC as the guarantor for its issuance of commercial checks. The Tunhwa South office was pledged as collateral, and IBFC was appointed as the beneficiary of the fire insurance on this office.

In January 2017, the Company set up the leasing partnership with Mitsui Fudosan Taiwan Co., Ltd., the project located in the Taipei Da-an District and was still under construction, both properties and land belonged to the Company. Mitsui Fudosan Taiwan Co., Ltd., aimed to establish a hotel there. The formal leasing agreement had been signed on June 2017, according to which, the lease term would be 20 years upon final walk-through after the completion of construction.

10. Losses due to major disasters : None.

11. Subsequent events : None.

12. Other

(a) Total personnel, depreciation and amortization expenses categorized by function for the years ended December 31, 2019 and 2018, were as follows:

|                            | 2019           |                    |        | 2018           |                    |        |
|----------------------------|----------------|--------------------|--------|----------------|--------------------|--------|
|                            | Operating cost | Operating expenses | Total  | Operating cost | Operating expenses | Total  |
| Personnel expenses         |                |                    |        |                |                    |        |
| Salaries                   | 11,134         | 26,441             | 37,575 | 12,684         | 25,391             | 38,075 |
| Labor and health insurance | 701            | 1,658              | 2,359  | 847            | 1,697              | 2,544  |
| Pension                    | 446            | 660                | 1,106  | 537            | 660                | 1,197  |
| Remuneration of directors  | -              | 2,714              | 2,714  | -              | 2,024              | 2,024  |
| Others                     | 240            | 498                | 738    | 292            | 541                | 833    |
| Depreciation               | -              | 2,779              | 2,779  | -              | 3,452              | 3,452  |
| Amortization               | -              | 131                | 131    | -              | 126                | 126    |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

The information on the Company's employee and employee for the years ended , 2019 and 2018 were as follow:

|                                  | 2019            | 2018         |
|----------------------------------|-----------------|--------------|
| Numbers of employees             | <u>29</u>       | <u>31</u>    |
| Number of non-employee directors | <u>3</u>        | <u>2</u>     |
| The average employee benefit     | <u>\$ 1,607</u> | <u>1,471</u> |
| The average salaries and wages   | <u>\$ 1,445</u> | <u>1,313</u> |
| Adjustment of average salaries   | <u>10.05 %</u>  |              |

### 13. Other disclosures

#### (a) Information on significant transactions

The followings are the information on significant transactions required by the “ Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company:

- (1) Fund financing to other parties : None.
- (2) Guarantees and endorsements for other parties : None.
- (3) Information regarding securities held at balance sheet date. (The subsidiary, the associate, and the joint venture are not included) :

| Name of holder | Category of security        | Category and name of security | Account | Balance at December 31, 2017 |            |                     |                            | Note |
|----------------|-----------------------------|-------------------------------|---------|------------------------------|------------|---------------------|----------------------------|------|
|                |                             |                               |         | Number of shares             | Book value | Percentage of share | Market value(or net value) |      |
| The Company    | CPT                         | -                             | "       | 23,599                       | -          | -                   | -                          |      |
| The Company    | NEOMAGIC(NMGC)              | -                             | "       | 10,659                       | -          | -                   | -                          |      |
| The Company    | Trade-Van                   | -                             | "       | 115,655                      | 4,268      | 0.07 %              | 4,268                      |      |
| The Company    | HORIZON VENTURE FUND L.L.P. | -                             | "       | -                            | -          | 1.21 %              | -                          |      |

- (4) Cumulative buying or selling of one specific security exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital : None.
- (5) Acquisition of real estate with an amount exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital was as follows :

(Expressed in thousands of TWD)

| Name of company | Name of property              | Transaction date | Transaction amount | Status of payment | Counter party                                       | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information |                               |                  |        | References for determining price | Purpose of acquisition and current condition | Others |
|-----------------|-------------------------------|------------------|--------------------|-------------------|---|-------------------------------|---|-------------------------------|------------------|--------|----------------------------------|--|--------|
|                 |                               |                  |                    |                   |   |                               | Owner   | Relationship with the Company | Date of transfer | Amount |                                  |  |        |
| The Company     | Construction-in-progress-land | 2019.03.25       | 679,256            | 679,256           | The Company, Yu an Din Co.Ltd.and 47 natural person | Non-related parties           | -   | -                             | -                | -      | Foreclosure                      | Construction                                 | none   |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD.

## Notes to Financial Statements

| Name of company | Name of property              | Transaction date         | Transaction amount | Status of payment | Counter party              | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information |                               |                  |        | References for determining price                             | Purpose of acquisition and current condition | Others |
|-----------------|-------------------------------|--------------------------|--------------------|-------------------|----------------------------|-------------------------------|---|-------------------------------|------------------|--------|--|--|--------|
|                 |                               |                          |                    |                   |                            |                               | Owner   | Relationship with the Company | Date of transfer | Amount |  |  |        |
| The Company     | Construction-in-progress-land | 2019.07.31               | 1,474,578          | 1,474,578         | New Taipei City Government | Non-related parties           | -   | -                             | -                | -      | bid  | Construction                                 | none   |
| The Company     | Construction-in-progress-land | 2019.07.31               | 1,594,276          | 1,594,276         | New Taipei City Government | Non-related parties           | -   | -                             | -                | -      | bid  | Construction                                 | none   |
| The Company     | Construction-in-progress-land | 2019.07.30<br>2019.08.02 | 790,816            | 790,816           | 9 Natural person           | Non-related parties           | -   | -                             | -                | -      | Referring to the average market price of similar real estate | Construction                                 | none   |

- (6) Disposal of real estate with an amount exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital :

| Name of company | Name of property              | Transaction date | Acquisition date | Book value | Transaction amount | Status of receivable | Gain or loss on disposal | Counter party | Relationship with the Company | Purpose of disposal | References for determining price | Other |
|-----------------|-------------------------------|------------------|------------------|------------|--------------------|----------------------|--------------------------|---------------|-------------------------------|---------------------|----------------------------------|-------|
| The Company     | construction-in-progress-land | 2019.03.25       | 2014.03          | 462,204    | 589,968            | Y                    | Note                     | The Company   | Non-related parties           | appraising          | Foreclosure                      | None  |

Note: There is no gain or loss on this transaction due to the Company being the counter party.

- (7) Purchases from and sales to related parties exceeding the lower of \$100,000 thousand or 20% of the Company's paid-in capital was as follows : None.
- (8) Receivable from related parties exceeding the lower of \$100,000 thousand or 20% of the Company's paid-in capital : None.
- (9) Derivative financial instruments : None.
- (b) Information on investees :

The followings are the information on investees:

(Expressed in thousands of TWD)

| Investor company | Investee company                            | Location | Main businesses and products    | Original investment amount |                   | December 31, 2019     |                         |                | Net income (losses) of the investee | Investment income (losses) | Note |
|------------------|---|----------|---------------------------------|----------------------------|-------------------|-----------------------|-------------------------|----------------|-------------------------------------|----------------------------|------|
|                  |   |          |                                 | December 31, 2019          | December 31, 2018 | Shares (in thousands) | Percentage of ownership | Carrying value |                                     |                            |      |
| The Company      | Chuan Yue Real Estate Development Co., Ltd. | Taipei   | Real estate development service | 32,742                     | 64,200            | 3,060,000             | 51.00 %                 | 30,579         | (3,675)                             | (2,362)                    |      |

- (c) Information on investment in Mainland China :

- (1) Information on investment in Mainland China :

(Expressed in thousands of TWD)

| Name of the investee in Mainland China      | Major operations                | Issued capital | method of investment | Beginning remittance balance - Cumulative investment (amount) from Taiwan | Current remittance/recoverable investment (amount) |                    | Ending remittance balance - Cumulative investment (amount) from Taiwan | Current investment gains and losses | Direct/indirect shareholdings investments (%) in the Company | Investment income (losses) recognized | Book value | Remittance of investment income as at current period |
|---|---------------------------------|----------------|----------------------|---|--|--------------------|--|-------------------------------------|--|---------------------------------------|------------|--|
|   |                                 |                |                      |   | Remittance amount                                  | Recoverable amount |  |                                     |  |                                       |            |  |
| Jia Xing Hong Pu Prosperity Land properties | Real estate development service | 746,955        | Note(1) b            | 228,285   | -  | 228,285            | -  | -                                   | - %  | -                                     | -          | 138,618  |

Note (1): a. The Company directly invested in the China company

b. The Company invested in the company through third region finance, and then the company invested in the China company.

c. Other way

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD.**  
**Notes to Financial Statements**

(2) Upper limit on investment in Mainland China :

| Aggregate investment amount remitted from Taiwan to Mainland China at the end of the period | Approved investment (amount) by Ministry of Economic Affairs Investment Commission | Limitation on investment in Mainland China accordance with the regulations of Ministry of Economic Affairs Investment Commission |
|---|--|--|
| -   | -  | 7,160,446  |

(3) Significant transactions : None.

**14. Segment information : None.**

## **Independent Auditors' Report**

To the Board of Directors of Hong Pu Real Estate Development Co., Ltd.:

### **Opinion**

We have audited the consolidated financial statements of Hong Pu Real Estate Development Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Other Matter**

Hong Pu Real Estate Development Co., Ltd. has prepared its parent-company only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key matters to be communicated in our report.

#### **1. Recognition of Revenue**

Please refer to note 4 (o) for the relevant accounting policy regarding recognition of revenue, and refer to note 6 (o) for relevant disclosures.

Description of key audit matter:

The main operation income of the Group is derived from the sales of premises.

Therefore, the recognition of revenue has been identified as one of the key audit matters in conducting the examination of the consolidated financial statement.

How the matter was addressed in our audit:

Our principal audit procedures included:

- Comparison of the policy concerning the revenue recognition with the accounting standards, in order to assess the appropriateness of the policy adopted by the Group.
- Inspect the main compositions of the revenue through review the sales contract to verify the authenticity of transaction and confirm whether the timing of recognition matches with accounting policies and standards.

We also examine the appropriateness of disclosure of the revenue recognition policy of the Group and so does other information. So as to ensure if any significant abnormality exists, we review the sales contract with the timing of transfer completion of the property and property rights as well as assess the revenue recognition policy of the Group applied in accordance with the relevant Accounting Bulletins.

## 2. Valuation of Inventories

Please refer to note 4 (h) for accounting policy regarding the inventories valuation; refer to note 5 for accounting estimation and assumption of the inventories valuation; please refer to note 6 (d) for relevant inventory disclosures.

Description of key audit matter:

In the consolidated financial statements, inventory is measured at the lower of the cost and net realizable value. Market turns inactive and the sales volumes of real estate tends downward due to the law, regulation and economic cycle. As a result, the related product price may vary, which would increase the risk of the inventory cost over its net realizable value.

How the matter was addressed in our audit:

Our Principal audit procedures included:

- Evaluate whether the accounting policy adjustments are in accordance with business cycle and other economic decree.
- Evaluate whether the market data provided has been updated on regular or irregular basis to reflect the real economic situation.
- Our audit procedures included discussing the current market tendencies and business strategies with management, and obtaining the sufficient audit evidence to assure the accurateness of the inventory assessment.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including the Audit Committee or supervisors) are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chuang Chun Wei and Wang Chin Sun.

KPMG

Taipei, Taiwan (Republic of China)  
March 18, 2020

#### **Notes to Readers**

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

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.



## December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

**Total assets**

See accompanying notes to financial statements.

