

Pacific Construction Co., Ltd.
Parent Company Only Financial Statements
With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019

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

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Independent Auditor's Report

To the Board of Directors of Pacific Construction Co., Ltd.:

Opinion

We have audited the financial statements of Pacific Construction Co., Ltd. (the “Company”), which comprise the balance sheet as of December 31, 2020 and 2019, the statements of comprehensive income, statements of changes in equity and statements of cash flow for the years ended December 31, 2020 and 2019, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of the other auditors (see Other Matters), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended December 31, 2020 and 2019, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit of the financial statements as of and for the year ended December 31, 2020 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. Furthermore, we conducted our audit of the financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, 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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Revenue recognition

Please refer to Note (4)(15) for the accounting policy of revenue recognition. Information of revenue recognition are shown in Note (6)(19) of the financial statements.

Description of Key Audit Matters:

The Company main operating revenue sources are income from department stores and rental income from investment properties. The risk of material misstatement is associated with the truthfulness of revenue recognition. While operating revenue involves the management's operating performance, the management may fail to recognize revenue earlier or defer the recognition of revenue to achieve the expected net profit, resulting in a material misstatement of operating revenue. Accordingly, the revenue recognition test is one of the significant evaluations performed by us in our audit of the financial statement of the Company.

Auditing Procedures Performed:

Our principal audit procedures of the above key audit matters include:

- Understand the process and internal controls of the Sales and Collection Cycle and assess the controls to prevent and detect errors and fraud in revenue recognition.
- Perform a cut-off test on Sale of the Properties and Lease Revenue to assess whether the former revenue is recognized in the appropriate period.
- Perform a verification test on revenue recognition by randomly reviewing relevant documents, Including Lease Contractual Terms, Real Estate Sales Contract and Real Estate Transfer Registration, etc. These will be verified with the general entry to assess whether the revenue recognition policy of the Company complies with applicable bulletins.

2. Inventory Valuation

Please refer to Note 4(7) and 5(2) for the accounting policy of inventory valuation, as well as the estimation and assumption uncertainty of the valuation of inventory, respectively. Information of estimation of the valuation of inventory are disclosed in Note 6(5) of the financial statements.

Description of Key Audit Matters:

The Construction Department's inventory is an important asset of the Company, accounting for approximately 50% of total assets. Inventory is valued in accordance with IAS 2 as the net realizable value of the Company's inventory of the Construction Department is based on management's estimates of future sales prices and construction costs and is likely to be affected by political and economic situations. Where the net realizable value is not properly assessed, it may result in a misstatement in the financial statements. Accordingly, the inventory valuation test is one of the significant evaluations performed by us in our audit of the financial statement of the Company.

Auditing Procedures Performed:

We obtained information on the net realizable value of the Company's inventory and reassessed the net realizable value of homes for sales by randomly reviewing sold contracts from previously disclosed information, with reference to the most recent property price registered by the Ministry of the Interior, or obtaining quotes from nearby transactions. In terms of the net realizable value of construction sites, land and buildings under construction, we acquired and randomly checked the Company's investment return analysis or appraisal report and compared the investment return analysis with market conditions to assess whether the net realizable value of inventories is fairly presented.

Other Matters

We did not audit certain investees' financial statements included in the financial statements of the Company's using the equity method; they were audited by the other auditors. Our audits, our opinion on the financial statements of the Company, are based solely on the other auditors' audit reports. The amount in investments in certain investees accounted for using the equity method and other non-current liabilities for the years ended December 31, 2019 and 2020 accounted for 3% and 7% of the total assets, respectively. The shares of subsidiaries, affiliates and joint ventures accounted for using the equity method accounted for 2,280% and (128)% of the net (loss) income before income taxes for January 1 to December 31, 2020 and 2019, respectively.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG
Taipei, Taiwan (Republic of China)

Pacific Construction Co., Ltd.

Balance Sheet

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (Note 6(1))	\$ 609,418	5	332,955	3
1170	Accounts receivable, net (Notes 6(3) and (19))	109,150	1	68,151	1
1200	Other receivables (Notes 6(4) and 7)	559	-	5,818	-
1210	Other receivables - related parties (Notes 6(4), 7 and 8)	46,395	-	45,086	-
1320	Inventory (applicable to the construction industry) (Notes 6(5) and 8)	5,810,259	50	6,995,816	53
1476	Other current financial assets (Notes 8)	221,936	2	118,266	1
1478	Refundable deposits for construction projects (Notes 9)	11,104	-	29,754	-
1479	Other current assets, others (Notes 7 and 9)	38,327	-	121,493	1
1480	Current assets recognized as incremental costs to obtain contract with customers (Note 7)	<u>47,231</u>	<u>-</u>	<u>131,374</u>	<u>1</u>
		<u>6,894,379</u>	<u>58</u>	<u>7,848,713</u>	<u>60</u>
Non-current assets:					
1517	Non-current financial assets at FVTOCI (Notes 6(2) and 8)	294,916	3	308,806	3
1550	Investments accounted for using equity method (Notes 6(6) and 8)	2,102,088	18	2,427,859	19
1600	Property, plant and equipment (Notes 6(7) and 8)	145,119	1	167,788	1
1755	Right-to-use assets (Note 6(8),(13) and 8)	98,132	1	128,618	1
1760	Investment property, net (Notes 6(9) and 8)	1,922,307	18	1,973,807	15
1840	Deferred tax assets (Note 6(16))	221	-	234	-
1975	Non-current net defined benefit assets (Notes 6(15))	9,977	-	8,627	-
1980	Non-current other financial assets (Notes 8)	60,536	1	152,182	1
1990	Other non-current assets, other	<u>1,983</u>	<u>-</u>	<u>5,317</u>	<u>-</u>
		<u>4,635,279</u>	<u>42</u>	<u>5,173,238</u>	<u>40</u>
Total Assets		<u>\$ 11,529,658</u>	<u>100</u>	<u>13,021,951</u>	<u>100</u>

(See accompanying notes to financial statements.)

Pacific Construction Co., Ltd.
Balance Sheet (Continued)
December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Notes 6(10))	\$ 672,070	6	1,920,566	15
2130	Current contract liabilities (Notes 6(19))	450,914	4	773,335	6
2150	Notes and accounts payable	293,429	3	282,491	2
2200	Other payables (Notes 7 and 9)	200,168	2	194,837	1
2230	Current tax liabilities	8,745	-	12,216	-
2280	Current lease liabilities (Notes 6(8) and (13))	10,799	-	11,860	-
2305	Other current financial liabilities	333,906	3	323,582	3
2321	Issuing bonds, current portion (Notes 6(12))	300,000	3	-	-
2322	Long-term loans, current portion (Notes 6(11))	911,057	8	427,432	3
2399	Other current liabilities, other	<u>11,691</u>	<u>(1)</u>	<u>11,890</u>	<u>-</u>
		<u>3,192,779</u>	<u>28</u>	<u>3,958,209</u>	<u>30</u>
Non-Current liabilities:					
2530	Issuing bonds payable (Notes 6(12))	260,000	2	560,000	4
2540	Long-term loans (Notes 6(11))	1,098,411	10	1,359,558	10
2580	Non-current lease liabilities (Notes 6(8) and (13))	87,635	1	117,829	1
2570	Deferred tax liabilities (Notes 6(16))	1,821	-	1,057	-
2645	Deposits received	52,181	-	59,607	1
2670	Non-current liabilities, other (Notes 6(6) and 7)	<u>34,330</u>	<u>-</u>	<u>115,744</u>	<u>1</u>
		<u>1,534,378</u>	<u>13</u>	<u>2,213,795</u>	<u>17</u>
		<u>4,727,157</u>	<u>41</u>	<u>6,172,004</u>	<u>47</u>
Total liabilities					
Equity (Notes 6(17)):					
3110	Ordinary share	3,870,000	34	3,870,000	30
3200	Capital surplus	371,732	3	371,732	3
3310	Legal reserve	1,221,329	11	1,221,329	9
3320	Special reserve	55,134	-	51,436	-
3350	Retained earnings-unappropriated	689,476	6	747,110	6
3410	Exchange differences resulting from translating the financial statements of foreign operations	178,413	2	162,953	1
3420	Unrealized gains (loss) from investments in financial assets measured at FVTOCI	609,624	5	618,594	5
3500	Treasury shares	<u>(193,207)</u>	<u>(2)</u>	<u>(193,207)</u>	<u>(1)</u>
	Total equity	<u>6,802,501</u>	<u>59</u>	<u>6,849,947</u>	<u>53</u>
	Total liabilities and equity	<u><u>\$ 11,529,658</u></u>	<u><u>100</u></u>	<u><u>13,021,951</u></u>	<u><u>100</u></u>

