Stock code:2536

HONG PU REAL ESTATE DEVELOPMENT CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019

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Representation Letter

The entities that are required to be included in the consolidated financial statements of Hong Pu Real Estate Development Co., Ltd. as of and for the year ended, December 31, 2020 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission "Consolidated Financial Statements". In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Hong Pu Real Estate Development Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Hong Pu Real Estate Development Co., Ltd.
Chairman: J. H. Tuan
Date: March 17, 2021

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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. Revenue Recognition

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

Description of key audit matter:

The main operation income of the Group is derived from the sales of premises. Sales customers are numerous and scattered, and the income-related control mostly relies on manual execution. 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:

· Compare 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. Inventory valuation

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. Due to legal regulations and the economic cycle, which affect the transaction volume and sales in the real estate market, the gross profit of related products may be affected, resulting in the risk that the inventory cost may be higher than the 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 decrees.

· 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) 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 17, 2021

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.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(expressed in thousands of New Taiwan dollar)

		December 31, 2020		December 31, 2019	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 904,677	4	1,183,231	6
1110	Financial assets at fair value through profit and loss (note 6(b))	-	-	4,268	-
1150	Notes receivable, net (notes 6(c)(n))	12,456	-	51,719	-
1170	Accounts receivable, net (note 6(c)(n))	44,863	-	67,624	-
1210	Other receivable-related parties (notes 7)	1,721	-	-	-
1320	Inventories (notes 6(d) 8 and 9)	18,144,071	77	17,681,938	89
1410	Prepayments (note 9)	522,725	2	166,415	1
1476	Other financial assets－current (notes 6(n) and 9)	381,442	2	180,463	1
1479	Other current assets (note 9)	124,795	-	126,072	1
1480	Incremental costs of obtaining a contract	149,490	1	118,360	1
	Total current assets	20,286,240	86	19,580,090	99
	Non-current assets:				
1600	Property, plant and equipment (notes 6(f) and 8)	83,138	-	83,174	-
1760	Investment property, net (notes 6(g) and 8)	3,014,410	13	-	-
1920	Refundable deposits (note 9)	196,495	1	123,585	1
1990	Other assets	5,683	-	18,985	-
	Total non-current assets	3,299,726	14	225,744	1
	Total assets	$ 23,585,966	100	19,805,834	100

		December 31, 2020		December 31, 2019	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term loans (note 6(h) and 8)	$ 6,090,000	26	5,097,000	26
2110	Short-term notes and bills payable (note 6(h) and 8)	4,541,688	19	1,805,417	9
2130	Current contract liabilities (note 6(n) and 9)	532,085	2	465,106	3
2150	Notes payable	24,128	-	29,924	-
2170	Accounts payable	128,961	1	180,447	1
2200	Other payable	56,610	-	211,173	1
2230	Current tax liabilities	7,220	-	2,744	-
2399	Other current liabilities	18,932	-	39,752	-
	Total current liabilities	11,399,624	48	7,831,563	40
	Non-current liabilities:				
2600	Other non-current liabilities	9,588	-	10,815	-
	Total liabilities	11,409,212	48	7,842,378	40
	Equity(note 6(l)):				
3110	Common stock	3,328,087	14	3,328,087	17
3200	Capital surplus	2,042,348	9	2,042,348	10
	Retained earnings:				
3310	Appropriated as legal capital reserve	1,917,660	8	1,856,887	9
3320	Special reserve	-	-	9,529	-
3350	Unappropriated earnings	4,860,600	21	4,697,225	24
		6,778,260	29	6,563,641	33
	Total Equity attributable to owners of parent :	12,148,695	52	11,934,076	60
36XX	Non-controlling interests	28,059	-	29,380	-
	Total equity	12,176,754	52	11,963,456	60
	Total liabilities and equity	$ 23,585,966	100	19,805,834	100

See accompanying notes to consolidated 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, 2020 and 2019

(expressed in thousands of New Taiwan dollar except earnings per share)