(English Translation of consolidated financial statements Originally Issued in Chinese)  
HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars Except Earnings per Share)

|  |  | 2019              |            | 2018             |            |
|--|--|-------------------|------------|------------------|------------|
|  |  | Amount            | %          | Amount           | %          |
| <b>Operating revenue:</b>                                      |  |                   |            |                  |            |
| 4300   | Rental revenue (notes 6(j)(o) and 7)   | \$ 32,573         | 1          | 20,175           | -          |
| 4511   | Construction contract revenue (note 6(o))  | 2,913,916         | 101        | 3,977,559        | 102        |
| 4519   | Less: Construction contract revenue returns and discount                                   | <u>60,593</u>     | <u>2</u>   | <u>79,729</u>    | <u>2</u>   |
| <b>Net operating revenue</b>                                   |  | <u>2,885,896</u>  | <u>100</u> | <u>3,918,005</u> | <u>100</u> |
| <b>Operating cost:</b>   |  |                   |            |                  |            |
| 5300   | Rental Cost  | 3,765             | -          | 915              | -          |
| 5510   | Construction contract cost   | <u>2,121,982</u>  | <u>74</u>  | <u>3,266,201</u> | <u>83</u>  |
| <b>Net operating cost</b>                                      |  | <u>2,125,747</u>  | <u>74</u>  | <u>3,267,116</u> | <u>83</u>  |
| <b>Gross profit</b>  |  | <u>760,149</u>    | <u>26</u>  | <u>650,889</u>   | <u>17</u>  |
| <b>Operating expenses (notes 6(k) and 7):</b>                  |  |                   |            |                  |            |
| 6100   | Selling expenses   | 150,550           | 5          | 170,789          | 5          |
| 6200   | Administrative expenses  | 43,533            | 1          | 47,225           | 1          |
| 6450   | Impairment loss determined in accordance with IFRS 9 (note 6(c))                           | <u>-</u>          | <u>-</u>   | <u>250</u>       | <u>-</u>   |
| <b>Total operating expenses</b>                                |  | <u>194,083</u>    | <u>6</u>   | <u>218,264</u>   | <u>6</u>   |
| <b>Operating income</b>  |  | <u>566,066</u>    | <u>20</u>  | <u>432,625</u>   | <u>11</u>  |
| <b>Non-operating income and expenses:</b>                      |  |                   |            |                  |            |
| 7010   | Other income (note 6(q))   | 50,198            | 2          | 101,244          | 2          |
| 7020   | Other gains and losses (note 6(q))   | 121,091           | 4          | (4,034)          | -          |
| 7050   | Finance costs (note 6(q))  | (56,662)          | (2)        | (34,588)         | (1)        |
| 7060   | Share of profit of investment in associates accounted for using equity method (note 6(f))  | <u>-</u>          | <u>-</u>   | <u>25,595</u>    | <u>1</u>   |
| <b>Total non-operating income and expenses</b>                 |  | <u>114,627</u>    | <u>4</u>   | <u>88,217</u>    | <u>2</u>   |
| 7900   | <b>Profit before tax</b>   | 680,693           | 24         | 520,842          | 13         |
| 7951   | <b>Less: income tax expenses (note 6(l))</b>   | <u>74,279</u>     | <u>2</u>   | <u>76,138</u>    | <u>2</u>   |
| 8200   | <b>Profit</b>  | <u>606,414</u>    | <u>22</u>  | <u>444,704</u>   | <u>11</u>  |
| <b>Other comprehensive income (loss) (note 6(m)):</b>          |  |                   |            |                  |            |
| 8360   | <b>Items that may be reclassified subsequently to profit or loss:</b>                      |                   |            |                  |            |
| 8361   | Financial statements translation differences for foreign operations (note 6(f))            | -                 | -          | 2,351            | -          |
| 8365   | Interest directly related to non-current asset that will be reclassified to profit or loss | 9,529             | -          | -                | -          |
| 8399   | Income tax expense relating to components of other comprehensive income (loss)             | <u>-</u>          | <u>-</u>   | <u>-</u>         | <u>-</u>   |
| 8300   | <b>Other comprehensive income (after tax)</b>  | <u>9,529</u>      | <u>-</u>   | <u>2,351</u>     | <u>-</u>   |
| 8500   | <b>Total comprehensive income</b>  | <u>\$ 615,943</u> | <u>22</u>  | <u>447,055</u>   | <u>11</u>  |
| <b>Net income attributable to:</b>                             |  |                   |            |                  |            |
|  | Shareholders of the parent   | \$ 607,727        | 22         | 444,704          | 11         |
|  | Non-controlling interests  | <u>(1,313)</u>    | <u>-</u>   | <u>-</u>         | <u>-</u>   |
|  |  | <u>\$ 606,414</u> | <u>22</u>  | <u>444,704</u>   | <u>11</u>  |
| <b>Total comprehensive income attributable to:</b>             |  |                   |            |                  |            |
|  | Shareholders of the parent   | \$ 617,256        | 22         | 447,055          | 11         |
|  | Non-controlling interests  | <u>(1,313)</u>    | <u>-</u>   | <u>-</u>         | <u>-</u>   |
|  |  | <u>\$ 615,943</u> | <u>22</u>  | <u>447,055</u>   | <u>11</u>  |
| <b>Earnings per share (in dollars), after tax (note 6(n)):</b> |  |                   |            |                  |            |
|  | <b>Basic earnings per share (note 6(n))</b>  | <u>\$ 1.83</u>    |            | <u>1.34</u>      |            |
|  | <b>Diluted earnings per share</b>  | <u>\$ 1.82</u>    |            | <u>1.33</u>      |            |

(English Translation of consolidated financial statements Originally Issued in Chinese)  
**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2019 and 2018**  
**(Expressed in thousands of New Taiwan dollars)**

|           | Equity attributable to owners of parent |                 |               |                 |                         |                          |   |  |  |   |
|-----------|---|-----------------|---------------|-----------------|-------------------------|--------------------------|---|--|--|---|
|           | Retained earnings                       |                 |               |                 |                         | Other equity adjustments |   |  |  |   |
|           | Common stock                            | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Total                    | Financial statements translation differences for foreign operations | Unrealized gain (loss) on valuation of sale financial assets | Interest directly related to non-current asset | Total equity attributable to shareholders of the parent |
| \$        | 3,328,087                               | 2,041,583       | 1,734,163     | -               | 4,552,967               | 6,287,130                | (11,880)  | -  | 22,343   | 11,667,263  |
|           | -                                       | -               | -             | -               | 56,102                  | 56,102                   | -   | -  | (22,343)                                       | 33,759  |
| 3,328,087 | 2,041,583                               | 1,734,163       | -             | -               | 4,609,069               | 6,343,232                | (11,880)  | -  | -  | 11,701,022  |
| -         | -                                       | -               | -             | -               | 444,704                 | 444,704                  | -   | -  | -  | 444,704   |
| -         | -                                       | -               | -             | -               | -                       | -                        | 2,351   | -  | -  | 2,351   |
| -         | -                                       | -               | -             | -               | 444,704                 | 444,704                  | 2,351   | -  | -  | 447,055   |
| -         | -                                       | -               | 78,254        | -               | (78,254)                | -                        | -   | -  | -  | -   |
| -         | -                                       | -               | -             | -               | (499,213)               | (499,213)                | -   | -  | -  | (499,213)   |
| -         | -                                       | -               | -             | -               | -                       | -                        | 9,529   | (9,529)  | -  | -   |
| 3,328,087 | 2,041,583                               | 1,812,417       | -             | -               | 4,476,306               | 6,288,723                | -   | (9,529)  | -  | 11,648,864  |
| -         | -                                       | -               | -             | -               | 607,727                 | 607,727                  | -   | -  | -  | 607,727   |
| -         | -                                       | -               | -             | -               | -                       | -                        | -   | 9,529  | -  | 9,529   |
| -         | -                                       | -               | -             | -               | 607,727                 | 607,727                  | -   | 9,529  | -  | 617,256   |
| -         | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | (1,313)   |
| -         | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | 615,943   |
| -         | -                                       | 44,470          | -             | -               | (44,470)                | -                        | -   | -  | -  | -   |
| -         | -                                       | -               | -             | 9,529           | (9,529)                 | -                        | -   | -  | -  | -   |
| -         | -                                       | -               | -             | -               | (332,809)               | (332,809)                | -   | -  | -  | (332,809)   |
| -         | 765                                     | -               | -             | -               | -                       | -                        | -   | -  | -  | 765   |
| 3,328,087 | 2,042,348                               | 1,856,887       | -             | 9,529           | 4,697,225               | 6,563,641                | -   | -  | -  | 11,934,076  |
| \$        | 3,328,087                               | 2,042,348       | 1,856,887     | 9,529           | 4,697,225               | 6,563,641                | -   | -  | 30,693   | 29,380  |
|           | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | 31,458  |
|           | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | (332,809)   |
|           | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | 31,458  |
|           | -                                       | -               | -             | -               | -                       | -                        | -   | -  | -  | 11,963,456  |

**Balance at January 1, 2018**

Effects of retrospective application

Balance on January 1, 2018 after adjustments

Net income

Other comprehensive income (loss)

Total comprehensive income (loss)

Appropriations and distributions:

Legal reserve

Special reserve

Other

**Balance at December 31, 2018**

Net income

Other comprehensive income (loss)

Total comprehensive income (loss)

Appropriations and distributions:

Legal reserve

Special reserve

Cash dividends

Change in non-controlling interests

**Balance at December 31, 2019**

(English Translation of consolidated financial statements Originally Issued in Chinese)  
HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

|   | 2019                | 2018               |
|---|---------------------|--------------------|
| <b>Cash flows from (used in) operating activities:</b>                                      |                     |                    |
| Profit before income tax  | \$ 680,693          | 520,842            |
| <b>Adjustments:</b>   |                     |                    |
| Adjustments to reconcile profit and loss:   |                     |                    |
| Expected credit loss for bad debt expense   | -                   | 250                |
| Depreciation expense  | 2,779               | 3,452              |
| Amortization expense  | 131                 | 126                |
| Net profit on financial assets at fair value through profit or loss                         | (3,295)             | (263)              |
| Interest expenses   | 56,662              | 34,588             |
| Interest income   | (2,324)             | (993)              |
| Dividend income   | (423)               | (996)              |
| Recognized shares of profit of investment in associates accounted for using equity method   | -                   | (25,595)           |
| Gains on disposal of non-current asset  | (138,618)           | -                  |
| Total adjustments to reconcile profit and loss  | (85,088)            | 10,569             |
| Net changes in operating assets and liabilities:  |                     |                    |
| Financial asset at fair value through profit or loss  | 17,878              | 19,372             |
| Notes receivable  | (19,539)            | 22,677             |
| Accounts receivable   | (29,363)            | (11,997)           |
| Inventories   | (3,113,114)         | 1,416,840          |
| Prepayments   | 17,455              | 3,650              |
| Other current assets  | 4,535               | 4,273              |
| Incremental costs of obtaining a contract   | (106,856)           | 22,255             |
| Other financial assets  | (178,233)           | 170,908            |
| Notes payable   | (55,869)            | 21,799             |
| Accounts payable  | (41,612)            | (246,867)          |
| Other payable   | 69,359              | 85,033             |
| Current contract liabilities  | 264,137             | (802,143)          |
| Other current liabilities   | (1,286)             | 5,196              |
| Total changes in operating assets / liabilities, net  | (3,172,508)         | 710,996            |
| Total adjustments   | (3,257,596)         | 721,565            |
| Cash generated from operations  | (2,576,903)         | 1,242,407          |
| Interest received   | 2,324               | 993                |
| Interest paid   | (85,148)            | (75,225)           |
| Income tax paid   | (91,968)            | (78,190)           |
| <b>Net cash flows from (used in) operating activities</b>                                   | <b>(2,751,695)</b>  | <b>1,089,985</b>   |
| <b>Cash flows from (used in) investing activities:</b>                                      |                     |                    |
| Return of capital of investments accounted for using equity method due to capital reduction | 230,871             | 222,059            |
| Disposal of subsidiaries  | 31,458              | -                  |
| Price of disposal of non-current asset  | 170,532             | -                  |
| Acquisition of property, plant and equipment  | -                   | (12,487)           |
| Increase in refundable deposits   | (1,178,626)         | (87,431)           |
| Decrease in refundable deposits   | 1,166,983           | 412,296            |
| Decrease (increase) in other assets   | 10,267              | 7,093              |
| Dividends received  | 423                 | 996                |
| <b>Net cash flows from (used in) investing activities</b>                                   | <b>431,908</b>      | <b>542,526</b>     |
| <b>Cash flows from (used in) financing activities:</b>                                      |                     |                    |
| Increase in short-term borrowings   | 5,500,000           | 2,577,000          |
| Decrease in short-term borrowings   | (2,290,000)         | (2,857,000)        |
| Increase in short-term commercial paper payable   | 7,860,691           | 9,973,186          |
| Decrease in short-term commercial paper payable   | (7,898,362)         | (10,415,666)       |
| Decrease in other non-liabilities   | 3,563               | 5,167              |
| Cash dividends paid   | (332,809)           | (499,213)          |
| <b>Net cash flows (used in) financing activities</b>  | <b>2,843,083</b>    | <b>(1,216,526)</b> |
| Net increase in cash and cash equivalents   | 523,296             | 415,985            |
| Cash and cash equivalents, at beginning of period   | 659,935             | 243,950            |
| Cash and cash equivalents, at end of period   | <b>\$ 1,183,231</b> | <b>659,935</b>     |