(See accompanying notes to financial statements.)

Pacific Construction Co., Ltd.
Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (Notes 6(13),(14),(19) and 7)	\$ 2,420,417	100	326,875	100
5000	Operating costs (Notes 6(5),(14) and (20))	<u>1,776,319</u>	<u>73</u>	<u>241,088</u>	<u>74</u>
	Gross profit from operations	644,098	27	85,787	26
5920	Add: Realized profit or loss of sales	<u>2,012</u>	<u>-</u>	<u>2,728</u>	<u>1</u>
5950	Gross profit from operations	<u>646,110</u>	<u>27</u>	<u>88,515</u>	<u>27</u>
	Operating expenses (Notes 6(3),(13),(15) and 7):				
6100	Selling expenses	158,511	7	39,460	12
6200	Administrative expenses	162,866	7	154,370	47
6450	Expected credit (losses) gains	<u>4,553</u>	<u>-</u>	<u>(15,717)</u>	<u>(5)</u>
		<u>325,930</u>	<u>14</u>	<u>178,113</u>	<u>54</u>
	Net operating income	<u>320,180</u>	<u>13</u>	<u>(89,598)</u>	<u>(27)</u>
	Non-operating income and expenses:				
7020	Other gains and losses (Notes 6(2),(9),(17) and (22))	60,268	2	7,787	2
7050	Finance costs (Notes 6(13) and (22))	(133,101)	(5)	(113,651)	(35)
7100	Interest revenue	619	-	2,566	1
7370	Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	<u>(263,291)</u>	<u>(11)</u>	<u>126,764</u>	<u>39</u>
		<u>(335,505)</u>	<u>(14)</u>	<u>23,466</u>	<u>7</u>
	Net income before tax from continuing operating department	(15,325)	(1)	(66,132)	(20)
7950	Less: Income tax expense (Notes 6(16))	<u>39,344</u>	<u>2</u>	<u>24,630</u>	<u>8</u>
	Net loss	<u>(54,669)</u>	<u>(3)</u>	<u>(90,762)</u>	<u>(28)</u>
8300	Other comprehensive income:				
8310	Items that may not be reclassified subsequently to profit or loss				
8311	Remeasurements of the defined benefit plan	794	-	(4,844)	(1)
8316	Unrealized gains from equity instrument investments measured at FVTOCI	(13,890)	(1)	21,410	7
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, Items that may not be reclassified subsequently to profit or loss	<u>4,859</u>	<u>-</u>	<u>29,297</u>	<u>9</u>
	Total items that may not be reclassified subsequently to profit or loss	<u>(8,237)</u>	<u>(1)</u>	<u>45,863</u>	<u>15</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences resulting from translating the financial statements of foreign operations	17,512	1	9,158	3

		2020		2019	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, Items that may be reclassified subsequently to profit or loss	<u>(2,052)</u>	<u>-</u>	<u>(42,965)</u>	<u>(13)</u>
	Total items that may be reclassified subsequently to profit or loss	<u>15,460</u>	<u>1</u>	<u>(33,807)</u>	<u>(10)</u>
8300	Other comprehensive income (Net after revenue)	<u>7,223</u>	<u>-</u>	<u>12,056</u>	<u>5</u>
	Total comprehensive income	<u>\$ (47,446)</u>	<u>(3)</u>	<u>(78,706)</u>	<u>(23)</u>
	Loss “per” share (Notes 6(18))				
9750	Basic loss “per” share (in NT\$)	<u>\$ (0.15)</u>		<u>(0.25)</u>	
9850	Diluted loss per share (in NT\$)	<u>\$ (0.15)</u>		<u>(0.25)</u>	

(See accompanying notes to financial statements.)

Pacific Construction Co., Ltd.
Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Ordinary share capital	Capital surplus	Retained earnings		Unappropriated retained earnings	Total other equity interest		Treasury shares	Total equity
			Legal reserve	Special reserve		Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains from investments in financial assets measured at FVTOCI		
Balance on January 1, 2019	<u>\$ 3,870,000</u>	<u>371,439</u>	<u>1,203,040</u>	<u>61,298</u>	<u>922,341</u>	<u>196,760</u>	<u>558,609</u>	<u>(193,207)</u>	<u>6,990,280</u>
Net loss	-	-	-	-	(90,762)	-	-	-	(90,762)
Other comprehensive income	-	-	-	-	(4,460)	(33,807)	50,323	-	12,056
Total comprehensive income	-	-	-	-	(95,222)	(33,807)	50,323	-	(78,706)
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	18,289	-	(18,289)	-	-	-	-
Reversal of special reserve	-	-	-	(9,862)	9,862	-	-	-	-
Ordinary shares stock dividend in cash	-	-	-	-	(61,920)	-	-	-	(61,920)
Other capital surplus changes:									
Subsidiary's unclaimed dividends past the statute of limitations	-	293	-	-	-	-	-	-	293
Proceeds from disposal share of profit of subsidiaries accounted for using equity method measured at FVTOCI	-	-	-	-	(9,662)	-	9,662	-	-
Balance on December 31, 2019	<u>3,870,000</u>	<u>371,732</u>	<u>1,221,329</u>	<u>51,436</u>	<u>747,110</u>	<u>162,953</u>	<u>618,594</u>	<u>(193,207)</u>	<u>6,849,947</u>
Net loss	-	-	-	-	(54,669)	-	-	-	(54,669)
Other comprehensive income	-	-	-	-	733	15,460	(8,970)	-	7,223
Total comprehensive income	-	-	-	-	(53,936)	15,460	(8,970)	-	(47,446)
Appropriation and distribution of retained earnings:									
Special reserve appropriated	-	-	-	3,698	(3,698)	-	-	-	-
Balance on December 31, 2020	<u>\$ 3,870,000</u>	<u>371,732</u>	<u>1,221,329</u>	<u>55,134</u>	<u>689,476</u>	<u>178,413</u>	<u>609,624</u>	<u>(193,207)</u>	<u>6,802,501</u>

(See accompanying notes to financial statements.)