		2020		2019	
		Amount	**%**	**Amount**	**%**
	Operating revenue:				
4300	Rental revenue (notes 6(i)(n) and 7)	$ 162,931	4	32,573	1
4511	Construction contract revenue (note 6(n))	3,814,519	96	2,853,323	99
	Net operating revenue	3,977,450	100	2,885,896	100
	Operating cost:				
5300	Rental Cost	71,885	2	3,765	-
5510	Construction contract cost	2,927,261	74	2,121,982	74
	Net operating cost	2,999,146	76	2,125,747	74
	Gross profit	978,304	24	760,149	26
	Operating expenses (notes 6(i) and 7):				
6100	Selling expenses	114,130	3	150,550	5
6200	Administrative expenses	49,779	1	43,533	1
	Total operating expenses	163,909	4	194,083	6
	Operating income	814,395	20	566,066	20
	Non-operating income and expense(note6(p) and 7):				
7100	Interest income	7,195	-	2,324	-
7010	Other income	68,214	2	47,874	2
7020	Other gains and losses	(34,631)	(1)	121,091	4
7050	Finance costs	(107,783)	(3)	(56,662)	(2)
	Total non-operating income and expenses	(67,005)	(2)	114,627	4
7900	**Profit before tax**	747,390	18	680,693	24
7951	**Less: income tax expenses (note 6(k))**	134,722	3	74,279	3
8200	**Profit**	612,668	15	606,414	21
	Other comprehensive income (loss) (note 6(l)):				
8360	**Items that may be reclassified subsequently to profit or loss:**				
8365	Equity related to non-current asset classified as held for sale	-	-	9,529	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
8300	**Other comprehensive income (after tax)**	-	-	9,529	-
8500	**Total comprehensive income**	**$ 612,668**	**15**	**615,943**	**21**
	Net income attributable to:				
8610	Shareholders of the parent	$ 613,989	15	607,727	21
8620	Non-controlling interests	(1,321)	-	(1,313)	-
	Profit	**$ 612,668**	**15**	**606,414**	**21**
	Total comprehensive income attributable to:				
8710	Shareholders of the parent	$ 613,989	15	617,256	21
8720	Non-controlling interests	(1,321)	-	(1,313)	-
	Other comprehensive income	**$ 612,668**	**15**	**615,943**	**21**
	Earnings per share (note 6(m)):				
	Basic earnings per share	**$ 1.84**		**1.83**	
	Diluted earnings per share	**$ 1.84**		**1.82**	

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 Changes in Equity

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan dollar)

	Equity attributable to owners of parent									
	Share capital		Retained earnings				Other equity			
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Equity related to non-current asset classified as held for sale	Total equity attributable to owner of the parent	Non-controlling interests	Total equity
Balance at January 1, 2019	$ 3,328,087	2,041,583	1,812,417	-	4,476,306	6,288,723	(9,529)	11,648,864	-	11,648,864
Net income	-	-	-	-	607,727	607,727	-	607,727	(1,313)	606,414
Other comprehensive income (loss)	-	-	-	-	-	-	9,529	9,529	-	9,529
Total comprehensive income (loss)	-	-	-	-	607,727	607,727	9,529	617,256	(1,313)	615,943
Appropriations and distributions:										
Legal reserve	-	-	44,470	-	(44,470)	-	-	-	-	-
Special reserve	-	-	-	9,529	(9,529)	-	-	-	-	-
Cash dividends	-	-	-	-	(332,809)	(332,809)	-	(332,809)	-	(332,809)
Change in non-controlling interests	-	765	-	-	-	-	-	765	30,693	31,458
Balance at December 31, 2019	3,328,087	2,042,348	1,856,887	9,529	4,697,225	6,563,641	-	11,934,076	29,380	11,963,456
Net income	-	-	-	-	613,989	613,989	-	613,989	(1,321)	612,668
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	-	613,989	613,989	-	613,989	(1,321)	612,668
Appropriations and distributions:										
Legal reserve	-	-	60,773	-	(60,773)	-	-	-	-	-
Special reserve	-	-	-	(9,529)	9,529	-	-	-	-	-
Cash dividends	-	-	-	-	(399,370)	(399,370)	-	(399,370)	-	(399,370)
Balance at December 31, 2020	**$ 3,328,087**	**2,042,348**	**1,917,660**	**-**	**4,860,600**	**6,778,260**	**-**	**12,148,695**	**28,059**	**12,176,754**

See accompanying notes to consolidated financial statements.

(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, 2020 and 2019

(expressed in thousands of New Taiwan dollar)