See accompanying notes to financial statements.

(English Translation of consolidated financial statements Originally Issued in Chinese)  
**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

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

(expressed in thousands of New Taiwan dollars unless otherwise specified)

**1. ORGANIZATION AND BUSINESS SCOPE**

Company was established on October 5, 1988, and changed into Hong Pu Real Estate Development Co., Ltd. (“the Company”) in 1990. The Company was approved to be a public company by the Securities and Futures Commission (“SFC”) of the Republic of China (“ROC”) on March 23, 1991, and was listed on the Taiwan Stock Exchange on December 21, 1995. The consolidated financial statements comprise of the Company and subsidiaries (together referred to as the “Group”). The Group primarily engages in the business of construction, sales, and leasing of residential and commercial buildings.

Based on the resolution of the Board of Directors on July 15, 2004, the Company, which is the surviving company, completed its merger with Hung Yuan. The merger was a simple merger. After the merger, the name of the Company remained as Hong Pu Real Estate Development Co., Ltd.

**2. THE AUTHORIZATION OF FINANCIAL STATEMENTS**

The financial statements were authorized for issue by the Board of Directors on March 18, 2020.

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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

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

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

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

| <u>New, Revised or Amended Standards and Interpretations</u>   | <u>Effective date<br/>per IASB</u>      |
|--|---|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture” | Effective date to be determined by IASB |
| IFRS 17 “Insurance Contracts”  | January 1, 2021                         |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”  | January 1, 2022                         |

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and the International Financial Reporting Standards,

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(b) Basis of preparation

(1) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- (i) Financial instruments at fair value through profit or loss are measured at fair value;
- (ii) Financial assets at fair value through other comprehensive income are measured at fair value;

(2) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Group's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group “controls” an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to non-controlling interests, even if this results in the non-controlling interests having to deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) List of subsidiaries in the consolidated financial statements

| Name of investor | Name of subsidiary                          | Principal activity      | Shareholding      |                   | Remarks                                      |
|------------------|---|-------------------------|-------------------|-------------------|--|
|                  |   |                         | December 31, 2019 | December 31, 2018 |  |
| The Company      | Chuan Yue Real Estate Development Co., Ltd. | Real estate Development | 51 %              | 100 %             | The Company sold 49% ownership in June 2019. |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(d) Foreign currencies

(i) Foreign currency transactions

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

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

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

(ii) Foreign operations

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

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(Continued)



## **HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

(e) Classification of current and non-current assets and liabilities

As the Group's operating cycle is longer than a year, assets and liabilities related to the operation are classified as current or non-current by their operating cycle. An asset not related to the operation is classified as current under one of the following criteria, and all other assets are classified as non-current:

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash and cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(g) Financial instruments

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

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(i) Financial assets

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

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

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI )

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

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

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

#### 3) Fair value through profit or loss (FVTPL)

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

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

#### 4) Business model assessment

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

#### 5) Impairment of financial assets

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

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

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

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

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

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## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade which is considered to be BBB- or higher per Standard & Poor’s, Baa3 or higher per Moody’s or twA or higher per Taiwan Ratings’.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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

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

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

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

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## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

6) Derecognition of financial assets

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

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

4) Derecognition of financial liabilities

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

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

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

#### (h) Inventories

The Group capitalizes the acquisition costs and interest expenses paid for land as prepayments for the land before the ownership of the land is transferred, and records them as “Prepayment for land purchases”. After the ownership of the land is transferred, it is recorded as “Land held for development”, and as “Construction-in-progress— land” when the construction has begun. Construction costs and expenses which can be allocated by construction site are recorded as “Construction-in-progress— project”. After the completion of the construction, the costs are transferred to “Properties and land held for sale”. The inventories, which include “Land held for development”, “Construction-in-progress— land”, “Construction-in-progress— project”, and “Properties and land held for sale” are stated at the lower of cost and net realizable value at the reporting date. An allowance for loss on decline in market value will be recorded if the net realizable value is lower than the cost at the reporting date.

Interest expense from borrowing used in construction-in-progress (projects and land) is capitalized before the construction is completed, and is stated as inventory costs.

#### (i) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are highly probable to be recovered primarily through sale rather than through continuing use, are reclassified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group’s accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to assets not within the scope of IAS 36 – *Impairment of Assets*. Such assets will continue to be measured in accordance with the Group’s accounting policies.

Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of the cumulative impairment loss than has been recognized.

Once classified as held for sale intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

#### (j) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in

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## **HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

associates includes goodwill arising from the acquisition, less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date on which significant influence ceases.

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

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

(k) Investment property

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

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

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

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an

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**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

item of property, plant and equipment.

Land is not depreciated.

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

- |                    |            |
|--------------------|------------|
| 1) Buildings       | 3~55 years |
| 2) Other equipment | 4~8 years  |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Reclassification to investment property

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

(m) Leases

Applicable from January 1, 2019

(i) As a lessor

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

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

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

The lessor recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The lessor recognizes the interest income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.



# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Applicable before January 1, 2019

(i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(n) Impairment — non-financial assets

Non-financial assets other than inventories and non-current assets held for sale are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset has been allocated.

The recoverable amount for individual asset or a CGU is the higher of its fair value less costs to sell and its value-in-use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount, and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

The Group should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If, and only if, there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognized, the Group shall reverse the impairment loss to the recoverable amount, to the extent that the carrying value of the asset or the CGU does not exceed its amortized cost before an impairment is recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet available in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or group of units. If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit. Reversal of an impairment loss for goodwill is prohibited.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(o) Revenue

(i) Revenue from contracts with customers

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

1) Land development and sales of real estate

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

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

2) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer to be significant financial components. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(ii) Contract costs

1) Incremental costs of obtaining a contract

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

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

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Termination benefits

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

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### (q) Income tax

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

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

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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

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

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

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

(Continued)

## **HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(r) **Earnings per share (EPS)**

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible bonds and employee compensation.

(s) **Operating segments**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

#### **5. Significant accounting assumptions and judgments, and major sources of estimation uncertainty**

The preparation of the consolidated financial statements, in conformity with the Regulations and the IFRSs endorsed by the FSC, requires management to make judgments estimates and assumptions that affect the application of the accounting policies and reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

**1. Valuation of Inventory**

Inventories are stated at lower of cost and net realizable value, and the assessment of net realizable value is determined based on the current sales market. Any change in the real sales market may have significant effect on the result of estimation. Please refer to note 6(c) for the estimation of inventory valuation.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group's accounting policies and disclosures include measuring financial and non-financial assets and liabilities by fair value. Related internal control policies have been established, which include forming the valuation group to conduct independent verification on all significant fair value measurement (including level 3 inputs). The valuation group periodically reviews significant unobservable inputs and adjustments. If the input data for valuation models is provided by external third parties (such as agency and pricing service institution), the valuation group would evaluate the evidence supporting such input data in order to ensure that the fair value measurement and hierarchy meet the IFRSs.

The Group strives to use market observable inputs when measuring assets and liabilities. Fair value hierarchy is based on the input used when valuating, and the definition is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: input for the asset or liability is not based on the observable market information. (i.e. non-observable parameter.)

### 6. SIGNIFICANT ACCOUNTING DISCLOSURE

#### (a) Cash and cash equivalents

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Cash on hand   | \$ 353                       | 203                          |
| Demand deposits  | 1,182,878                    | 569,755                      |
| Cash equivalents   | -                            | 89,977                       |
| Cash and cash equivalents in the statement of cash flows | <b>\$ 1,183,231</b>          | <b>659,935</b>               |

Please refer to note 6(r) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

#### (b) Financial assets and liabilities at fair value through profit or loss

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Mandatorily measured at fair value through profit or loss: |                              |                              |
| Non-derivative financial assets                            |                              |                              |
| Stocks listed on domestic markets                          | <b>\$ 4,268</b>              | <b>18,851</b>                |

Please refer to note 6(r) for the credit, currency, interest and market price risk of the financial instruments of the Group. As of December 31, 2019 and 2018, the financial assets were not pledged.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(c) Note and trade receivables

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|------------------------------|------------------------------|
| Notes receivable                             | \$ 51,719                    | 32,180                       |
| Trade receivables—measured as amortized cost | 67,624                       | 38,261                       |
| Total  | <u>\$ 119,343</u>            | <u>70,441</u>                |

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as the incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision in Taiwan were determined as follows:

|         | <b>December 31, 2019</b>         |  |
|---------|----------------------------------|--|
|         | <b>Gross carrying<br/>amount</b> | <b>Weighted-<br/>average loss<br/>rate</b> |
| Not due | <u>\$ 119,343</u>                | -  |
|         |                                  | <b>Loss allowance<br/>provision</b>        |
|         |                                  | <u>-</u>                                   |
|         | <b>December 31, 2018</b>         |  |
|         | <b>Gross carrying<br/>amount</b> | <b>Weighted-<br/>average loss<br/>rate</b> |
| Not due | <u>\$ 70,441</u>                 | -  |
|         |                                  | <b>Loss allowance<br/>provision</b>        |
|         |                                  | <u>-</u>                                   |

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

|                              | <b>2019</b> | <b>2018</b> |
|------------------------------|-------------|-------------|
| Balance on January 1         | \$ -        | -           |
| Impairment losses recognized | -           | 250         |
| Amounts written off          | -           | (250)       |
| Balance on December 31       | <u>\$ -</u> | <u>-</u>    |

(d) Inventories

Please refer to note 8 for inventories pledged as collateral as of December 31, 2019 and 2018.

|   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|------------------------------|------------------------------|
| Properties and land held for sale                                       | \$ 4,166,584                 | 4,436,058                    |
| Construction-in-progress—land   | 4,256,082                    | 5,203,075                    |
| Construction-in-progress—projects                                       | 1,848,381                    | 2,132,101                    |
| Land held for development   | 7,461,603                    | 3,025,075                    |
| Prepayments for land purchase   | 39,668                       | -                            |
| Less: allowance for loss on decline in market value<br>and obsolescence | <u>(90,380)</u>              | <u>(255,080)</u>             |
|   | <u>\$ 17,681,938</u>         | <u>14,541,229</u>            |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

- (i) The capitalized interests of land held for development and construction in progress were \$27,595 thousand and \$39,380 thousand in the year of 2019 and 2018, respectively.
- (ii) In 2019, and 2018 the reversal of write-downs amounted to \$164,700 thousand and \$191,300 thousand, respectively, due to the increase in market demand.