Pacific Construction Co., Ltd.
Statements of Cash Flow
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	2020	2019
Cash flows from operating activities:		
Net loss before tax for the period	\$ (15,325)	(66,132)
Adjustment items:		
Adjustments to reconcile profit (loss)		
Depreciation expense	99,553	95,158
Amortization expense	356	391
Expected credit loss / Provision (reversal of provision) for bad debt expense	4,553	(15,717)
Interest expense	133,101	113,651
Interest revenue	(619)	(2,566)
Dividend income	(4,808)	(6,972)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	263,291	(126,764)
Loss (gains) of disposal and scrapping of property, plant and equipment	(4,059)	747
Impairment loss of Investment property	6,000	-
Deferred credit	(2,012)	(2,728)
Proceeds from disposal share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(48,321)	-
Share of liquidation profit (losses) of subsidiaries using the equity method accounted.	1,598	-
Gain on lease modification	(1,187)	(123)
Total adjustments to reconcile profit	<u>447,446</u>	<u>55,077</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Notes & accounts receivable	(45,628)	30,614
Other receivables (related parties)	3,950	(7,530)
Inventories	1,185,558	(298,445)
Refundable deposits for construction projects	18,650	(7,531)
Other current assets	83,166	(7,106)
Other current financial assets	(103,670)	26,708
Net defined benefit assets	(556)	(563)
Incremental costs to obtaining a contract	84,143	-
Total changes in operating assets	<u>1,225,613</u>	<u>(263,853)</u>
Changes in operating liabilities:		
Contractual liabilities	(322,421)	74,730
Notes and accounts payable	10,938	(16,063)
Other payables	5,626	(3,367)
Other financial liabilities	7,414	(10,593)
Other Current liabilities	2,711	722
Total changes in operating liabilities	<u>(295,732)</u>	<u>45,429</u>
Total changes in operating assets and liabilities	<u>929,881</u>	<u>(218,424)</u>
Cash inflow (outflow) generated from operations	1,362,002	(229,479)
Interest received	695	2,514
Interest paid	(133,396)	(144,303)
Income tax paid	(42,038)	(17,344)
Net cash flows from (used in) operating activities	<u>1,187,263</u>	<u>(388,612)</u>

Pacific Construction Co., Ltd.
Statements of Cash Flow (Continued)
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	<u>2020</u>	<u>2019</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(21,466)	(29,527)
Proceeds from disposal of property, plant and equipment	5,214	717
Other financial assets	91,646	(8,744)
Other non-current assets	2,978	(247)
Dividends received	<u>37,416</u>	<u>26,807</u>
Net cash flows from (used in) investing activities	<u>115,788</u>	<u>(10,994)</u>
Cash flows from (used in) financing activities:		
Proceeds from Short-term loans	457,645	423,930
Repayments of Short-term loans	(1,401,569)	(75,025)
Proceeds from Long-term loans	118,571	158,736
Repayments of Long-term loans	(200,666)	(265,286)
Deposits received	(7,426)	-
Lease principal repayment	(9,884)	(11,477)
Cash dividend payment	<u>-</u>	<u>(61,920)</u>
Net cash flows from (used in) financing activities	<u>(1,043,329)</u>	<u>168,958</u>
Effects of exchange rate changes on cash and cash equivalents	16,741	8,914
Net increase (decrease) in cash and cash equivalents	276,463	(221,734)
Cash and cash equivalents at beginning of period	<u>332,955</u>	<u>554,689</u>
Cash and cash equivalents at end of period	<u>\$ 609,418</u>	<u>332,955</u>

(See accompanying notes to financial statements.)

Pacific Construction Co., Ltd.
Notes to the Parent Company Only Financial Statements
For the Years Ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company History

Pacific Construction Co., Ltd. (hereinafter referred to as “the Company”) was established on June 14, 1967. On February 2, 1980, the Company began listing and trading with approval of the Financial Supervisory Commission, Securities and Futures Bureau. Its primary businesses are contracting civil construction projects, land development and housing construction, housing and building development and rental, construction material manufacturing, precast housing, agency and trading of various construction materials and their export business.

2. Approval Date and Procedures of the Financial Statements

The accompanying parent-company-only financial statements were authorized for issuance by the Board of Directors and issued on March 25, 2021.

3. New Standards, Amendments and Interpretations Adopted

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

From the year 2020, the Company has the application of the newly endorsed IFRSs will not have a material impact on the financial statements. The extent and impact of changes are as follows:

- 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”

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

From the year 2020, the Company has evaluated and determined that the application of the abovementioned amendments will not have a material impact on the financial statements.

- Amendments to IFRS 4 “Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”

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

The company expects that the following newly issued and revised standards that have not yet been approved will not have a significant impact on individual financial reports.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- Amendments to IFRS 17 “Insurance Contracts” and Amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

- Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"
- Annual Improvements to IFRS Standards 2018–2020 Cycle
- Amendments to IFRS 3 "Reference to the Conceptual Framework"
- Amendments to IAS 1 "Accounting Policies of Disclosure Initiative "
- Amendments to IAS 8 "Definition of accounting estimates"

4. Summary of Significant Accounting Policies

The significant accounting policies presented in the parent-company-only financial statements are summarized as follows. The following accounting policies were applied consistently throughout the periods presented in the parent-company-only financial statements.

(1) Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations").

(2) Basis of preparation

(i) Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for the financial instruments.

- 1) Fair value through other comprehensive income are measured at fair value; and
- 2) The defined benefit liability (asset) is recognized as the fair value of the plan asset less the present value of defined benefit obligation and the upper limit impact mentioned in note 4(15).

(ii) Functional and presentation currency

The functional currency of each Company entities is determined based on the primary economic environment in which the entities operate. The Company's parent company only financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All the financial information presented in New Taiwan Dollar has been rounded to the nearest thousands.

(3) Foreign currencies

(i) Currencies transaction

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

- 1) Fair value through other comprehensive income equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) Qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates of the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation differences in equity.

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(4) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

- (i) It expects to settle the liability in its normal operating cycle; (Construction industry is usually longer than one year) or intend to sell or consume it
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) The Company 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 impact its classification.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(5) Cash and cash equivalents

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

(6) 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 Company 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.

Financial assets are classified as: amortized cost, fair value through other comprehensive income (FVOCI) – equity investment. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (“FVOCI”)

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; and

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

On initial recognition, the Company is able to make an irrevocable election to present subsequent changes in the fair value of investments in equity instruments that is not held for trading in other comprehensive income. This election is made on an instrument-by-instrument basis.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established., which in the case of quoted securities is normally compant the ex dividend date.

3) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivable, guarantee deposit paid and other financial assets).

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

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

Loss allowance for trade receivables 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 Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the financial asset is more than a year past due or the borrower is unlikely to pay its credit obligations to the Company in full.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

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

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

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

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

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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial 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 a year 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 recognized in other comprehensive income instead of reducing the carrying amount of the asset.

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

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets, or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement 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) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) 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.

5) Derecognition of financial liabilities

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

financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

6) Offsetting of financial assets and liabilities

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

(7) Inventory

The original cost of construction inventories is the expenditure necessary in bringing the inventories to a saleable or production-ready condition and location. When the cost of inventory exceeds the net realizable value, the cost must be written down to its net realizable value, and the amount in the write-down recognized as the cost of goods sold in the period in which it occurs. The net realizable value is determined as follows:

- (i). Land for construction: The net realizable value is based on estimated selling price (based on current market conditions) less estimated selling expenses.
- (ii). Construction in process: The net realizable value is based on the estimated selling price (based on current market conditions) less costs to be incurred to completion and selling expenses.
- (iii). Property for sale: Net realizable value is the estimated selling price (based on current market conditions) less the estimated costs to be incurred in the sale of the properties.