	2020	2019
Cash flows from (used in) operating activities:		
Profit before income tax	$ 747,390	680,693
Adjustments:		
Adjustments to reconcile profit and loss:		
Depreciation expense	25,872	2,779
Amortization expense	150	131
Net profit on financial assets at fair value through profit or loss	(507)	(3,295)
Interest expenses	107,783	56,662
Interest income	(7,195)	(2,324)
Dividend income	-	(423)
Gain on disposal of property, plant and equipment, net	(125)	-
Gain on disposal of investment property	(2,002)	-
Gains on disposal of non-current asset	-	(138,618)
Total adjustments to reconcile profit and loss	123,976	(85,088)
Net changes in operating assets and liabilities:		
Financial asset at fair value through profit or loss	4,775	17,878
Notes receivable	39,263	(19,539)
Accounts receivable	22,761	(29,363)
Other receivable－related parties	(1,721)	-
Inventories	(3,487,802)	(3,113,114)
Prepayments	(356,310)	17,455
Other current assets	1,277	4,535
Other financial assets	(200,979)	(178,233)
Incremental costs of obtaining a contract	(31,130)	(106,856)
Notes payable	(5,796)	(55,869)
Accounts payable	(51,486)	(41,612)
Other payable	(154,059)	69,359
Current contract liabilities	66,979	264,137
Other current liabilities	(20,820)	(1,286)
Total changes in operating assets / liabilities, net	(4,175,048)	(3,172,508)
Total adjustments	(4,051,072)	(3,257,596)
Cash flow used in operations	(3,303,682)	(2,576,903)
Interest received	7,195	2,324
Interest paid	(122,932)	(85,148)
Income tax paid	(130,246)	(91,968)
Net cash flows used in operating activities	(3,549,665)	(2,751,695)
Cash flows from (used in) investing activities:		
Return of capital of investments accounted for using equity method due to capital reduction	-	230,871
Disposal of subsidiaries	-	31,458
Price of disposal of non-current asset	-	170,532
Acquisition of property, plant and equipment	(2,828)	-
Proceeds from sale of property, plant and equipment	285	-
Increase in refundable deposits	(96,335)	(1,178,626)
Decrease in refundable deposits	23,425	1,166,983
Disposal of investment property	4,738	-
Decrease (increase) in other assets	13,152	10,267
Dividends received	-	423
Net cash flows from (used in) investing activities	(57,563)	431,908
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	10,993,000	5,500,000
Decrease in short-term borrowings	(10,000,000)	(2,290,000)
Increase in short-term notesa and bills payable	11,767,177	7,860,691
Decrease in short-term notes and bills payable	(9,030,906)	(7,898,362)
Decrease in other non-current liabilities	(1,227)	3,563
Cash dividends paid	(399,370)	(332,809)
Net cash flows (used in) financing activities	3,328,674	2,843,083
Net increase (decrease) in cash and cash equivalents	(278,554)	523,296
Cash and cash equivalents, at beginning of period	1,183,231	659,935
Cash and cash equivalents, at end of period	**$ 904,677**	**1,183,231**

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31 2020 and 2019

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

1. Company history

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. Registered address 21F., No.71, Sec. 2, Dunhua S. Rd., Da'an Dist., Taipei City, Taiwan. 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. Approval date and procedures of the consolidated financial statements

The consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2021.

3. New standards, amendments and interpretations adopted

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

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2020:

- Amendments to IFRS 3 "Definition of a Business"
- Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"
- Amendments to IAS 1 and IAS 8 "Definition of Material"
- Amendments to IFRS 16 "COVID-19-Related Rent Concessions"

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

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform－Phase 2"

(Continued)

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “ Insurance Contracts” and amendments to IFRS 17 “ Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipmentt－Proceeds before Intended Use”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

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, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(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.

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HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

			Shareholding		
Name of investor	**Name of subsidiary**	**Principal activity**	**December 31, 2020**	**December 31, 2019**	**Description**
The Company	Chuan Yue Real Estate Development Co., Ltd.	Real estate Development	51 %	51 %	The Company sold 49% owenership in June 2019.

(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.

(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.

(Continued)

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.

(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.

(Continued)

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.

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.

(Continued)

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.

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.

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

(Continued)

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.

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.

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.

(Continued)

(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 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.

(Continued)

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.

(k) 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

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.

(Continued)

(l) Leases

(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’.

(m) Impairment－non-financial assets

The Group should assess 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

(Continued)

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.

(n) Revenue

(i) Revenue from contracts with customers

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)

(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.

(o) 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)

(p) 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 reserve, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

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

(i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

1) the same taxable entity; or

2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(q) 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.

(r) 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(d) for the estimation of inventory valuation.

(Continued)

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the 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. Explanation of significant accounts

(a) Cash and cash equivalents

		December 31, 2020	December 31, 2019
Cash on hand	$	181	353
Demand deposits		904,496	1,182,878
Cash and cash equivalents in the statement of cash flows	**$**	**904,677**	**1,183,231**

Please refer to note 6(q) for the exchange rate risk, interest rate risk and sensitivity analysisof the financial assets and liabilities of the Group.

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

		December 31, 2020	December 31, 2019
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Stocks listed on domestic markets	**$**	**-**	**4,268**

Please refer to note 6(q) for the credit, currency, interest and market price risk of the financial instruments of the Group. As of December 31, 2020 and 2019, the financial assets were not pledged.