(e) Non-current assets held for sale

On December 26, 2018, a resolution was passed by the Board of Directors to dispose the remaining investment of the Group in its associates at the price of USD \$6,224 thousand after its capital reduction of USD \$7,576 thousand. As of December 31, 2019, the transaction had been completed as follow:

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Investments accounted for using equity method  | \$ <u>-</u>          | <u>253,256</u>       |
| Amount of cumulative income or expense recognized in other comprehensive income relating to the non-current assets classified as held for sale |                      |                      |
| Interest directly related to non-current asset or disposal group to be sold  | \$ <u>-</u>          | <u>(9,529)</u>       |

(f) Investments accounted for using equity method

- (i) The Group's financial information for investments accounted for using equity method that are individually insignificant was as follows:

|  | December 31,<br>2018 |
|--|----------------------|
| Carrying amount of individually insignificant associates' equity | \$ <u>-</u>          |

In 2019 and 2018, the Group's share of the net income of associates was as follows:

|                                   | 2018             |
|-----------------------------------|------------------|
| Attributable to the Group:        |                  |
| Profit from continuing operations | \$ 25,595        |
| Other comprehensive (loss) income | <u>2,351</u>     |
| Comprehensive income              | \$ <u>27,946</u> |

(ii) Collateral

As of December 31, 2019 and 2018 the Group did not provide any investments accounted for using the equity method as collateral for its loans.



**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(g) Property, plant and equipment

- (i) The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018 are as follows:

|  | <u>Land</u>      | <u>Buildings</u> | <u>Other<br/>Facilities</u> | <u>Total</u>   |
|--|------------------|------------------|-----------------------------|----------------|
| <b>Cost or deemed cost:</b>              |                  |                  |                             |                |
| Balance at January 1, 2019               | \$ 54,131        | 65,988           | 16,717                      | 136,836        |
| Other                                    | -                | (285)            | -                           | (285)          |
| Balance at December 31, 2019             | <u>\$ 54,131</u> | <u>65,703</u>    | <u>16,717</u>               | <u>136,551</u> |
| Balance at January 1, 2018               | \$ -             | -                | 14,006                      | 14,006         |
| Transfer from investment properties      | 54,131           | 56,212           | -                           | 110,343        |
| Addition                                 | -                | 9,776            | 2,711                       | 12,487         |
| Balance at December 31, 2018             | <u>\$ 54,131</u> | <u>65,988</u>    | <u>16,717</u>               | <u>136,836</u> |
| <b>Depreciation and impairment loss:</b> |                  |                  |                             |                |
| Balance at January 1, 2019               | \$ 7,869         | 31,564           | 11,165                      | 50,598         |
| Depreciation for the year                | -                | 1,246            | 1,533                       | 2,779          |
| Balance at December 31, 2019             | <u>\$ 7,869</u>  | <u>32,810</u>    | <u>12,698</u>               | <u>53,377</u>  |
| Balance at January 1, 2018               | \$ -             | -                | 9,734                       | 9,734          |
| Depreciation for the year                | -                | 2,021            | 1,431                       | 3,452          |
| Transfer from investment properties      | 7,869            | 29,543           | -                           | 37,412         |
| Balance at December 31, 2018             | <u>\$ 7,869</u>  | <u>31,564</u>    | <u>11,165</u>               | <u>50,598</u>  |
| <b>Carrying value:</b>                   |                  |                  |                             |                |
| Balance at December 31, 2019             | <u>\$ 46,262</u> | <u>32,893</u>    | <u>4,019</u>                | <u>83,174</u>  |
| Balance at December 31, 2018             | <u>\$ 46,262</u> | <u>34,424</u>    | <u>5,552</u>                | <u>86,238</u>  |
| Balance at January 1, 2018               | <u>\$ -</u>      | <u>-</u>         | <u>4,272</u>                | <u>4,272</u>   |

(ii) Collateral

As of December 31, 2019 and 2018, the property, plant and equipment of the Group had been pledged as collateral, please refer to note 8.

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(h) Investment Properties

|  | <u>Land and<br/>improvements</u> | <u>Buildings</u> | <u>Total</u>     |
|--|----------------------------------|------------------|------------------|
| <b>Cost:</b>                               |                                  |                  |                  |
| Balance as at January 1, 2018              | \$ 54,131                        | 56,212           | 110,343          |
| Transfer to Property, Plant and Equipment  | <u>(54,131)</u>                  | <u>(56,212)</u>  | <u>(110,343)</u> |
| Balance as at December 31, 2018            | <u>\$ -</u>                      | <u>-</u>         | <u>-</u>         |
| <b>Depreciation and impairment losses:</b> |                                  |                  |                  |
| Balance as at January 1, 2018              | \$ 7,869                         | 29,543           | 37,412           |
| Transfer to Property, Plant and Equipment  | <u>(7,869)</u>                   | <u>(29,543)</u>  | <u>(37,412)</u>  |
| Balance as at December 31, 2018            | <u>\$ -</u>                      | <u>-</u>         | <u>-</u>         |
| Carrying amount :                          |                                  |                  |                  |
| Balance as at December 31, 2018            | <u>\$ -</u>                      | <u>-</u>         | <u>-</u>         |
| Balance as at January 1, 2018              | <u>\$ 46,262</u>                 | <u>26,669</u>    | <u>72,931</u>    |
| Fair value :                               |                                  |                  |                  |
| Balance as at December 31, 2018            |                                  |                  | <u>\$ -</u>      |
| Balance as at January 1, 2018              |                                  |                  | <u>\$ 73,088</u> |

During 2018, the investment properties were transferred to property, plant and equipment for self-use because the lease contract of the office expired.

The fair value of the investment property was determined by referring to the average market price of similar real estate after deducting related expenses.

(i) Short-term notes and bills payable

Details of short-term notes and bills payable as of December 31, 2019 and 2018 are summarized as follows:

|                           | <u>December 31, 2019</u> |                                  |                   |                     |
|---------------------------|--------------------------|----------------------------------|-------------------|---------------------|
|                           | <u>Currency</u>          | <u>Interest rate<br/>collars</u> | <u>Expiration</u> | <u>Amount</u>       |
| Secured bank loans        | TWD                      | 1.50%~1.86%                      | 2021              | \$ 4,787,000        |
| Unsecured bank loans      | TWD                      | 1.66%                            | 2020              | 310,000             |
| Commercial paper payables | TWD                      | 0.50%~1.50%                      | 2020              | <u>1,805,417</u>    |
| Total                     |                          |                                  |                   | <u>\$ 6,902,417</u> |
| Current                   |                          |                                  |                   | \$ 6,902,417        |
| Non-current               |                          |                                  |                   | <u>-</u>            |
| Total                     |                          |                                  |                   | <u>\$ 6,902,417</u> |

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

| <b>December 31, 2018</b>  |                 |                                  |                   |                     |
|---------------------------|-----------------|----------------------------------|-------------------|---------------------|
|                           | <b>Currency</b> | <b>Interest rate<br/>collars</b> | <b>Expiration</b> | <b>Amount</b>       |
| Secured bank loans        | TWD             | 1.85%                            | 2021              | \$ 1,437,000        |
| Unsecured bank loans      | TWD             | 1.78%                            | 2019              | 450,000             |
| Commercial paper payables | TWD             | 0.51~1.49%                       | 2019              | 1,843,088           |
| Total                     |                 |                                  |                   | <b>\$ 3,730,088</b> |
| Current                   |                 |                                  |                   | \$ 3,730,088        |
| Non-current               |                 |                                  |                   | -                   |
| Total                     |                 |                                  |                   | <b>\$ 3,730,088</b> |

For information on the Group's interest risk, currency risk, and liquidity risk, see note 6(r).

Please refer to note 8 for the pledge for borrowings.

(j) Operating lease

(i) Leases as lessor

The Group lease out Its properties. The Group has classified these leases as operating because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follow:

|                     | <b>December 31,<br/>2019</b> |
|---------------------|------------------------------|
| Less than one year  | \$ 59,936                    |
| One to two year     | 62,406                       |
| Two to three year   | 48,599                       |
| Three to four year  | 40,244                       |
| Four to five year   | 17,833                       |
| More than five year | 61,853                       |
|                     | <b>\$ 290,871</b>            |

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of December 31, 2018. The future minimum lease payments under non-cancellable leases are as follows:

|                            | <b>December 31,<br/>2018</b> |
|----------------------------|------------------------------|
| Less than one year         | \$ 19,981                    |
| Between one and five years | 49,334                       |
| More than five years       | <u>16,238</u>                |
|                            | <b><u>\$ 85,553</u></b>      |

(k) Employee benefits

(i) Defined benefit plans

The pension cost incurred from the defined contribution plans each amounted to \$32 thousand for both years ended December 31, 2019 and 2018, respectively.

(ii) Defined contribution plans

The Group set aside 6% of the contribution rate of the employee's monthly wages to the Labor Pension personal account of the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Group set aside a fixed amount to the Bureau of the Labor Insurance without the payment of additional legal or constructive obligations.

The pension cost incurred from the contributions to the Bureau of Labor Insurance amounted to \$1,172 thousand and \$1,178 thousand for the years ended December 31, 2019 and 2018, respectively.

(l) Income tax

(i) Income tax expense

The components of income tax in the years of 2019 and 2018 were as follows:

|  | <b>2019</b>             | <b>2018</b>          |
|--|-------------------------|----------------------|
| Income tax expenses — current                  | \$ 74,279               | 76,138               |
| Income tax expenses — deferred                 | <u>-</u>                | <u>-</u>             |
| Income tax expenses from continuing operations | <b><u>\$ 74,279</u></b> | <b><u>76,138</u></b> |

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

The reconciliation of income tax expense and profit before tax for the years ended December 31, 2019 and 2018 were as follows:

|   | <b>2019</b>       | <b>2018</b>    |
|---|-------------------|----------------|
| Income before tax   | <b>\$ 680,693</b> | <b>520,842</b> |
| Estimated income tax calculated based on financial income before tax at domestic tax rate | \$ 136,138        | 104,168        |
| Tax-exempt income   | (118,711)         | (100,222)      |
| Land Value Increment Tax  | 64,453            | 55,631         |
| Surtax on undistributed earnings  | 9,826             | 20,507         |
| Others  | (17,427)          | (3,946)        |
| Total   | <b>\$ 74,279</b>  | <b>76,138</b>  |

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The details of unrecognized deferred tax assets were as follows:

|                                       | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|---------------------------------------|--------------------------|--------------------------|
| Deductible temporary differences      | \$ 79,744                | 102,137                  |
| The carryforward of unused tax losses | 144,604                  | 123,535                  |
|                                       | <b>\$ 224,348</b>        | <b>225,672</b>           |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes.

Deferred tax assets have not been recognized in respect of items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2019, the information of the Group's unused tax losses for which no deferred tax assets were recognized are as follows:

| <b>Year of loss</b> | <b>Unused amount</b> | <b>Expiration year</b> |
|---------------------|----------------------|------------------------|
| 2010                | \$ 153,862           | 2020                   |
| 2015                | 34,844               | 2025                   |
| 2016                | 555                  | 2026                   |
| 2017                | 14,354               | 2027                   |
| 2018                | 413,837              | 2028                   |
| 2019                | 105,568              | 2029                   |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (3) The ROC income tax authorities have examined the Company's income tax returns for all years through 2017.