(8) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over their financial and operating policies.

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

The parent-company-only financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees after adjustments to align the accounting policies with those of the Company from the date that significant influence commences until the date that significant influence ceases. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the change in equity attributable to its share of the associate as capital surplus in proportion to its equity in the associate.

Unrealized gains and losses arising from transactions between the Company and its associates are recognized in the financial statements only to the extent of the unrelated investor's interests in the associates.

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

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(9) Investing subsidiaries

In preparing the parent company only financial statements of the Company, investee company that controlled by the Company is accounted for under the equity method. Under equity method, profit for the year and other comprehensive income for the year reported in an entity's non-consolidated statement of comprehensive income, shall equal to profit for the year and other comprehensive income' attributable to owners of the parent reported in that entity's consolidated statement of comprehensive income. Total equity reported in an entity's non-consolidated financial statements, shall equal to equity attributable to owners of parent reported in that entity's consolidated financial statements.

The Company's changes in equity interests in subsidiaries that did not lead to loss of control, deemed as equity transactions between owners.

(10) 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 less accumulated depreciation and accumulated impairment losses. 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. Cost includes costs directly attributable to the acquisition of investment property. The cost of self-constructed investment property includes raw materials and direct labor, any other costs directly attributable to bringing the investment property to be capable of operating, and borrowing capitalized costs.

When the purpose of investment properties is changed and reclassified as property, plant and equipment, the reclassification is based on the carrying amount at the time of the change of purpose.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss. Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease.

(11) 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. Cost includes expenses that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes raw materials and direct labor, a directly attributable cost to bringing the asset to its intended location and use, the cost of dismantling and removal and site restoration, and the cost of borrowings to capitalize the eligible assets.

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.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(ii) Subsequent cost

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

(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 the current and comparative periods are as follows:

Buildings	3~60 years
Machinery and equipment	3~20 years
Other equipment	3~17 years

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

(12) Lease

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(ii) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful lives of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

For short-term leases or leases of low-value underlying assets for certain land, buildings and structures, office equipment and transportation equipment, The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Sale and leaseback transactions are assessed in accordance with IFRS 15 to determine whether the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15. If the asset is judged as a sale, the asset is derecognized, and the part of the right that has been transferred to the seller-lessee is recognized as profit or loss. The lessee accounting model is applied to the leaseback transaction and the right-to-use asset is measured at the original carrying amount in the leased back portion. If it is judged that the requirements for the disposal of sales are not met, it will be treated as financing.

The Company chooses to apply the practical expedient to its rent concessions that fit all the following criteria without assessing if they are lease modifications.

- (1) Rent concessions occurring as a direct consequence of the covid-19 pandemic;
- (2) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (3) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (4) There is no substantive change to other terms and conditions of the lease.

With the application of practical expedient, the amount of changes in lease payments that arise from rent concessions are recognized in profit or loss for the reporting period.

(iii) As a lessor

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

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

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

The Company 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

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

on the lessor's net investment in the lease. The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

(13) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Research activities related expenditures are recognized as profit or loss when incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets including customer relations, patent rights and trademark rights, etc., that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

Computer software	2~5 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(14) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, deferred tax assets and assets from employee benefit) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

(15) Revenue Recognition

(i) Revenue from customer contracts

Revenue is measured as the consideration to which the Company expects to be entitled in exchange for the transfer of goods and services. The Company recognizes revenue when the performance obligation is satisfied by transferring control over a customer's good or service. The Company's major revenue items are described as follows:

1) Land development and property sale

The Company develops and sells residential real estate and often pre-sells real estate during or before construction. The Company recognizes revenue when the control of the real estate is transferred. Due to contractual restrictions, such real estate is not usually used for other purposes by The Company. However, after completion of delivery or transfer of legal title of the real estate to the customer, The Company has an enforceable right to payment for performance completed to date. Accordingly, The Company recognizes revenue at the point of completion of transferring the legal title of the property or real estate to the customer.

Revenue is measured based on the transaction price of a contractual agreement. Upon selling a completed house, in most cases, consideration may be received upon the transfer of legal title to real estate; in few cases, payment may be deferred in accordance with contractual agreements, but the deferral period should not exceed 12 months. Accordingly, the transaction price is not adjusted to reflect the impact of the significant financial components. In the case of pre-sale of real estate, payment is usually received between the signing of the contract and the transfer of the real estate to the customer in installments. Where the contract contains a significant financial component, the transaction price is adjusted during the period to reflect the effects of the time value of money according to the interest rate of the proposed project borrowing. The amounts received in advance are recognized as contract liabilities. When the effect of the time value of money adjustment is judged to be necessary, interest expense and contract liabilities are recognized. Accumulated contract liabilities are reclassified as income when a property is transferred to customers.

Some contracts contain multiple deliverables, such as the sale of residential real estate and decorating services - decorating services are deemed as a separate performance obligation, and the transaction price is apportioned on a stand-alone selling price basis. If there is no observable price, the stand-alone selling price is estimated based on the expected cost and profit. Decorating services are recognized as revenue at the point of completion of the service.

2) Lease income

Lease income generated from investment property is recognized over the lease term on a straight-line basis. Lease incentives given are considered part of the total lease income and are recognized as a reduction of lease income over the lease term on a straight-line basis. Revenue from a property sublease is recognized as lease income from investment properties under operating income.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

3) Financial components

The Company expects that the time interval between the transfer of a good or service from all customer contracts to customers and when customers pay for the goods or services will not exceed one year. Therefore, The Company does not adjust the time value of money of the transaction price.

(ii) Cost of customer contracts

Incremental costs of obtaining a contract

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

The Company adopts the practical expedient method of the Standard. If the incremental cost of obtaining a contract is recognized as an asset and the asset is amortized over a period of one year or less, the incremental cost is recognized as an expense when incurred.

(16) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided in the periods during which services are rendered by employees. The amount of advance payment will result in the refund of cash or the reduction of future payments, and it will be recognized as an asset.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

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

(17) Income Taxes

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

The company judges that the interest or penalty related to income tax (including uncertain tax treatment) does not meet the definition of income tax, and therefore the accounting treatment of International Accounting Standard No. 37 is applied.

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 not recognized for the following:

- (i) Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company 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.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

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

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

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

- (i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

(18) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Potential dilutive ordinary shares of the Company include stock dividends to employees.

(19) Operating segments

The company has disclosed departmental information in the consolidated financial report, so individual financial reports do not disclose departmental information.

5. Significant Accounting Assumptions and Judgments, and Major Sources of Estimation

Uncertainty

The preparation of the parent company only financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the 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.

The accounting policies involve significant judgment and have a material effect on the amounts recognized in the financial statements as follows:

(1) Lease period

The decision on the lease term is the non-cancellable period of the lease and the lessee can reasonably determine the period covered by the option to exercise the lease extension, and the lessee can reasonably determine the period covered by the option to not exercise the lease termination option. When the company assesses whether the lessee exercises the aforementioned options, it considers all relevant facts and circumstances that will generate economic incentives for the lessee. And in the subsequent occurrence of the lessee's control scope and will affect whether it can reasonably determine whether to exercise or not exercise the option of major events or major changes in the situation, to be reassessed. When there is a change in the assessment during the lease period, the lease liability is re-evaluated and the right-of-use asset is adjusted. Please note 6 (8) for details.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(2) Judgment on lease

The company leases land rights and houses. Since the contract involves the use of an identified asset, the right to obtain all economic benefits during the entire period of use; and the right to direct the use of the identified asset. Based on this, the company determined that the contract was a lease, and the company recognized the right-of-use assets and lease liabilities on the lease start date. Please note 6 (8) for details.