(c) Note and trade receivables

		December 31, 2020	December 31, 2019
Notes receivable	$	12,456	51,719
Account receivables–measured as amortized cost		44,863	67,624
Total	$	**57,319**	**119,343**

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:

	December 31, 2020		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ **57,319**	-	-

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ **119,343**	-	-

(d) Inventories

Please refer to note 8 for inventories pledged as collateral as of December 31, 2020 and 2019.

		December 31, 2020	December 31, 2019
Properties and land held for sale	$	318,078	4,166,584
Construction-in-progress－land		4,030,920	4,256,082
Construction-in-progress－projects		1,647,763	1,848,381
Land held for development		11,240,278	7,461,603
Prepayments for land purchase		910,742	39,668
Less: allowance for loss on decline in market value and obsolescence		(3,710)	(90,380)
	$	**18,144,071**	**17,681,938**

(i) The capitalized interests of land held for development and construction in progress were $14,645 thousand and $27,595 thousand in the year of 2020, and 2019, respectively.

(ii) In 2020, and 2019 the reversal of write-downs amounted to $86,670 thousand and $164,700 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, 2020, the transaction had been completed. The payment has been received and the detials are as follow:

	December 31, 2019
Investments accounted for using equity method	$ -
Amount of cumulative income or expense recognized in other comprehensive income relating to the non-current assets classified as held for sale	
Equity related to non-current asset classified as held for sale	$ -

(f) 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, 2020 and 2019 are as follows:

	Land	Buildings and construction	Other Facilities	Total
Cost or deemed cost:				
Balance at January 1, 2020	$ 54,131	65,703	16,717	136,551
Addition		-	2,828	2,828
Disposal and scrapped	-	-	(3,554)	(3,554)
Balance at December 31, 2020	$ **54,131**	**65,703**	**15,991**	**135,825**
Balance at January 1, 2019	$ 54,131	65,988	16,717	136,836
Other	-	(285)	-	(285)
Balance at December 31, 2019	$ **54,131**	**65,703**	**16,717**	**136,551**
Depreciation and impairment loss:				
Balance at January 1, 2020	$ 7,869	32,810	12,698	53,377
Depreciation for the year	-	1,246	1,458	2,704
Disposal and scrapped	-	-	(3,394)	(3,394)
Balance at December 31, 2020	$ **7,869**	**34,056**	**10,762**	**52,687**
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	$ **7,869**	**32,810**	**12,698**	**53,377**
Carrying value:				
Balance at December 31, 2020	$ **46,262**	**31,647**	**5,229**	**83,138**
Balance at December 31, 2019	$ **46,262**	**32,893**	**4,019**	**83,174**
Balance at January 1, 2019	$ **46,262**	**34,424**	**5,552**	**86,238**

(Continued)

(ii) Collateral

As of December 31, 2020 and 2019, the property, plant and equipment of the Group had been pledged as collateral, please refer to note 8.

(g) Investment Properties

		Land and improvements	Buildings and construction	Total
Cost or deemed costs:				
Balance as at January 1, 2020	$	-	-	-
Reclassification from inventories		1,611,364	1,428,950	3,040,314
Disposal		(1,461)	(1,292)	(2,753)
Balance at December 31, 2020	$	**1,609,903**	**1,427,658**	**3,037,561**
Depreciation and impairment losses:				
Balance at January 1, 2020	$	-	-	-
Disposal		-	(17)	(17)
Depreciation for the year		-	23,168	23,168
Balance at December 31, 2020	$	**-**	**23,151**	**23,151**
Carrying amount：				
Balance at January 1, 2020	$	**1,609,903**	**1,404,507**	**3,014,410**
Balance at December 31, 2020	$	**-**	**-**	**-**
Fair value：				
Balance at December 31, 2020				$ **7,758,917**
Balance at January 1, 2020				$ **-**

The fair value of the investment property were determined by referring to the average marekt price of close deal in similar district after deducting relevant expense.

(Continued)

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(h) Short-term notes and bills payable

Details of short-term notes and bills payable as of December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020			
	Currency	**Interest rate collars**	**Expiration**	**Amount**
Secured bank loans	TWD	1.35%~1.69%	2021	$ 5,590,000
Unsecured bank loans	TWD	1.35%~1.36%	2021	500,000
Short-term notes and bill payables	TWD	0.35%~1.29%	2021	4,541,688
Total				**$ 10,631,688**
Current				$ 10,631,688
Non-current				-
Total				**$ 10,631,688**

	December 31, 2019			
	Currency	**Interest rate collars**	**Expiration**	**Amount**
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	1,805,417
Total				**$ 6,902,417**
Current				$ 6,902,417
Non-current				-
Total				**$ 6,902,417**

Please refer to note 8 for the pledge for borrowings.