(m) Capital and Other Equities

As of December 31, 2019 and 2018, the total value of authorized ordinary shares amounted to \$4,300,000 thousand. Face value of each share is \$10, which means in total, there were 430,000 thousand ordinary shares, of which 332,809 thousand were issued.

As of December 31, 2019 and 2018, the number of shares outstanding were both 332,809 thousand.

(i) Capital surplus

Balances of capital surplus at the reporting date were as follows:

|   | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---|------------------------------|------------------------------|
| Share capital   | \$ 1,769,869                 | 1,769,869                    |
| Treasury share transactions   | 26,353                       | 26,353                       |
| Difference arising from subsidiary's share price and its carrying value | 765                          | -                            |
| Capital surplus — premium from merger                                   | 217,538                      | 217,538                      |
| Conversion right of convertible bonds                                   | 16,588                       | 16,588                       |
| Interest payable refund from bond conversion                            | 11,235                       | 11,235                       |
| Total   | <u><u>\$ 2,042,348</u></u>   | <u><u>2,041,583</u></u>      |

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(ii) Retained earnings

The Company's Articles of Incorporation stipulate that once the Company has annual profit, it shall first appropriate at least 1% of the profit to its employees and no more than 3% to its directors. The employee bonus may be paid in the form of new shares. Afterwards, the Company shall pay all taxes and dues, and then appropriate legal reserve (10%), unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital. The Company will appropriate the special capital reserve in accordance with the relevant laws and regulations or its operating needs. The distribution of any balance left over and unappropriated earnings at the beginning of the year is determined by the Board of Directors and approved by the stockholders at their annual meeting.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Company's accumulated losses shall have been covered before any appropriating for the employee bonus. When the bonus is to be paid in the form of shares or cash, employees shall include those of subsidiaries of the Company who meet certain specific requirements.

Considering future capital demand and sound financial plan for sustainable development of the Company, the meeting of shareholders may resolve accordingly that part or all of the earnings will not be distributed, and that when there is distribution of earnings, cash dividends shall account for at least 20% of total cash and stock dividends. The remains will be paid in the form of shares to transfer retained earnings and capital surplus to capital.

1) Legal reserve

When a company incurs no loss, it may, in pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of the legal reserve which exceeds 25% of the capital may be distribute.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on 6 April 2012, an increase in retained earnings due to the first-time adoption of IFRSs shall be reclassified as a special earnings reserve during earnings distribution. When the relevant assets were used, disposed of, or reclassified, this special earnings reserve shall be reversed as distributable earnings proportionately.

3) Earnings Distribution

Based on the resolutions approved by the stockholders' meetings on June 14, 2019, and June 11, 2018, the earnings for year 2018 and 2019 were distributed as follows:

|               | <b>2018</b>                      |                       | <b>2017</b>                      |                       |
|---------------|----------------------------------|-----------------------|----------------------------------|-----------------------|
|               | <b>Attribution<br/>per share</b> | <b>Amount</b>         | <b>Attribution<br/>per share</b> | <b>Amount</b>         |
| Cash Dividend | \$ 1.00                          | <u><b>332,809</b></u> | 1.50                             | <u><b>499,213</b></u> |

Information on the earnings appropriation proposed by the Company's Board of Directors and approved by the Company's shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (iii) Other equity

|   | Foreign exchange<br>differences<br>arising from<br>foreign operation | Interest directly<br>related to non-<br>current asset or<br>disposal group to be<br>sold | Available-for-<br>sale investments |
|---|--|--|------------------------------------|
| <b>Balance at January 1, 2019</b>               | \$ -   | (9,529)  | -                                  |
| Interest directly related to non-current asset  | -  | 9,529  | -                                  |
| <b>Balance at December 31, 2019</b>             | <u>\$ -</u>  | <u>-</u>   | <u>-</u>                           |
| <b>Balance at January 1, 2018</b>               | \$ (11,880)  | -  | 22,343                             |
| Effects of retrospective application            | -  | -  | (22,343)                           |
| Balance at January 1, 2018 after adjustments    | (11,880)   | -  | -                                  |
| Foreign exchange differences (net of tax):      |  |  |                                    |
| Associates                                      | 2,351  | -  | -                                  |
| Interest directly related to non-current assets | 9,529  | (9,529)  | -                                  |
| <b>Balance at December 31, 2018</b>             | <u>\$ -</u>  | <u>(9,529)</u>   | <u>-</u>                           |

### (n) Earnings per share

#### (i) Basic Earnings per share

The calculation of basic earnings per share at December 31, 2019 that was based on the profit attributable to ordinary shareholders of the Company amounting to \$607,727 thousand (2018: \$444,704 thousand) and both the weighted average number of ordinary shares outstanding amounting to 332,809 thousand was calculated as follows:

#### 1) Profit attributable to ordinary shareholders

|  | <u>2019</u>       | <u>2018</u>    |
|--|-------------------|----------------|
| Profit (loss) attributable to ordinary shareholders of the Company | <u>\$ 607,727</u> | <u>444,704</u> |

#### (ii) Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2019 that was based on profit attributable to ordinary shareholders of the Company amounting to \$607,727 thousand (2017: \$444,704 thousand) and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares amounting to 333,417 thousand (2018: 333,401 thousand) was calculated as follows.

(Continued)



**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

1) Profit attributable to ordinary shareholders of the Company (diluted)

|  | <b>2019</b>              | <b>2018</b>           |
|--|--------------------------|-----------------------|
| Profit (loss) attributable to ordinary shareholders of the Company (basic)   | \$ <u>607,727</u>        | <u>444,704</u>        |
| Profit (loss) attributable to ordinary shareholders of the Company (diluted) | \$ <u><b>607,727</b></u> | <u><b>444,704</b></u> |

2) Weighted-average number of ordinary shares (diluted)

|   | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| Weighted-average number of ordinary shares (basic)                  | <u>332,809</u>        | <u>332,809</u>        |
| Effect of employee stock bonus                                      | \$ <u>638</u>         | <u>592</u>            |
| Weighted-average number of ordinary shares (diluted) at 31 December | <u><b>333,447</b></u> | <u><b>333,401</b></u> |

(o) Revenue from contracts with customers

(i) Details revenue

|                               | <b>2019</b>                | <b>2018</b>             |
|-------------------------------|----------------------------|-------------------------|
| Primary geographical markets  |                            |                         |
| Taiwan                        | \$ <u><b>2,885,896</b></u> | <u><b>3,918,005</b></u> |
| Major products/services lines |                            |                         |
| Sale of land                  | \$ 1,896,557               | 2,535,843               |
| Sale of buildings             | 956,766                    | 1,361,987               |
| Lease of real estate          | <u>32,573</u>              | <u>20,175</u>           |
|                               | \$ <u><b>2,885,896</b></u> | <u><b>3,918,005</b></u> |

(ii) Contract balances

|  | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> | <b>January 1,<br/>2018</b> |
|--|------------------------------|------------------------------|----------------------------|
| Accounts receivable                        | \$ 67,624                    | 38,261                       | 26,514                     |
| Notes receivable                           | <u>51,719</u>                | <u>32,180</u>                | <u>54,857</u>              |
| Total                                      | <u><b>119,343</b></u>        | <u><b>70,441</b></u>         | <u><b>81,371</b></u>       |
| Contract liabilities — sale of real estate | \$ <u><b>465,106</b></u>     | <u><b>200,969</b></u>        | <u><b>1,003,112</b></u>    |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (iii) Unearned revenues from sales and presales of properties and land held for sale registered and transferred into trusts. This trust amount is recorded as “other current assets”.

|                                | December 31,<br>2019 | December 31,<br>2018 |
|--------------------------------|----------------------|----------------------|
| Other financial assets-current | <u>\$ 180,463</u>    | <u>-</u>             |

As of December 31, 2019, the Group consigned the trustees to manage the capital received from its pre-sale of properties in accordance with the Trust agreements, wherein the trust will be terminated when the project is completed, when the permit to use the building is issued, and when the ownership of the building is first registered.

- (iv) Unearned revenues were from sales and pre-sales of properties and land held-for-sale.
- (v) As of December 31, 2019, the advance payments of presale projects named of Hong Pu Summer Palace and Hong Pu Central Park have been entrusted as follows:
- 1) The reports are in accordance with the sold contracts.
  - 2) Accrued trust amount on the base date is equal to the amount deposited into the trust account.
  - 3) The Group deposits the payment received from buyers into the specific trust account at the same period.
  - 4) There should be no delay in paying depositing.
- (p) Directors’ and supervisor’s remuneration

The Company’s Articles of Incorporation provide that, bonus to directors and profit sharing to employees of the Company were not more than 1% and not less than 3% of the remainder, respectively. When allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years. The Company’s Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend.

The employee bonuses and directors’ and supervisors’ remuneration were recognized as cost of sales or operating expenses on specific percentage of net income. These amounts are calculated using the Company’s profit before tax without the employee bonuses and directors’ and supervisors’ remuneration for each period. The Company recognized its employee bonuses of \$12,000 thousand in 2019 and \$9,000 thousand in 2018 respectively, as well as directors’ and supervisors’ remuneration of \$2,200 thousand in 2019 and \$2,200 thousand in 2018 respectively. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange. The differences between the amounts approved in the shareholders’ meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(Continued)

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(q) Non-operating income and expenses

(i) Other income

The details of non-operating income and expenses for the years ended December 31, 2019 and 2018 were as follows:

|                 | <b>2019</b>             | <b>2018</b>           |
|-----------------|-------------------------|-----------------------|
| Interest income | \$ 2,324                | 993                   |
| Dividend income | 423                     | 996                   |
| Fee Revenue     | -                       | 10                    |
| Breach Revenue  | 37,798                  | 88,921                |
| Others          | <u>9,653</u>            | <u>10,324</u>         |
| Total           | <u><b>\$ 50,198</b></u> | <u><b>101,244</b></u> |

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018 were as follows:

|   | <b>2019</b>              | <b>2018</b>           |
|---|--------------------------|-----------------------|
| Gains on financial assets at fair value through profit or loss              | \$ 3,295                 | 263                   |
| Gain on disposal of non-current assets held for sale through profit or loss | 138,618                  | -                     |
| Others  | <u>(20,822)</u>          | <u>(4,297)</u>        |
| Total   | <u><b>\$ 121,091</b></u> | <u><b>(4,034)</b></u> |

(iii) Finance costs

The details of finance costs for the years ended December 31, 2019 and 2018 were as follows:

|                            | <b>2019</b>               | <b>2018</b>               |
|----------------------------|---------------------------|---------------------------|
| Interest expenses          | \$ 84,257                 | 73,968                    |
| Less: Capitalized Interest | <u>(27,595)</u>           | <u>(39,380)</u>           |
| Total                      | <u><b>\$ 56,662</b></u>   | <u><b>34,588</b></u>      |
| Capitalized Interest Rate  | <u><b>1.42%~1.53%</b></u> | <u><b>1.02%~1.40%</b></u> |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(r) Financial Instrument

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The Group's revenue is attributable to the sales transactions with a wide range of customer. So, there is no concentration of credit risk.