The following assumptions and estimated uncertainties have a significant risk of causing significant adjustments to the carrying amounts of assets and liabilities in the next financial year, and have reflected the impact of the new crown virus epidemic. The relevant information is as follows:

(i) Allowance for losses on accounts receivable

The allowance for losses on the Company's accounts receivable is estimated based on the assumption of default risk and expected loss rate. The Company considers historical experience, current market conditions and forward-looking estimates at each reporting date in determining assumptions and input selected when calculating impairments. For details associated with assumptions and inputs, please refer to Note 6(3).

(ii) Valuation of Inventory

As inventories are measured at the lower of cost or net realizable value, the evaluation of The Company's net realizable value of inventories at the reporting date is based on estimates of future market sales prices and constructions costs which are prone to be affected by changes in the political and economic environment, resulting in significant changes in net realizable value. For details of the valuation of inventory, please refer to Note 6(5).

The Company's accounting policies and disclosures include adopting fair value measurements for its financial and non-financial assets and liabilities. The Company has established an internal control system for fair value measurement. The internal control system includes establishing a valuation team responsible for reviewing all significant fair value measurements (including Level 3 fair values). The team reports directly to the CFO. The valuation team reviews significant unobservable inputs and makes adjustments regularly. If external third-party information (such as a broker or pricing service) is used to measure fair value inputs, the valuation team will evaluate the evidence provided by the third party to support the inputs to determine whether the valuation and its fair value hierarchy classification meet the requirements of IFRSs.

Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

Level 1: quoted prices (unadjusted) in active markets for identifiable 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: inputs for the assets or liabilities that are not based on observable market data.

Further information on the assumptions used to measure fair value

For details associated with the assumptions used to measure fair value, please refer to Note 6(23) – Financial Instruments.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

6. Explanation of Significant Accounts

(1) Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Petty cash	\$ 8,850	430
Cash in banks	600,568	293,616
Deposit account	-	38,909
Cash and Cash Equivalents in the Statements of Cash Flow	<u>\$ 609,418</u>	<u>332,955</u>

(i) Please refer Note 6(23) for the disclosure of the Company's financial assets and liabilities interest risk and sensitivity analysis.

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

	December 31, 2020	December 31, 2019
Equity instruments measured at FVTOCI:		
Listed (OTC) stocks - domestic	\$ 76,080	92,160
Unlisted (OTC) stocks - domestic	218,836	216,646
Total	<u>\$ 294,916</u>	<u>308,806</u>

(i) The purpose that the Company invests in the abovementioned equity securities is for long-term strategies, but rather for trading purpose. Therefore, those equity securities are designated as financial assets at FVTOCI.

Through the aforementioned investments in equity instruments designated as measured at FVTOCI, the Company's recognized dividend income for 2020 and 2019 totaled NT\$4,808 thousand and NT\$6,972 thousand, respectively. In 2020 and 2019, no strategic investments were disposed of and the accumulated gains and losses during the period were not transferred to equity.

(ii) For market information, please refer to Note 6(23).

(iii) For details of the above financial assets pledged as collaterals for bank loans and or financing guarantees pledged. Please refer to Note 8.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(3) Note and account receivables

	December 31, 2020	December 31, 2019
Notes receivable - arising from operations	\$ 14,390	368
Accounts receivable - measured at amortized cost	124,825	90,965
Less: Allowance for losses	<u>(30,065)</u>	<u>(23,182)</u>
	<u>\$ 109,150</u>	<u>68,151</u>

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

	December 31, 2020		
	Gross carrying amount	Weighted- average loss	Loss allowance Provision
Current	\$ 68,843	0%~1%	-
Less than 30~360 days past due	44,522	0%~15%	6,438
Past due 361~720 days	2,219	0%~100%	1,721
More than 720 days past due	<u>23,631</u>	50%~100%	<u>21,906</u>
	<u>\$ 139,215</u>		<u>30,065</u>

	December 31, 2019		
	Gross carrying amount	Weighted- average loss	Loss allowance Provision
Current	\$ 50,685	0%~1%	-
Less than 30~360 days past due	14,691	0%~15%	-
Past due 361~720 days	262	0%~100%	23
More than 720 days past due	<u>25,695</u>	50%~100%	<u>23,159</u>
	<u>\$ 91,333</u>		<u>23,182</u>

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

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

	2020	2019
Balance at beginning of the year	\$ 23,182	55,614
Impairment losses recognized	4,553	-
Impairment loss reversed	-	(15,717)
Amounts written off	(1,108)	(15,055)
Reclassification	3,569	(1,603)
Gains and losses from foreign currency translation	(131)	(57)
Balance at end of the year	<u><u>\$ 30,065</u></u>	<u><u>23,182</u></u>

As of December 31, 2020, and 2019, the Company did not provide any aforementioned notes and accounts receivable as collaterals.

Other credit risk information, please refer to Note 6 (23)

(4) Other receivables

	December 31, 2020	December 31, 2019
Other receivables - related parties	\$ 46,395	45,086
Other receivables	28,732	33,993
Long-term receivables	1,804,468	1,808,035
Less: Allowance for losses	(1,832,641)	(1,836,210)
	<u><u>\$ 46,954</u></u>	<u><u>50,904</u></u>

The Company other accounts receivable allowance for losses debt changes for 2020 and 2019 are as follows:

	2020	2019
Balance at beginning of the year	\$ 1,836,210	1,874,214
Amounts written off	-	(39,607)
Reclassification	(3,569)	1,603
Balance at end of the year	<u><u>\$ 1,832,641</u></u>	<u><u>1,836,210</u></u>

Other credit risk information, please refer to Note 6 (23)

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(5) Inventory

	December 31, 2020	December 31, 2019
Buildings and land held for sale	\$ 1,891,349	1,334,014
Land held for construction	3,045,661	3,057,731
Construction in progress	<u>2,224,729</u>	<u>3,997,681</u>
Total	7,161,739	8,389,426
Less: Allowance for inventory write-down	<u>(1,351,480)</u>	<u>(1,393,610)</u>
Net	<u>\$ 5,810,259</u>	<u>6,995,816</u>
Inventory expected to be recovered in more than 12 months	<u>\$ 5,047,216</u>	<u>5,196,327</u>

1. As of December 31, 2020 and 2019, the inventories of the Company had been pledged as collateral for bank borrowings, please refer to Note 8.
2. Some parts of Wanli UFO Village, Wanli Section, Erchong River, Lihe Section in Xinyi District and Yongping Section in Shilin District have already entered an appointment agreement and trust deed agreement with trustees and will be transferred to The Company at an appropriate time.
3. Agricultural land under the trust under a trust deed is the agricultural land be developed for construction. An appointment agreement and trust deed agreement have been entered into with trustees and transferred to The Company after the land title is changed.
4. For the years ended December 31, 2020 and 2019, the capitalization of interest on construction in progress by The Company, please refer to Note 6(22).
5. The Company Changes in the allowance to reduce inventory to market for 2020 and 2019 are as follows:

	2020	2019
Balance on January 1	\$ 1,393,610	1,396,331
Reversal benefits for recognized impairment loss es	<u>(42,130)</u>	<u>(2,721)</u>
Balance on December 31	<u>\$ 1,351,480</u>	<u>1,393,610</u>

For the years ended December 31, 2020 and 2019, inventory cost recognized as cost of operating costs amounted to \$1,656,606 thousand and \$45,235 thousand, respectively. The above reversal benefits of impairment losses were due to the sale of certain inventories in the Company in 2020 and 2019. Factors that caused the net realizable value to be lower than cost have disappeared, resulting in an increase in net realizable value and the recognition of a decrease in operating costs.