(i) 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:

		December 31, 2020	December 31, 2019
Less than one year	$	174,315	59,936
One to two year		193,315	62,406
Two to three year		182,170	48,599
Three to four year		173,283	40,244
Four to five year		155,021	17,833
More than five year		1,995,097	61,853
	$	**2,873,201**	**290,871**

(j) Employee benefits

(i) Defined benefit plans

The pension cost incurred from the defined contribution plans amounted to $32 thousand for both years ended December 31, 2020 and 2019.

(ii) Defined contribution plans

The Group allocates 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. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of the Labor Insurance without additional legal or constructive obligations.

The pension cost incurred from the contributions to the Bureau of Labor Insurance amounted to $1,176 thousand and $1,172 thousand for the years ended December 31, 2020 and 2019, respectively.

(k) Income tax

(i) Income tax expense

The components of income tax in the years of 2020 and 2019 were as follows:

		2020	2019
Current tax expense	$	134,722	74,279
Deferred tax expense		-	-
Income tax expenses from continuing operations	**$**	**134,722**	**74,279**

The reconciliation of income tax expense and profit before tax for the years ended December 31, 2020 and 2019 were as follows:

		2020	2019
Income before tax	**$**	**747,390**	**680,693**
Estimated income tax calculated based on financial income before tax at domestic tax rate	$	149,478	136,138
Tax-exempt income		(183,038)	(118,711)
Land Value Increment Tax		129,173	64,453
Additional tax on Uundistributed earnings		5,549	9,826
Others		33,560	(17,427)
Total	**$**	**134,722**	**74,279**

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The details of unrecognized deferred tax assets were as follows:

		December 31, 2020	December 31, 2019
Tax effect of deductible Temporary Differences	$	73,792	79,744
The carryforward of unused tax losses		174,042	144,604
	$	**247,834**	**224,348**

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, 2020, the information of the Group's unused tax losses for which no deferred tax assets were recognized are as follows:

Year of loss	Unused amount	Expiration year
2015	$ 34,844	2025
2016	555	2026
2017	14,354	2027
2018	386,954	2028
2019	106,138	2029
2020	327,365	2030

(3) The ROC income tax authorities have examined the Company's income tax returns for all years through 2018.

(l) Capital and Other Equities

As of December 31, 2020 and 2019, the total value of authorized ordinary shares were $4,300,000 thousand with par value of $10 per share. As of the date, 332,809 thousand ordinary shares amounted 3,328,087 thousand were issued.

As of December 31, 2020 and 2019, the number of shares outstanding were both 332,809 thousand.

(i) Capital surplus

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

	December 31, 2020	December 31, 2019
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	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	**$ 2,042,348**	**2,042,348**

According to the ROC Company Act, capital surplus can only be used to offfset 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.

(Continued)

(ii) Retained earnings

The Company's Articles of Incorporation stipulate that once the Company has annual profit, it shall first be used to offset the prior's deficits, if any, before paying any income taxs. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval. 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. Except for the distribution of surplus in accordance with the law, when the Company has no earnings, no dividends and bonuses will be distribued.

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 Rule No. 1010012865 issued by the Financial Supervisory Commission on April 6, 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

Earnings distribution for 2019 and 2018 was decided by the resolution adopted, at the general meeting of shareholders held on June 9, 2020 and June 14, 2019, respectively. The relevant dividend distributions to shareholders were as follows:

	2019		2018	
	Amount per share	**Total Amount**	**Amount per share**	**Total Amount**
Dividends distributed to ordinary shareholders	$ 1.20	**399,370**	1.00	**332,809**

(Continued)

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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

		Unlealized gains (losses) on available-for-sale financial assets
Balance at January 1, 2019	$	(9,529)
Unlealized gains (losses) on available-for-sale financial assets		9,529
Balance at December 31, 2019	**$**	**-**

(m) Earnings per share

(i) Basic Earnings per share

The details on the calculation of basic earnings per share at December 31, 2020 and 2019 was based on the profit attributable to ordinary shareholders of the Group amounting to $613,989 thousand and $607,727 thousand and the weighted average number of ordinary shares outstanding were both amounting to 332,809 thousand was calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	2020	2019
Profit (loss) attributable to ordinary shareholders of the Company	$ **613,989**	$ **607,727**
Weighted average number of ordinary shares	**332,809**	**332,809**
Basic Earnings per share	$ **1.84**	**1.83**

(ii) Diluted earnings per share

The details on the calculation of diluted earnings per share at December 31, 2020 and 2019 was based on profit attributable to ordinary shareholders of the Group amounting to $613,989 thousand and $607,727 thousand and the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 333,492 thousand and 333,447 thousand respectively, as follows :