(ii) Liquidity risk

The followings show the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

|                                      | <u>Carrying<br/>amount</u> | <u>Contractual<br/>cash flow</u> | <u>Within<br/>6 months</u> | <u>Within<br/>6-12 months</u> | <u>1-2 years</u>        | <u>2-5 years</u>        | <u>More than<br/>5 years</u> |
|--------------------------------------|----------------------------|----------------------------------|----------------------------|-------------------------------|-------------------------|-------------------------|------------------------------|
| <b>As of December 31, 2019</b>       |                            |                                  |                            |                               |                         |                         |                              |
| Non-derivative financial liabilities |                            |                                  |                            |                               |                         |                         |                              |
| Secured bank loans                   | \$ 4,787,000               | 4,851,102                        | 936,906                    | 2,025,109                     | 1,889,087               | -                       | -                            |
| Unsecured Secured bank loans         | 310,000                    | 313,186                          | 2,566                      | 310,620                       | -                       | -                       | -                            |
| Commercial notes                     | 1,805,417                  | 1,810,000                        | 1,810,000                  | -                             | -                       | -                       | -                            |
| Notes and accounts payables          | <u>210,371</u>             | <u>210,371</u>                   | <u>210,371</u>             | <u>-</u>                      | <u>-</u>                | <u>-</u>                | <u>-</u>                     |
|                                      | <u><b>\$ 7,112,788</b></u> | <u><b>7,184,659</b></u>          | <u><b>2,959,843</b></u>    | <u><b>2,335,729</b></u>       | <u><b>1,889,087</b></u> | <u><b>-</b></u>         | <u><b>-</b></u>              |
| <b>As of December 31, 2018</b>       |                            |                                  |                            |                               |                         |                         |                              |
| Non-derivative financial liabilities |                            |                                  |                            |                               |                         |                         |                              |
| Secured bank loans                   | \$ 1,437,000               | 1,491,816                        | 13,249                     | 13,395                        | 26,571                  | 1,438,601               | -                            |
| Unsecured bank loan                  | 450,000                    | 455,333                          | 3,994                      | 451,339                       | -                       | -                       | -                            |
| Commercial notes                     | 1,843,088                  | 1,853,000                        | 1,103,000                  | 750,000                       | -                       | -                       | -                            |
| Notes and accounts payables          | <u>308,137</u>             | <u>308,137</u>                   | <u>308,137</u>             | <u>-</u>                      | <u>-</u>                | <u>-</u>                | <u>-</u>                     |
|                                      | <u><b>\$ 4,038,225</b></u> | <u><b>4,108,286</b></u>          | <u><b>1,428,380</b></u>    | <u><b>1,214,734</b></u>       | <u><b>26,571</b></u>    | <u><b>1,438,601</b></u> | <u><b>-</b></u>              |

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

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### (iii) Currency risk

#### 1) Exposure to currency risk

The Group significant exposure to foreign currency risk were as follows:

|                              | December 31, 2019   |                  |       | December 31, 2018   |                  |        |         |
|------------------------------|---------------------|------------------|-------|---------------------|------------------|--------|---------|
|                              | Foreign<br>currency | Exchange<br>rate | NTD   | Foreign<br>currency | Exchange<br>rate | NTD    |         |
| Financial assets             |                     |                  |       |                     |                  |        |         |
| <b><u>Monitory items</u></b> |                     |                  |       |                     |                  |        |         |
| USD                          | \$                  | 21.578           | 29.98 | 646.909             | 8.376            | 30.715 | 257.275 |

#### 2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents that are determined in foreign currency and the investment accounted for using equity method, resulting in exchange differences on translation of financial statements. A Strengthening (weakening) 10 % of the TWD against the USD as of December 31, 2019 and 2018, would have increased (decreased) profit of 2019 by \$64,691 thousand and other equity of 2018 by \$25,727 thousand. The analysis assumes that all other variables remain constant.

### (iv) Interest risk

Please refer to the attached note for the liquidity risk management and the Group's interest rate exposure to its financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates on non-derivative financial instruments on the reporting date. For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date.

If the interest rate increases / decreases by 50 basis points, the Group's net profit after tax would have increased (decreased) by \$26,618 thousand and \$20,485 thousand for the years ended December 31, 2019 and 2018 with all other variable factors that remain constant. This is mainly due to the Group's borrowings in floating variable rate.

### (v) Other market price risk

If the price of the equity securities changes, and if it is on the same basis for both years and assumes that all other variables remain the same, the impact on other comprehensive income will be as follows:

| Equity price at<br>reporting date | 2019                                       |                            | 2018                                       |                            |
|-----------------------------------|--|----------------------------|--|----------------------------|
|                                   | After-tax other<br>Comprehensive<br>income | After-tax profit<br>(loss) | After-tax other<br>Comprehensive<br>income | After-tax profit<br>(loss) |
| Increase 3%                       | \$ -                                       | 128                        | -  | 566                        |
| Decrease 3%                       | \$ -                                       | (128)                      | -  | (566)                      |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(vi) Fair value

1) Categories of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and liabilities including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

| December 31, 2019   |                     |              |          |          |              |
|---|---------------------|--------------|----------|----------|--------------|
|   | Carrying<br>amount  | Fair value   |          |          | Total        |
|   |                     | Level 1      | Level 2  | Level 3  |              |
| <b>Financial assets at fair value through profit or loss</b>                              |                     |              |          |          |              |
| Non-derivative financial assets mandatorily measured at fair value through profit or loss | \$ 4,268            | 4,268        | -        | -        | 4,268        |
| <b>Financial assets measured at amortized cost</b>  |                     |              |          |          |              |
| Cash and cash equivalents   | 1,183,231           | -            | -        | -        | -            |
| Notes receivable and account receivable   | 119,343             | -            | -        | -        | -            |
| Other financial assets - current  | 180,463             | -            | -        | -        | -            |
| Subtotal  | 1,483,037           | -            | -        | -        | -            |
| <b>Total</b>  | <b>\$ 1,487,305</b> | <b>4,268</b> | <b>-</b> | <b>-</b> | <b>4,268</b> |
| <b>Financial liabilities at amortized cost</b>  |                     |              |          |          |              |
| Bank Loans  | \$ 5,097,000        | -            | -        | -        | -            |
| Short-term notes and bills payable  | 1,805,417           | -            | -        | -        | -            |
| Notes payable and account payable   | 210,371             | -            | -        | -        | -            |
| Other payable   | 211,173             | -            | -        | -        | -            |
| Subtotal  | 7,323,961           | -            | -        | -        | -            |
| <b>Total</b>  | <b>\$ 7,323,961</b> | <b>-</b>     | <b>-</b> | <b>-</b> | <b>-</b>     |

| December 31, 2018   |                    |               |          |          |               |
|---|--------------------|---------------|----------|----------|---------------|
|   | Carrying<br>amount | Fair value    |          |          | Total         |
|   |                    | Level 1       | Level 2  | Level 3  |               |
| <b>Financial assets at fair value through profit or loss</b>                              |                    |               |          |          |               |
| Non-derivative financial assets mandatorily measured at fair value through profit or loss | \$ 18,851          | 18,851        | -        | -        | 18,851        |
| <b>Loans and account receivable</b>   |                    |               |          |          |               |
| Cash and cash equivalents   | 659,935            | -             | -        | -        | -             |
| Notes receivable and account receivable   | 70,441             | -             | -        | -        | -             |
| Other financial assets - current  | 2,230              | -             | -        | -        | -             |
| Subtotal  | 732,606            | -             | -        | -        | -             |
| <b>Total</b>  | <b>\$ 751,457</b>  | <b>18,851</b> | <b>-</b> | <b>-</b> | <b>18,851</b> |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|  | December 31, 2018   |            |          |          |          |
|--|---------------------|------------|----------|----------|----------|
|  | Carrying<br>amount  | Fair value |          |          | Total    |
|  |                     | Level 1    | Level 2  | Level 3  |          |
| <b>Financial liabilities at amortized cost</b> |                     |            |          |          |          |
| Bank Loans                                     | \$ 1,887,000        | -          | -        | -        | -        |
| Short-term notes and bills payable             | 1,843,088           | -          | -        | -        | -        |
| Notes payable and account payable              | 308,137             | -          | -        | -        | -        |
| Other payable                                  | 142,705             | -          | -        | -        | -        |
| Subtotal                                       | 4,180,930           | -          | -        | -        | -        |
| <b>Total</b>                                   | <b>\$ 4,180,930</b> | <b>-</b>   | <b>-</b> | <b>-</b> | <b>-</b> |

2) Fair value valuation techniques of financial instruments not measured at fair value

Non-derivative financial liabilities

Financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and debt instrument in an active market.

Fair value measurement is based on the latest quoted price and agreed-upon price if these prices are available in an active market. When market value is unavailable, the fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

(s) Management of financial risk

Overview

(i) The Group have exposures to the following risks from its financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of above risks, the objectives, policies and processes for measuring and managing risk. Please see other related notes for quantitative information.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

(Continued)

## HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors the risks which should be in compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by the Internal Audit. The internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

#### (iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

##### 1) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transactions are with the counterparties, and the contractually obligated counterparties are the banks, financial institutions, corporate organizations and government agencies with good credits, there are no compliance issues, and therefore, there is no significant credit risk.

##### 2) Guarantees

As of December 31, 2019 and 2018, there is no guarantee outstanding.

#### (iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures that they are in compliance with the terms of the loan agreements.

The loans and borrowings from the bank form an important source of liquidity for the Group. The Group has unused short-term bank facilities of \$5,311,000 thousand and \$4,168,000 thousand as at December 31, 2019 and 2018.

#### (v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(Continued)



# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

1) Currency risk

The Group is not exposed to currency risk on sales, purchases and borrowings that are denominated in a New Taiwan Dollars (TWD).

2) Interest rate risk

The Group's borrowings bear floating interest rate. The Group reduces the interest risks by negotiating the loan interest rates frequently with banks.

(t) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, capital surplus and retained earnings of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

|                                 | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|---------------------------------|------------------------------|------------------------------|
| Total liabilities               | \$ 7,842,378                 | 4,450,622                    |
| Less: cash and cash equivalents | <u>(1,183,231)</u>           | <u>(659,935)</u>             |
| Net debt                        | <u><b>\$ 6,659,147</b></u>   | <u><b>3,790,687</b></u>      |
| Total equity                    | <u><b>\$ 11,963,456</b></u>  | <u><b>11,648,864</b></u>     |
| Debt to equity ratio            | <u><b>55.56 %</b></u>        | <u><b>32.54 %</b></u>        |

There were no changes in the Group's approach to capital management during the year.

(u) Investing and financing activities not affecting current cash flow

There was no investing and financing activity not affecting cash flow as of December 31, 2019 and 2018.

### 7. Related-party transactions

(a) Parent Company and ultimate controlling company

The Company is the ultimate controlling party of the Group.

(b) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

| <u>Name related party</u>                  | <u>Relationship with the Company</u> |
|--|--------------------------------------|
| J.H. Tuan                                  | The chairman of the Company          |
| IG Construction Co., Ltd.                  | An associate                         |
| Hsin Pei Real Estate Development Co., Ltd. | An associate                         |
| Hong Pu Welfare and Charity Foundation     | Other related parties                |

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(c) Related party transactions

(i) Endorsements and guarantees

The chairman of the company was the guarantor for the Group's loans from financial institutions.

(2) Leases

The related party rented an office building from the Group to be used as its headquarter. A five-year lease contract was signed with the contract price of \$884 thousand, in which the rental fee is determined based on the nearby office rental rates. For the years 2019 and 2018, the Company's rent revenues with related parties were both \$114 thousand. As of December 31, 2019 and 2018, the accounts receivables generated by the aforementioned rent revenue have been received.

(iii) Others

The Group has signed a contract concerning a joint-construction investment in project "012310247" with Hsin Pei Real Estate Development Co., Ltd. during June 2017. According to the agreement, the Group accounts for 33.9% of the project and charges 6% management fee based on cost allocated to Hsin Pei Real Estate Development Co., Ltd.