(6) Investments accounted for using equity method

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The components of investments accounted for using the equity method at the reporting date were as follows:

	December 31, 2020	December 31, 2019
Subsidiaries	<u>\$ 2,102,088</u>	<u>2,427,859</u>
Other non-current liabilities - Subsidiaries	\$ 19,675	52,768
Other non-current liabilities - Associates	-	48,321
	<u>\$ 19,675</u>	<u>101,089</u>

1. Subsidiaries

Please refer to consolidated financial statement of 2020.

2. Associates

In June 2020, the company will dispose of Tai-Fu Recreation Co., Ltd with zero (NT\$1 deducted from tax), and recognize the disposal of investment benefits of NT\$48,321 thousand, which are accounted for under "Other gains and losses".

3. Guarantees

As of December 31, 2020 and 2019, the investments accounted for using equity method had been pledged as collateral for bank borrowings, please refer to note 8.

(7) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Company for the years ended December 31, 2020 and 2019, were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and Equipment</u>	<u>Other Equipment</u>	<u>Unfinished project</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2020	\$ 18,741	178,847	112,757	64,870	13,844	389,059
Additions	-	-	8,430	8,790	4,246	21,466
Disposal and scrap	(71)	(361)	(5,807)	(615)	-	(6,854)
Reclassification	-	-	-	18,090	(18,090)	-
Reclassification to Investment property	(10,867)	(22,453)	-	-	-	(33,320)
Reclassification from Right-of-use asset	-	-	-	195	-	195
Balance on December 31, 2020	<u>\$ 7,803</u>	<u>156,033</u>	<u>115,380</u>	<u>91,330</u>	<u>-</u>	<u>370,546</u>
Balance on January 1, 2019	\$ 18,741	207,122	158,927	66,494	-	451,284
Additions	-	-	12,773	2,910	13,844	29,527
Disposals	-	-	(1,604)	(4,534)	-	(6,138)
Reclassification to Investment property	-	(28,275)	(57,339)	-	-	(85,614)
Balance on December 31, 2019	<u>\$ 18,741</u>	<u>178,847</u>	<u>112,757</u>	<u>64,870</u>	<u>13,844</u>	<u>389,059</u>

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

	Land	Buildings and construction	Machinery and Equipment	Other Equipment	Unfinished project	Total
Depreciation and impairments						
loss:						
Balance on January 1, 2020	\$ -	92,934	93,660	34,677	-	221,271
Depreciation	-	3,164	7,898	13,238	-	24,300
Disposal and scrap	-	(235)	(5,000)	(464)	-	(5,699)
Reclassification to Investment	-	(14,640)	-	-	-	(14,640)
property						
Reclassification from Right-of-	-	-	-	195	-	195
use asset						
Balance on December 31, 2020	<u>\$ -</u>	<u>81,223</u>	<u>96,558</u>	<u>47,646</u>	<u>-</u>	<u>225,427</u>
Balance on January 1, 2019	\$ -	89,592	146,290	28,776	-	264,658
Depreciation	-	3,342	5,651	9,633	-	18,626
Disposals	-	-	(942)	(3,732)	-	(4,674)
Reclassification to Investment	-	-	(57,339)	-	-	(57,339)
property						
Balance on December 31, 2019	<u>\$ -</u>	<u>92,934</u>	<u>93,660</u>	<u>34,677</u>	<u>-</u>	<u>221,271</u>
Carrying amounts:						
Balance on December 31, 2020	<u>\$ 7,803</u>	<u>74,810</u>	<u>18,822</u>	<u>43,684</u>	<u>-</u>	<u>145,119</u>
Balance on December 31, 2019	<u>\$ 18,741</u>	<u>85,913</u>	<u>19,097</u>	<u>30,193</u>	<u>13,844</u>	<u>167,788</u>
Balance on January 1, 2019	<u>\$ 18,741</u>	<u>117,530</u>	<u>12,637</u>	<u>37,718</u>	<u>-</u>	<u>186,626</u>

For the years ended December 31, 2020 and 2019, details of bank loans and financing guarantees pledged, please refer to Note 8.

The Company decided to lease its self-used building to a third party in 2020 and 2019, and has reclassified the cost of such property as an investment property at the cost of the change of use.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(8) Right-to-use Assets

Details of changes in the cost and depreciation of the Company leased land, buildings and construction, and transportation equipment:

	Land Surface Rights	Buildings and Construction	Transportation Equipment	Total
Cost:				
Balance on January 1, 2020	\$ 105,880	33,981	662	140,523
Changes in future lease payment	(19,413)	-	-	(19,413)
Reclassification to Property, plant and equipment	-	-	(195)	(195)
Balance on December 31, 2020	<u><u>\$ 86,467</u></u>	<u><u>33,981</u></u>	<u><u>467</u></u>	<u><u>120,915</u></u>
Balance on January 1, 2019	\$ 115,899	-	-	115,899
Additions	-	33,981	662	34,643
Changes in future lease payment	(10,019)	-	-	(10,019)
Balance on December 31, 2019	<u><u>\$ 105,880</u></u>	<u><u>33,981</u></u>	<u><u>662</u></u>	<u><u>140,523</u></u>
Depreciation:				
Balance on January 1, 2020	\$ 4,923	6,796	186	11,905
Depreciation	4,234	6,657	182	11,073
Reclassification to Property, plant and equipment	-	-	(195)	(195)
Balance on December 31, 2020	<u><u>\$ 9,157</u></u>	<u><u>13,453</u></u>	<u><u>173</u></u>	<u><u>22,783</u></u>
Balance on January 1, 2019	\$ -	-	-	-
Depreciation	4,923	6,796	186	11,905
Balance on December 31, 2019	<u><u>\$ 4,923</u></u>	<u><u>6,796</u></u>	<u><u>186</u></u>	<u><u>11,905</u></u>
Carrying amounts:				
Balance on December 31, 2020	<u><u>\$ 77,310</u></u>	<u><u>20,528</u></u>	<u><u>294</u></u>	<u><u>98,132</u></u>
Balance on January 1, 2019	<u><u>\$ 115,899</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>115,899</u></u>
Balance on December 31, 2019	<u><u>\$ 100,957</u></u>	<u><u>27,185</u></u>	<u><u>476</u></u>	<u><u>128,618</u></u>

For the years ended December 31, 2020 and 2019, details of bank loans and financing guarantees pledged, please refer to Note 8.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

(9) Investment Property

Investment properties include The Company Self-owned assets and office buildings leased to third parties as operating leases. The initial non-cancellable period of the leased investment properties is two months to twenty-one years, while some lessees have the option to extend the period at the end of the lease.