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

	2020	2019
Profit attributable to ordinary shareholders of the Company (basic)	$ 613,989	607,727
Profit attributable to ordinary shareholders of the Company (diluted)	**$ 613,989**	**607,727**

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

	2020	2019
Weighted-average number of ordinary shares (basic)	332,809	332,809
Effect of employee stock bonus	683	638
Weighted-average number of ordinary shares (diluted) at 31 December	**333,492**	**333,447**
Earning per share (diluted)	**$ 1.84**	**1.82**

(n) Revenue from contracts with customers

(i) Details revenue

	2020	2019
Primary geographical markets		
Taiwan	**$ 3,977,450**	**2,885,896**
Major products/services lines		
Sale of land and buildings	$ 3,814,519	2,853,323
Lease of real estate	162,931	32,573
	$ 3,977,450	**2,885,896**

(ii) Contract balances

	December 31, 2020	December 31, 2019	January 1, 2019
Accounts receivable	$ 44,863	67,624	38,261
Notes receivable	12,456	51,719	32,180
Total	**$ 57,319**	**119,343**	**70,441**
Contract liabilities－sale of real estate	**$ 532,085**	**465,106**	**200,969**

(Continued)

(iii) For the unearned revenue received from pre-sale of construction properties, the Group registered the truest of the construction in progress to which the contract liabilities belongs. This trust amount is recorded as “other financial assets-current”.

	December 31, 2020	December 31, 2019
Other financial assets-current	$ 381,442	180,463

As of December 31, 2020,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 revenue received were from sale and pre-sale of properties and land held-for-sale.

(v) As of December 31, 2020, the advance payments of presale projects named of Palace Forever and 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.

(o) Directors’ 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' 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’ remuneration for each period. The Company recognized its employee bonuses of $12,000 thousand in both 2020 and 2019, as well as directors’ remuneration of $2,200 thousand in both 2020 and 2019. 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.

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(p) Non-operating income and expenses

(i) Interest income

The details of interest income were as follows:

		2020	2019
Interest income from bank deposits	$	6,951	1,598
Other interest income		244	726
Total	**$**	**7,195**	**2,324**

(ii) Other income

The details of other income were as follows:

		2020	2019
Dividend income	$	-	423
Breach Revenue		52,971	37,798
Others		15,243	9,653
Total	**$**	**68,214**	**47,874**

(iii) Other gains and losses

The details of other gains and losses were as follows:

		2020	2019
Gains on financial assets at fair value through profit or loss	$	507	3,295
Gain on disposals of PP & E		125	-
Gain on disposals of in vestment property		2,002	-
Gain on disposal of non-current assets held for sale through profit or loss		-	138,618
Foreign exchange losses		(32,584)	(14,121)
Others		(4,681)	(6,701)
Total	**$**	**(34,631)**	**121,091**

(iv) Finance costs

The details of finance costs were as follows:

		2020	2019
Interest expenses	$	122,428	84,257
Less: Capitalized Interest		(14,645)	(27,595)
Total	**$**	**107,783**	**56,662**
Capitalized Interest Rate		**1.04%~1.92%**	**1.42%~1.53%**

(Continued)

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(q) 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 table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flow	Within 6 months	6-12months	1-2 years	2-5 years	Over 5 years
As of December 31, 2020							
Non-derivative financial liabilities							
Secured bank loans	$ 5,590,000	5,630,715	3,624,427	2,006,288	-	-	-
Unsecured Secured bank loans	500,000	501,481	501,481	-	-	-	-
Short-term nots and bills payable	4,541,688	4,546,000	4,546,000	-	-	-	-
Notes and accounts payables	153,089	153,089	153,089	-	-	-	-
	$ 10,784,777	**10,831,285**	**8,824,997**	**2,006,288**	**-**	**-**	**-**
As of December 31, 2019							
Non-derivative financial liabilities							
Secured bank loans	$ 4,787,000	4,851,102	936,906	2,025,109	1,889,087	-	-
Unsecured bank loan	310,000	313,186	2,566	310,620	-	-	-
Short-term nots and bills payable	1,805,417	1,810,000	1,810,000	-	-	-	-
Notes and accounts payables	210,371	210,371	210,371	-	-	-	-
	$ 7,112,788	**7,184,659**	**2,959,843**	**2,335,729**	**1,889,087**	**-**	**-**

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

(iii) Currency risk

1) Exposure to currency risk

The Group significant exposure to foreign currency risk were as follows:

	December 31, 2020			December 31, 2019		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
Monitory items						
USD	$ 21,767	28.48	619,918	21,578	29.980	646,909