The Group donated to the Hong Pu Social Welfare Foundation the amounts of \$1,200 thousands and \$2,000 thousands in 2019, and 2018, respectively.

(d) Key management personnel compensation

|                              | <b>2019</b>            | <b>2018</b>          |
|------------------------------|------------------------|----------------------|
| Short-term employee benefits | \$ 8,651               | 9,899                |
| Retirement benefits          | 234                    | 234                  |
| Other long-term benefits     | -                      | -                    |
| Resignation benefits         | -                      | -                    |
| Share-based payment          | -                      | -                    |
| Total                        | <u><u>\$ 8,885</u></u> | <u><u>10,133</u></u> |

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 8. Pledged assets

As of December 31, 2019 and 2018, the carrying values of pledged assets were as follows:

| <u>Pledged assets</u>             | <u>Pledged to secure</u>                   | <u>December 31,<br/>2019</u> | <u>December 31,<br/>2018</u> |
|-----------------------------------|--|------------------------------|------------------------------|
| Construction-in-progress – land   | Short-term bills payable, short-term loans | \$ 4,256,082                 | 5,203,075                    |
| Land held for development         | Short-term bills payable, short-term loans | 5,021,910                    | 1,679,232                    |
| Properties and land held for sale | Short-term bills payable, short-term loans | 1,746,764                    | 522,480                      |
| Property, Plant and Equipment     | Short-term bills payable                   | <u>79,135</u>                | <u>80,686</u>                |
|                                   |  | <u><b>\$ 11,103,891</b></u>  | <u><b>7,485,473</b></u>      |

### 9. Commitments and contingencies

As of December 31, 2019, the Group had issued promissory notes of \$9,887,000 thousand to financial institutions for their provision of repayment guarantees.

As of December 31, 2019, the total contract amount of the Group's construction projects was \$750,604 thousand, of which \$580,418 thousand had been paid and recorded as "inventories".

As of December 31, 2019, the total contract amount of the Group's advanced-sell projects was \$3,789,820 thousand of which \$465,106 thousand had been received and recorded as "current contract liabilities".

As of December 31, 2019, the total contract amount of the Group's prepayments for land purchase were \$71,058 thousand of which \$29,631 thousand had been paid and recorded as "inventories".

The Group has signed project "061120014" joint construction agreement with ten non-related parties, Mrs. Yang and five others, on June 2010; and Mr. Pan and three others on September 2011. As of December 31, 2019, in accordance with the joint construction agreement, the Group has paid a promissory amount of \$11,390 thousand to the land owners and recorded it as refundable deposits.

The Group has signed project "012310247" joint construction agreement with nine non-related parties, Mrs. Lin and eight others, on May 2014 and on July 2015. As of December 31, 2019, in accordance with the joint construction agreement, the Group has paid a promissory amount of \$121,234 thousand to the land owners and recorded it as "other current assets".

The Group has signed project "032310150" joint construction agreement with non-related parties, Mr. Chen and eight others in October, November and December 2019. As of December 31, 2019, the Group has paid a promissory of \$24,214 thousand to the land owners and record it as "refundable deposit" in accordance with the joint construction agreement.

The Company engaged with IBFC as the guarantor for its issuance of commercial checks. The Tunhwa South office was pledged as collateral, and IBFC was appointed as the beneficiary of the fire insurance on this office.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

In January 2017, the Group set up the leasing partnership with Mitsui Fudosan Taiwan Co., Ltd., the project located in the Taipei Da-an District and was still under construction, both properties and land belonged to the Group. Mitsui Fudosan Taiwan Co., Ltd., aimed to establish a hotel there. The formal leasing agreement had been signed on June 2017, according to which, the lease term would be 20 years upon final walk-through after the completion of construction.

**10. Losses due to major disasters : None.**

**11. Subsequent events : None.**

**12. Other**

(a) Total personnel, depreciation and amortization expenses categorized by function for the years ended December 31, 2019 and 2018, were as follows:

|                            | 2019           |                    |        | 2018           |                    |        |
|----------------------------|----------------|--------------------|--------|----------------|--------------------|--------|
|                            | Operating cost | Operating expenses | Total  | Operating cost | Operating expenses | Total  |
| Personnel expenses         |                |                    |        |                |                    |        |
| Salaries                   | 11,134         | 28,162             | 39,296 | 12,684         | 25,774             | 38,458 |
| Labor and health insurance | 701            | 1,820              | 2,521  | 847            | 1,729              | 2,576  |
| Pension                    | 446            | 758                | 1,204  | 537            | 673                | 1,210  |
| Remuneration of directors  | -              | 2,714              | 2,714  | -              | 2,024              | 2,024  |
| Others                     | 240            | 555                | 795    | 292            | 550                | 842    |
| Depreciation               | -              | 2,779              | 2,779  | -              | 3,452              | 3,452  |
| Amortization               | -              | 131                | 131    | -              | 126                | 126    |

In the year of 2019 and 2018, the Group employed 31 and 32 employees on average, respectively.

**13. Other disclosures**

(a) Information on significant transactions

The followings are the information on significant transactions required by the “ Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

(1) Fund financing to other parties : None.

(2) Guarantees and endorsements for other parties : None.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (3) Information regarding securities held at balance sheet date. (The subsidiary, the associate, and the joint venture are not included) :

| Name of holder | Category of security        | Category and name of security | Account   | Balance at December 31, 2019 |            |                     |                            | Highest                  | Note |
|----------------|-----------------------------|-------------------------------|---|------------------------------|------------|---------------------|----------------------------|--------------------------|------|
|                |                             |                               |   | Number of shares             | Book value | Percentage of share | Market value(or net value) | percentage of owner ship |      |
| The Company    | CPT                         | -                             | Mandatorily measured at fair value through profit – current | 23,599                       | -          | -                   | -                          | 23,559                   |      |
| The Company    | NEOMAGIC(NMGC)              | -                             | "   | 10,659                       | -          | -                   | -                          | 10,659                   |      |
| The Company    | Trade-Van                   | -                             | "   | 115,655                      | 4,268      | 0.07 %              | 4,268                      | 393,655                  |      |
| The Company    | HORIZON VENTURE FUND I.L.P. | -                             | "   | -                            | -          | 1.21 %              | -                          | -                        |      |

- (4) Cumulative buying or selling of one specific security exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital : None.
- (5) Acquisition of real estate with an amount exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital was as follows :

(Expressed in thousands of TWD)

| Name of company | Name of property              | Transaction date | Transaction amount | Status of payment | Counter party   | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information |                               |                  |        | References for determining price                             | Purpose of acquisition and current condition | Others |
|-----------------|-------------------------------|------------------|--------------------|-------------------|---|-------------------------------|---|-------------------------------|------------------|--------|--|--|--------|
|                 |                               |                  |                    |                   |   |                               | Owner   | Relationship with the Company | Date of transfer | Amount |  |  |        |
| The Company     | Construction-in-progress-land | 2019.03.25       | 679,256            | 679,256           | The Company- Yuan Din Co., Ltd. and 47 natural person | Non-related parties           | -   | -                             | -                | -      | Foreclosure  | Construction                                 | none   |
| The Company     | Construction-in-progress-land | 2019.07.31       | 1,474,578          |                   | New Taipei City Government                            | Non-related parties           |   |                               |                  | -      | bid  | Construction                                 | none   |
| The Company     | Construction-in-progress-land | 2019.07.31       | 1,594,276          | 1,594,276         | New Taipei City Government                            | Non-related parties           |   |                               |                  | -      | bid  | Construction                                 | none   |
| The Company     | Construction-in-progress-land | 2019.07.30       | 790,816            | 790,816           | 9 Natural person                                      | Non-related parties           |   |                               |                  | -      | Referring to the average market price of similar real estate | Construction                                 | none   |

- (6) Disposal of real estate with an amount exceeding the lower of \$300,000 thousand or 20% of the Company's paid-in capital :

| Name of company | Name of property              | Transaction date | Acquisition date | Book value | Transaction amount | Status of receivable | Gain or loss on disposal | Counter party | Relationship with the Company | Purpose of disposal | References for determining price | Other |
|-----------------|-------------------------------|------------------|------------------|------------|--------------------|----------------------|--------------------------|---------------|-------------------------------|---------------------|----------------------------------|-------|
| The Company     | construction-in-progress-land | 2019.03.25       | 2014.03          | 462,204    | 589,968            | Y                    | Note                     | The Company   | Non-related parties           | appraising          | Foreclosure                      | None  |

Note: There was no gain or loss on this transaction due to the Company being the counter party.

- (7) Purchases from and sales to related parties exceeding the lower of \$100,000 thousand or 20% of the Company's paid-in capital was as follows : None.
- (8) Receivable from related parties exceeding the lower of \$100,000 thousand or 20% of the Company's paid-in capital : None.

(Continued)

# HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(9) Derivative financial instruments : None.

(10) Business relationship and significant intercompany :

Expressed in thousand of NTD

| No. | Name of company                            | Name of counter-party                      | Nature of relationship | Intercompany transactions        |        |                        |  |
|-----|--|--|------------------------|----------------------------------|--------|------------------------|--|
|     |  |  |                        | Account name                     | Amount | Trading tetms          | Percentage of the consolidated net revenue or total assets |
| 1   | THE Company                                | Chuan Yue Real Estate Development C., Ltd. | 1                      | Other Income                     | 1,392  | Based on the agreement | 0.05 %   |
| 2   | THE Company                                | Chuan Yue Real Estate Development C., Ltd. | 1                      | Other receivable-related parties | 1,392  | Based on the agreement | 0.01 %   |
| 3   | Chuan Yue Real Estate Development C., Ltd. | THE Company                                | 1                      | Operating expense                | 1,392  | Based on the agreement | 0.05 %   |
| 4   | Chuan Yue Real Estate Development C., Ltd. | THE Company                                | 1                      | accounts payable                 | 1,392  | Based on the agreement | 0.01 %   |

(b) Information on investees :

The followings are the information on investees:

(Expressed in thousands of TWD)

| Investor company | Investee company                            | Location | Main businesses and products    | Original investment amount |                   | December 31, 2019     |                         |                | Highest balance during the year | Net income (losses) of the investee | Investment income (losses) recognized | Note |
|------------------|---|----------|---------------------------------|----------------------------|-------------------|-----------------------|-------------------------|----------------|---------------------------------|-------------------------------------|---------------------------------------|------|
|                  |   |          |                                 | December 31, 2019          | December 31, 2018 | Shares (in thousands) | Percentage of ownership | Carrying value |                                 |                                     |                                       |      |
| The Company      | Chuan Yue Real Estate Development Co., Ltd. | Taipei   | Real estate development service | 32,742                     | 64,200            | 3,060,000             | 51.00 %                 | 30,579         | 64,200                          | (3,675)                             | (2,362)                               |      |

Note: The amount was eliminated in the consolidated financial statement.