	Self-owned Assets		Total
	Land and Improvement	Buildings and Construction	
Cost or deemed cost:			
Balance on January 1, 2020	\$ 411,294	3,156,916	3,568,210
Transferred from Property, plant and equipment	10,867	22,453	33,320
Disposals	-	(51,241)	(51,241)
Balance on December 31, 2020	<u>\$ 422,161</u>	<u>3,128,128</u>	<u>3,550,289</u>
Balance on January 1, 2019	\$ 411,294	3,071,302	3,482,596
Transferred from Property, plant and equipment	-	85,614	85,614
Balance on December 31, 2019	<u>\$ 411,294</u>	<u>3,156,916</u>	<u>3,568,210</u>
Depreciation and impairments loss:			
Balance on January 1, 2020	\$ -	1,594,403	1,594,403
Depreciation	-	64,180	64,180
Transferred from Property, plant and equipment	-	14,640	14,640
Impairments	-	6,000	6,000
Disposals	-	(51,241)	(51,241)
Balance on December 31, 2020	<u>\$ -</u>	<u>1,627,982</u>	<u>1,627,982</u>
Balance on January 1, 2019	\$ -	1,472,437	1,472,437
Depreciation	-	64,627	64,627
Transferred from Property, plant and equipment	-	57,339	57,339
Balance on December 31, 2019	<u>\$ -</u>	<u>1,594,403</u>	<u>1,594,403</u>
Carrying amounts:			
Balance on December 31, 2020	<u>\$ 422,161</u>	<u>1,500,146</u>	<u>1,922,307</u>
Balance on December 31, 2019	<u>\$ 411,294</u>	<u>1,562,513</u>	<u>1,973,807</u>
Balance on January 1, 2019	<u>\$ 411,294</u>	<u>1,598,865</u>	<u>2,010,159</u>
Fair value:			
Balance on December 31, 2020			<u>\$ 2,664,150</u>
Balance on December 31, 2019			<u>\$ 2,448,517</u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

Due to the decline in the market price of investment real estate in the 2020, an impairment loss of NTS 6,000 thousand was recognized.

The fair value of investment properties is determined on the basis of a valuation of an independent appraiser (with relevant professional qualification and should have recent experience in the location and category of the investment property evaluated). The input value used in its fair value valuation technology belongs to the third level.

The valuation of fair values is performed with reference to MOI's Real Estate Actual Transaction Price Inquiry Service and real estate websites. Prices of recent transactions in similar areas and types are also used as the valuation basis and appraisal reports are obtained when necessary.

Investment properties include a number of commercial properties leased to others. Each lease contract includes an initial non-cancellable term of two months to twenty-one years. The subsequent lease renewals can be negotiated with the lessee. Also, The Company decided to lease its self-used buildings to others; therefore, property, plant and equipment have been transferred under investment property. For more details, please refer to Note 6(7).

For the years ended December 31, 2020 and 2019, The Company entered into a trust contract with its employees due to participating in the land development project. The Company designated them as the nominees of the land and building ownership registration. In order to ensure the preservation of The Company assets, The Company has registered the property right with notice and all titles are kept by The Company.

For the years ended December 31, 2020 and 2019, details of bank loans and financing guarantees pledged, please refer to Note 8.

(10) Short-term loans

The Company's Short-term borrowings details were as follows:

	December 31, 2020	December 31, 2019
Secured bank loans	<u>\$ 672,070</u>	<u>1,920,566</u>
Unused credit lines	<u>\$ 480,936</u>	<u>491,272</u>
Range of interest rates	<u>2.05%~3.44%</u>	<u>2.10%~5.03%</u>

For the Company's pledged assets as Secured for bank loans, please refer to Note 8.

(11) Long-term loans

The Company's Long-term loans details, conditions, and provisions were as follows:

	December 31, 2020			
	Currency	Range of interest rates	Maturity	Amount
Secured bank loans	NTD	1.85%~2.75%	2021~2023	\$ 1,813,945
"	RM	2.15%~3.57%	2022~2034	195,523
				2,009,468
Less: current portion				(911,057)
Total				<u>\$ 1,098,411</u>
Unused credit lines				<u>\$ 102,451</u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

December 31, 2019				
	Currency	Range of interest rates	Maturity	Amount
Unsecured bank loans	NTD	2.50%	2021	\$ 46,488
Secured bank loans	NTD	2.10%~3.00%	2021~2022	1,560,768
"	USD	3.67%	2020	4,977
"	RM	4.72%~5.40%	2020~2035	174,757
				1,786,990
Less: current portion				(427,432)
Total				\$ 1,359,558
Unused credit lines				\$ 460,775

For the Company's pledged assets as Secured for bank loans, please refer to Note 8.

(12) Corporate bonds payable

1. The details of the Company bonds payable were as follows:

	December 31, 2020	December 31, 2019
Amount in the issuance of domestic ordinary corporate bonds	\$ 560,000	560,000
Less: current portion	(300,000)	-
Ending balance: bonds payable	\$ 260,000	560,000

To increase working capital and repay bank loans, the Company's board of directors' meetings held on March 27, 2017 and May 20, 2016 resolved to issue its first secured ordinary corporate bonds in 2017 and first secured ordinary corporate bonds in 2016. A total amount in NT\$260,000 thousand was issued on April 7, 2017 and NT\$300,000 thousand on June 8, 2016, both with a period of five years.

2. The Company's domestic secured ordinary corporate bond obligations for the years ended December 31, 2020 and 2019 are as follows:

Item	The first secured ordinary corporate bonds in 2017
Total Issuance	NT\$260,000 thousand
Date of Issue	April 7, 2017
Coupon Rate	1.15%
Issuance Period	April 7, 2017~April 7, 2022
Guarantee Agency	Taiwan Cooperative Bank
Trustee	Jih Sun International Bank, Ltd.
Repayment Method	The Company may repay the principal of the corporate bonds in one lump sum at the expiration of five years from the date of issuance.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

<u>Item</u>	<u>The first secured ordinary corporate bonds in 2016</u>
Total Issuance	NT\$300,000 thousand
Date of Issue	June 8, 2016
Coupon Rate	1.15%
Issuance Period	June 8, 2016~June 8, 2021
Guarantee Agency	Taiwan Cooperative Bank
Trustee	Jih Sun International Bank, Ltd.
Repayment Method	The Company may repay the principal of the corporate bonds in one lump sum at the expiration of five years from the date of issuance.

(13) Lease Liabilities

The carrying amount in the Company's lease liabilities:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Current	<u>\$ 10,799</u>	<u>11,860</u>
Non-current	<u>\$ 87,635</u>	<u>117,829</u>

For maturity analysis, please refer to Note 6(23) - Financial Instruments.

Amounts recognized in profit or loss are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense on lease liabilities	<u>\$ 2,672</u>	<u>3,380</u>
Gains on subleasing right-to-use assets	<u>\$ 25,986</u>	<u>31,499</u>
Expenses of short-term leased	<u>\$ 1,952</u>	<u>1,522</u>
Expenses to low-value leases assets (Low-value leases that do not include short-term leases)	<u>\$ -</u>	<u>-</u>

Amounts recognized in the statements of cash flow are as follows:

	<u>2020</u>	<u>2019</u>
Total cash outflow from leases	<u>\$ 14,508</u>	<u>16,379</u>

The Company leases land for a period of 50 years. The Company leases buildings and structures for department store operations for a period of 5 years. Lease payments for certain contracts are calculated based on changes in local price indices.

The period for some of The Company's leased land, offices, employee dormitories, office equipment and transportation equipment are generally one to three years. These leases are short-term leases. The Company elects to apply for the recognition exemption and does not recognize its related right-of-use assets and lease liabilities.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

(14) Operating Leases

Lessor leases

The Company leases its investment properties and subsidiary machinery and equipment. These are classified as operating leases as nearly all the risks and rewards of ownership of the underlying assets have not been transferred. Please refer to Note 6(9) Investment Property.