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, 2020 and 2019, would have increased (decreased) profit of 2020 by $61,992 thousand and other equity of 2019 by $64,691 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 $43,858 thousand and $26,618 thousand for the years ended December 31, 2020 and 2019 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:

	2020		2019	
Equity price at reporting date	**After-tax other Comprehensive income**	**After-tax profit (loss)**	**After-tax other Comprehensive income**	**After-tax profit (loss)**
Increase 3%	**$ -**	**-**	**-**	**128**
Decrease 3%	**$ -**	**-**	**-**	**(128)**

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(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, 2020				
	Book value	Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	$ -	-	-	-	-
Financial assets measured at amortized cost					
Cash and cash equivalents	904,677	-	-	-	-
Notes receivable and account receivable	57,319	-	-	-	-
Other financial assets - current	381,442	-	-	-	-
Subtotal	1,343,438	-	-	-	-
Total	**$ 1,343,438**	**-**	**-**	**-**	**-**
Financial liabilities at amortized cost					
Bank Loans	$ 6,090,000	-	-	-	-
Short-term notes and bills payable	4,541,688	-	-	-	-
Notes payable and account payable	153,089	-	-	-	-
Other payable	56,610	-	-	-	-
Subtotal	10,841,387	-	-	-	-
Total	**$ 10,841,387**	**-**	**-**	**-**	**-**

	December 31, 2019				
	Book value	Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	$ 4,268	4,268	-	-	4,268
Loans and account receivable					
Cash and cash equivalents	1,183,231	-	-	-	-
Notes receivable and account receivable	119,343	-	-	-	-
Other financial assets - current	180,463	-	-	-	-
Subtotal	1,483,037	-	-	-	-
Total	**$ 1,487,305**	**4,268**	**-**	**-**	**4,268**

(Continued)

	December 31, 2019				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at amortized cost					
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	-	-	-	-
Total	**$ 7,323,961**	-	-	-	-

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

Non-derivative financial instruments

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.

(r) Financial risk management

Overview

(i) The Group have exposures to the following risks from its financial instruments:

- credit risk
- liquidity risk
- market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(ii) Structure of risk management

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

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 Audit Committee oversees how management monitors 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 Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(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 investments in debt 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, 2020 and 2019, no other guarantees were 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 $3,900,800 thousand and $5,311,000 thousand as at December 31, 2020 and 2019.

(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)

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.

(s) 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, 2020	December 31, 2019
Total liabilities	$ 11,409,212	7,842,378
Less: cash and cash equivalents	(904,677)	(1,183,231)
Net debt	**$ 10,504,535**	**6,659,147**
Total equity	**$ 12,176,754**	**11,963,456**
Debt to equity ratio	**86.27%**	**55.56%**

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

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.

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

(c) Related party transactions

(i) Endorsements and guarantees

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

(ii) 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 $331 thousand, in which the rental fee is determined based on the nearby office rental rates. For the years 2020 and 2019, the Company's rent revenues with related parties were amounted $61 and $114 thousands. As of December 31, 2020 and 2019, 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.For the year ended December 31, 2020, the Company recognized management income amounted $8,777 thousands. As at December 31, 2020, the accounts receivable of $1,721 thousands, recorded as "other accounts receivables-related parties".

The Group donated to the Hong Pu Welfare and Charity Foundation the amounts of $1,000 thousands and $1,200 thousands in 2020, and 2019, respectively.

(d) Key management personnel compensation

Key management personnel compensation comprised:

		2020	2019
Short-term employee benefits	$	11,620	8,651
Retirement benefits		309	234
Other long-term benefits		-	-
Resignation benefits		-	-
Share-based payment		-	-
Total	$	**11,929**	**8,885**

8. Pledged assets

As of December 31, 2020 and 2019, the carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	December 31, 2020	December 31, 2019
Construction-in-progress－land	Short-term bills payable and short-term loans	$ 3,992,014	4,256,082
Land held for development	Short-term bills payable and short-term loans	9,210,369	5,021,910
Properties and land held for sale	Short-term bills payable and short-term loans	-	1,746,764
Property, Plant and Equipment	Short-term bills payable	77,909	79,135
Investment properties	Short-term bills payable	3,014,410	-
		$ 16,294,702	11,103,891

9. Commitments and contingencies

As of December 31, 2020, the Group had issued promissory notes of $12,515,800 thousand to financial institutions for their provision of repayment guarantees.

As of December 31, 2020, the total contract amount of the Group's construction projects was $1,297,602 thousand, of which $179,432 thousand and had been paid and recorded as "inventories".

As of December 31, 2020, the total contract amount of the Group's advanced-sell projects was $3,586,183 thousand of which $532,085 thousand had been received and recorded as "current contract liabilities."