(c) Information on investment in Mainland China :

(1) Information on investment in Mainland China :

(Expressed in thousands of TWD)

| Name of the investee in Mainland            | Major operations                | Issued capital | method of investment | Beginning remittance balance - Cumulative investment (amount) from Taiwan | Current remittance/recoverable investment (amount) |                    | Ending remittance balance - Cumulative investment (amount) from Taiwan | Current investment gains and losses | Direct/indirect shareholdings investments (%) in the Company | Highest balance during the year | Investment income (losses) recognized | Book value | Remittance of investment income as at current period |
|---|---------------------------------|----------------|----------------------|---|--|--------------------|--|-------------------------------------|--|---------------------------------|---------------------------------------|------------|--|
|   |                                 |                |                      |   | Remittance amount                                  | Recoverable amount |  |                                     |  |                                 |                                       |            |  |
| Jia Xing Hong Pu Prosperity Land properties | Real estate development service | 746,955        | Note(1) b            | 228,285   | -  | 228,285            | -  | -                                   | - %  | 228,285                         | -                                     | -          | 138,618  |

Note (1): a. The Group directly invested in the China company

b. The Group invested in the company through third region finance, and then the company invested in the China company.

c. Other way

**HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

(2) Upper limit on investment in Mainland China :

| <b>Aggregate investment<br/>amount remitted from<br/>Taiwan to Mainland China<br/>at the end of the period</b> | <b>Approved investment<br/>(amount) by Ministry<br/>of Economic Affairs<br/>Investment Commission</b> | <b>Limitation on investment<br/>in Mainland China<br/>accordance with the<br/>regulations of Ministry<br/>of Economic Affairs<br/>Investment Commission</b> |
|--|---|---|
| -  | -   | 7,178,074   |

(3) Significant transactions : None.

**14. Segment information : None.**



**E. The Company Should Disclose The Financial Impact To The Company If The Company And Its Affiliated Companies Have Incurred Any Financial Or Cash Flow Difficulties in recent years until the Annual Report Published Data:None**



## VII、Review of Financial Conditions, Operating Results, and Risk Management

### A. Analysis of Financial Status

(Unit: NT\$ thousands)

| Item \ year   | 2019         | 2018         | Difference |                     |
|---|--------------|--------------|------------|---------------------|
|   |              |              | Amount     | %                   |
| Current Assets  | \$19,580,090 | \$15,751,740 | 3,828,350  | 24.30<br>(Note 1)   |
| Fixed Assets  | 83,174       | 86,238       | (3,064)    | (3.55)              |
| Instangible assets  | -            | -            | -          | -                   |
| Other Assets  | 142,570      | 261,508      | (118,938)  | (45.48)<br>(Note 2) |
| Total Assets  | 19,805,834   | 16,099,486   | 3,706,348  | 23.02<br>(Note 1)   |
| Current liabilities   | 7,831,563    | 4,443,370    | 3,388,193  | 76.25<br>(Note 1)   |
| Non-current liabilities   | 10,815       | 7,252        | 3,563      | 49.13<br>(Note 1)   |
| Total Liabilities   | 7,842,378    | 4,450,622    | 3,391,756  | 76.21<br>(Note 1)   |
| Capital Stock   | 3,328,087    | 3,328,087    | -          | -                   |
| Capital Surplus   | 2,042,348    | 2,041,583    | 765        | 0.04                |
| Retained Earnings   | 6,563,641    | 6,288,723    | 274,918    | 4.37                |
| Other equity  | 29,380       | (9,529)      | 38,909     | 408.32<br>(Note 1)  |
| Total Stockholder's Equity  | 11,963,456   | 11,648,864   | 314,592    | 2.70                |
| <p>Explanation :</p> <p>When change ratio and amount on assets, liabilities and shareholder equities is more than 20% and NT10 million of dollars, it shall state the reason, effect and treatment in the future:</p> <p>Note 1: It was mainly due to the purchase of land inventories, the increase of short-term borrowings in 2019, and the carry-over cost of inventories of the completed project, "World Trade Plaza", resulting in an increase in both current assets and liabilities.</p> <p>Note2: Mainly due to the increase of deposits for joint venture landlords.</p> |              |              |            |                     |



## B. Analysis of Operation Results :

### a. Analysis of Operation Results :

(Unit: NT\$ thousands)

| Item \ Year   | 2019        | 2018        | Difference  | Percent Change      |
|---|-------------|-------------|-------------|---------------------|
| Operating Revenues                                  | 2,885,896   | 3,918,005   | (1,032,109) | (26.34)<br>(Note 1) |
| Operating Costs                                     | (2,125,747) | (3,267,116) | (1,141,369) | (34.94)<br>(Note 1) |
| Gross Profit  | 760,149     | 650,889     | 106,260     | 16.79               |
| Operating Expenses                                  | (194,083)   | (218,264)   | (24,181)    | (11.08)             |
| Total Operating Income                              | 566,066     | 432,625     | 133,441     | 30.84<br>(Note 1)   |
| Non-Operating Income                                | 114,627     | 88,217      | 26,410      | 29.94<br>(Note 2)   |
| Income Before Income Tax                            | 680,693     | 520,842     | 159,851     | 30.69<br>(Note 1)   |
| Income Tax expense                                  | (74,279)    | (76,138)    | (1,859)     | (2.44)              |
| Cumulative Effect of Changes in Accounting Policies | -           | -           | -           | -                   |
| Loss (Profit) for Continuing Operations             | \$606,414   | \$444,704   | 161,710     | 36.36<br>(Note1)    |

(Note 1) : The revenues and costs of 2019 decreased compared with 2018, but the gross margin increased, resulting in an increase in net operating profit and net profit before tax.

(Note 2) : Mainly due to the increase in short-term loans for the purchase of land inventories in 2019, resulting in an increase in interest expenses and financial expenses

### b. Analysis of Gross Profit:

#### 1. Analysis of Change of Gross Profit:

(NT\$ thousands)

| Item \ Year  | Net Operating Revenues | Operating Costs | Gross Profit | Percent Gross profit |
|--|------------------------|-----------------|--------------|----------------------|
| 2018   | 3,918,005              | 3,267,116       | 650,889      | 16.61<br>(Note 1)    |
| 2019   | 2,885,896              | 2,125,747       | 760,149      | 26.34<br>(Note 1)    |
| Explanation :  |                        |                 |              |                      |
| Note 1: The revenues and costs of 2019 decreased compared with 2018, but the gross margin increased. |                        |                 |              |                      |

2. Due to character of industry, the size of launched projects are different; thus there is no quantity analysis of difference. And, due to market discrimination, location of projects, price of sales, thus there is no basis of price analysis of difference.

### C. Analysis of Cash Flow :

#### a. Analysis of Cash Flow

| Item \ Year  | 2019<br>(%) | 2018<br>(%) | Percent Change       |
|--|-------------|-------------|----------------------|
| Cash Flow Ratio(%)   | (35.13)     | 24.53       | (243.21)<br>(Note 1) |
| Cash Flow Adequacy Ratio (%)   | 47.27       | 306.29      | (84.57)              |
| Cash Re-Investment Ratio (%)   | (25.64)     | 5.04        | (608.73)<br>(Note 1) |
| Analysis of deviation :<br>Note 1: Due to "Hong Pu Park" and "Leisurely Days" were completed and delivered, in addition, other projects were delivered and book revenue, net cash inflow increased in 2018<br>In this year, some of the customers paid the houses through installment payment, resulting in an increase in accounts receivable at the end of 2019 compared with 2018, and the net cash flow of operating activities decreased due to the purchase of land inventories. |             |             |                      |

#### b. Cash Flow Projection for Next Year

| NT\$ thousands)                 |  |  |                                     |                           |                   |
|---------------------------------|--|--|-------------------------------------|---------------------------|-------------------|
| Cash Balance<br>12/31/2019<br>① | Net Cash Provided<br>by Operating<br>Activities In 2020<br>② | Net Cash Outflows from<br>Investing & Financing<br>Activities in 2020<br>③ | Cash Balance<br>12/31/2020<br>①+②-③ | Remedy for Cash Shortfall |                   |
|                                 |  |  |                                     | Investment<br>Plan        | Financing<br>Plan |
| 1,183,231                       | 3,482,636  | (3,458,492)  | 1,207,375                           | -                         | -                 |

### D. The effect on finance and operation from important capital expenditure for the latest year: None

### E. Policy, reason of profit or loss, improvement plan and investment in the next year of reinvestment: None

### F. Necessary analysis and evaluation of risk events in the latest year and before date annual report printed are as follows:

#### a. Effect and treatment on net income due to change of interest rate, exchange rate and inflation rate:

##### i. Interest risk

The company's borrowings bear floating interest rate. The company reduces the interest risks through market mechanism and negotiating the loan rates frequently with banks.

The risk exposure to interest rates is based on derivative and non-derivative financial instruments on the reporting date. For the floating rate debts, the analysis assumes that the amounts of floating rate liabilities are outstanding for the whole year. The range of interest report to the management is increases / decreases by 50 basis points, and the range is reasonable evaluation of interest risk.

If the interest rate increases / decreases by 50 basis points, the Company's netprofit after tax would have increased (decreased) by \$26,618 and \$20,485 for the years ended December 31, 2019 and 2018 with all other variable factors that remain constant. This is mainly due to the Company's borrowins in floating variable rate.



ii. currency volatility :

(i) exposure of currency risk

financial assets and liabilities exposed to currency risk are showed as follows:

| Financial assets<br>USD | 2019.12.31 |                  |         | 2018.12.31 |                  |         |
|-------------------------|------------|------------------|---------|------------|------------------|---------|
|                         | USD        | Exchange<br>rate | NTD     | USD        | Exchange<br>rate | NTD     |
|                         | \$21,578   | 29.98            | 646,909 | \$8,376    | 30.715           | 257,275 |

(ii) sensitivity analysis

The Company's exposure to foreign currency risk arises mainly from cash and cash equivalents, bank deposits and the investment accounted under equity method, resulting in exchange differences on conversion of financial statements of foreign affiliates. A Strengthening (weakening) 10 % of appreciation (depreciation) of the TWD against the USD as of December 31, 2019 and 2018, would have increased (decreased) "Earning before Tax" by 64,691 thousand and \$ 25,727 thousand. The analysis assumes that all other variables remain constant.

iii. Inflation: There is no effect from inflation.

b. Policy, reason of profit or loss and improvement in the future of high risk, high investment, lending, endorsement, and derivatives transaction: None

c. Plan and expense of R&D in the future: The company and subsidiary invest in development of residential projects, therefore no R&D division is set up and no R&D expense occurs.

d. Looking back to FY17, although the United States President Trump took office, the United Kingdom launched the Brexit program, and the Middle East and Northeast Asia raised geopolitical tensions. However, the central government no further released control policies on housing market and introduced "Statute for Expediting Reconstruction of Urban Unsafe and Old Buildings", the local government announced lower "Assessed Land Value", and the central bank's monetary policy continued to maintain a dynamic stability. Rigid demand is still main stream in the real estate market.

e. Effect and treatment from change of technology and industry on company's finance and operation: None

f. Effect and treatment from change image of company on risk management: None

g. Expectative effect, potential risk and treatment of merge: None

h. Expectative effect, potential risk and treatment of factory expansion: None

i. Risk and treatment of centralization of purchase or sale: None

j. Effect, risk and treatment on mass transfer or change of director, supervisor and major shareholder who has more than 10% ownership: None

k. Effect, risk and treatment on change of management: None

l. Lawsuit event:

i. Major events of lawsuit: None

ii. Lawsuit event which director, supervisor and major shareholder who has more than 10% ownership involved: None

m. Other risk and treatment: None

**G. Other important event: None**

## VIII. ▾ Special Disclosure

**A. Affiliate Information:** ChuanYue Development Co., Ltd. is a 51% subsidiary held by the Company.

**B. Private Placement Securities: None**

a.Information of private offered securities: None

b.State of execution of private offered securities in the latest year and before date annual report printed: None

**C. Status of Hong-Pu Common Shares Acquired, Disposed of and Held by Subsidiaries:  
None**

**D. Other Necessary Supplement: None**

**E. Any event which has a material impact on shareholders' equity or securities prices in the “Securities and Exchange Act” 36.3.2 in the latest year and before date annual report printed: None**



# **HONG PU REAL ESTATE DEVELOPMENT**

**Chairman: J.H. Tuan**