As of December 31, 2020, the total contract amount of the Group's prepayments for land purchase were $1,790,000 thousand of which $895,000 thousand had been paid and recorded as "inventories".

As of December 31, 2020, the total contract amount of the Company's prepayments for building bulk ware $721,561 thousand, of which $395,359 thousand had been paid and recorded as "prepayment".

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, 2020, 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, 2020, 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".

(Continued)

The Group has sign 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 $49,052 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.

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, 2020 and 2019, were as follows:

	2020			**2019**		
	Operating cost	**Operating expenses**	**Total**	**Operating cost**	**Operating expenses**	**Total**
Personnel expenses						
Salaries	8,711	27,590	36,301	11,134	28,162	39,296
Labor and health insurance	586	2,032	2,618	701	1,820	2,521
Pension	368	840	1,208	446	758	1,204
Remuneration of directors	-	2,839	2,839	-	2,714	2,714
Others	205	597	802	240	555	795
Depreciation	23,168	2,704	25,872	-	2,779	2,779
Amortization	-	150	150	-	131	131

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.

HONG PU REAL ESTATE DEVELOPMENT CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) Securities held as of December 31, 2020 (excluding investment in subsidiaries associate and joint ventures):

Name of holder	Category of security	Category and name of security	Account	Ending balance				Highest percentage of owner ship	Note
				Shares/Unit (thousand)	Carryng value	Percentage of ownership	Fair value		
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	HORIZON VENTURE FUND I.L.P.	-	〃	-	-	1.21 %	-	-	

(4) Cumulative buying or selling of one specific security exceeding the lower of $300 million or 20% of the Company's paid-in capital: None.

(5) Acquisition of real estate with an amount exceeding the lower of TWD300 million or 20% of capital stock:

(In Thousands of New Taiwan Dollar)

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	2020.03.27	1,096,631	1,096,631	14 People	Not related parties	-	-	-	-	Referring to the average market price of similar real estate	Construction	none
The Company	Construction-in-progress-land	2020.07.06	664,032	664,032	12People	Not related parties	-	-	-	-	Referring to the average market price of similar real estate	Construction	none
The Company	Construction-in-progress-land	2020.08.21	1,430,420	1,430,420	5 People	Not related parties	-	-	-	-	Referring to the average market price of similar real estate	Construction	none
The Company	Prepayment for land purchase	2020.09.23	1,790,000	895,000	3 People	Not related parties	-	-	-	-	Referring to the average market price of similar real estate	Construction	none
The Company	Construction-in-progress-land	2020.09.24	676,401	676,401	25 People	Not 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 TWD300 million or 20% of the capital stock: None.

(7) Purchases from and sales to related parties exceeding the lower of TWD100 million or 20% of the capital stock: None.

(8) Receivable from related parties exceeding the lower of TWD100 million or 20% of the capital stock: None.

(Continued)

(9) Derivative financial instruments: None.

(10) Business relationship and significant intercompany:

(In Thousands of New Taiwan Dollar)

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
0	THE Company	Chuan Yue Real Estate Development C., Ltd.	1	Other Income	346	Based on the agreement	- %
0	THE Company	Chuan Yue Real Estate Development C., Ltd.	1	Other receivable-related parties	346	Based on the agreement	- %
1	Chuan Yue Real Estate Development C., Ltd.	THE Company	2	Operating expense	346	Based on the agreement	- %
1	Chuan Yue Real Estate Development C., Ltd.	THE Company	2	Other payable	346	Based on the agreement	- %

Note 1: The numbering is as follows:
1. "0" represents the parent company
2. Subsidiaries are sequentially numbered from 1 by company

Note 2: Relation between related parties are as follows:
1. Parent company and its subsidiaries
2. Subsidiaries and its parent company
3. Subsidiaries and its subsidiaries

(b) Information on investees:

The followings is the information on investees for the year 2020 (excluding information on investees in mainland China):

Investor company	Investee company	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2020			Highest balance during the year	Net income (losses) of the investee	Share of profits/losses of investee	Note
				December 31, 2020	December 31, 2019	Shares (in thousands)	Percentage of ownership	Carrying value				
The Company	Chuan Yue Real Estate Development Co., Ltd.	Taipei	Real estate development service	32,742	32,742	3,060,000	51.00 %	29,204	32,742	(2,696)	(1,375)	

Note: The amount was eliminated in the conslidated financial statement.

(c) Information on investment in Mainland China: None.

(d) Major shareholders:

Shareholding / Shareholder's Name	Shares	Percentage
Hua-Zhan Investment Co., Ltd.	59,078,745	17.75 %
Fu-Ta Investment Co., Ltd.	54,701,040	16.43 %

14. Segment information: None.