An analysis of matured lease payments based on the total undiscounted lease payments to be received after the reporting date:

	December 31, 2020	December 31, 2019
Under 1 year	\$ 152,365	173,747
One to two years	94,756	122,247
Two to three years	58,515	90,192
Three to four years	41,887	62,087
Four to five years	35,978	44,298
More than five years	<u>182,274</u>	<u>216,800</u>
Total undiscounted lease payments	<u>\$ 565,775</u>	<u>709,371</u>

For lease income generated from investment property for 2020 and 2019, please refer to Note 6(19); expenses generated from maintenance and leasing totaled NT\$159,713 thousand and NT\$195,564 thousand, respectively.

(15) Employee benefits

1. Defined benefit plans

Reconciliation of defined benefit obligations at present value and plan assets at fair value were as follows:

	December 31, 2020	December 31, 2019
Present value of defined benefit obligations	\$ 56,432	60,152
Fair value of plan assets	<u>(66,409)</u>	<u>(68,779)</u>
Net defined benefit net asset	<u>\$ (9,977)</u>	<u>(8,627)</u>

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

The balance of the Company labor pension reserve account in the Bank of Taiwan amounted to \$66,409 thousands as of reporting date. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in the present value of the defined benefit obligations

The Company's movements in the present value of defined benefit obligations for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Defined benefit obligations on January 1	\$ (60,152)	(55,278)
Current service cost and interest	(1,026)	(1,206)
Net defined benefit liability (asset) remeasurement		
- Actuarial gains and losses from experience adjustments	239	(5,722)
- Actuarial gains and losses from changes in demographic assumptions	-	(27)
- Actuarial gains and losses from changes in financial assumptions	(1,777)	(1,445)
Benefit paid by the plan	<u>6,284</u>	<u>3,526</u>
Defined benefit obligations on December 31	<u><u>\$ (56,432)</u></u>	<u><u>(60,152)</u></u>

3) Movements of the fair value of defined benefit plan assets

The Company's movements in the fair value of the defined benefit plan assets for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets on January 1	\$ 68,779	68,185
Interest revenue	476	663
Net defined benefit liability (asset) remeasurement		
- Return on plan assets (excluding current interest)	2,332	2,350
Contributions paid by the employer	1,106	1,107
Benefits planned to be paid	<u>(6,284)</u>	<u>(3,526)</u>
Fair value of plan assets on December 31	<u><u>\$ 66,409</u></u>	<u><u>68,779</u></u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

4) Expenses recognized in profit or loss

The Company's expenses recognized in profit or loss for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Service costs for the period	\$ 613	677
Net interest of net liabilities for defined benefit obligations	<u>(63)</u>	<u>(134)</u>
	<u>\$ 550</u>	<u>543</u>
Construction in Progress	\$ 171	156
Selling expenses	281	220
Administrative expenses	<u>98</u>	<u>167</u>
	<u>\$ 550</u>	<u>543</u>

5) Actuarial assumptions

The Company's determines the present value of defined benefit obligations at the end of the financial reporting date. The material actuarial assumptions are as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Discount rate	0.30%	0.70%
Future salary increase rate	2.00%	2.00%

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$443 thousands.

The weighted-average lifetime of the defined benefit plan is 8 years.

6) Sensitivity analysis

When December 31, 2020 and 2019 adopting the main actuarial assumptions, the impact on determining the present value of welfare obligations is as follows:

	<u>Defined benefit obligation</u>	
	<u>Increased by 0.25%</u>	<u>Decreased by 0.25%</u>
December 31, 2020		
Discount rate (changed of 0.25%)	(1,120)	1,153
Future salary increase rate (changed of 0.25%)	1,131	(1,104)
December 31, 2019		
Discount rate (changed of 0.25%)	(1,208)	1,245
Future salary increase rate (changed of 0.25%)	1,226	(1,196)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

The method and assumption used in the sensitivity analysis is consistent with prior period.

2. Defined contribution plan

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates the labor pension at a specific percentage to the Bureau of the Labor Insurance without additional legal or constructive obligations.

According to the regulations of the Employees' social Security Act for the defined contribution plan for The Company's Malaysian branch, a rate of 13% of the employees' monthly wage is a contribution to the personal account of SOCSO. Under such a plan, after The Company contributes a fixed amount to the Bureau of Labor Insurance, there is no legal or constructive obligation for The Company to pay additional amounts.

For 2020 and 2019, The Company contributed NT\$2,852 thousand and NT\$2,736 thousand, respectively, to the Bureau of Labor Insurance under the Defined Contribution Pension Measures.

(16) Income Tax

1. Income tax expense

Details of The Company's income tax expenses for 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current income tax expense		
Incurred during the period	\$ 17,706	15,210
Adjustment for prior periods	(3,140)	209
Land value increment tax	24,001	1,706
Additional surtax on unappropriated earnings	-	7,115
	<u>38,567</u>	<u>24,240</u>
Deferred income tax expense		
Occurrence and reversal of temporal differences	777	390
Income tax expense	<u>\$ 39,344</u>	<u>24,630</u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

2. A reconciliation of the Company's income tax expenses and net (losses) income before tax for 2020 and 2019 is as follows:

	2020	2019
Net (loss) income before tax	\$ (15,325)	(66,132)
Income tax calculated using the domestic tax rate where the Company operates	\$ (3,065)	(13,227)
Effects on tax rate difference in foreign jurisdictions	7,925	9,704
Non-deductible expenses	11,732	6,592
Tax-free income	(49,782)	3,765
Investment gains or losses recognized under the equity method	52,658	(25,353)
Current tax losses on unrecognized deferred income tax assets	(673)	27,202
Changes in unrecognized temporary differences	(13,319)	(3,445)
Past (over) under estimates	(3,140)	209
Tax on earnings-unappropriated	-	7,115
Land value increment tax	24,001	1,706
Other	13,007	10,362
Total	<u>\$ 39,344</u>	<u>24,630</u>

3. Deferred tax assets and liabilities

(1) Unrecognized deferred tax liabilities

For the years ended December 31, 2019 and 2018, no-deferred tax liabilities were recognized for temporary differences associated with investments in subsidiaries as the Company could control the timing of the reversal of the temporary differences and is fairly confident that the temporary differences will not reverse in the foreseeable future. Its relevant amounts are as follows:

	December 31, 2020	December 31, 2019
Taxable temporary differences associated with investments in subsidiaries	<u>\$ 20,478</u>	<u>90,786</u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

(2) Unrecognized deferred tax assets

The Company unrecognized deferred tax assets are as follows:

	December 31, 2020	December 31, 2019
Deferred credit	\$ 27,414	37,481
Bad debt disallowance	368,209	367,922
Unrealized Impairment loss on assets	16,624	15,424
Tax losses	115,031	222,789
Lease liabilities	-	231
Other	19,905	19,905
	<u>\$ 547,183</u>	<u>663,752</u>

Under the ROC tax laws, approved tax losses can be carried forward for 10 years to offset future taxable profits. These assets are not recognized as deferred income tax assets. It is not probable for The Company to have sufficient taxable income in the future to allow for these temporary differences.

As of December 31, 2020, the expiration period for abovementioned unrecognized deferred tax assets of unused tax losses carryforwards were as follows:

Year of Assessment	Unrecognized Deferred Tax Assets	Expiration in Year
2012 (Approved number)	\$ 194,198	2022
2013(Approved number)	177,913	2023
2017 (Approved number)	70,931	2027
2018 (Approved number)	50,779	2028
2019 (Declared Number)	81,332	2029
	<u>\$ 575,153</u>	

(3) Recognized deferred tax assets / liabilities

Changes in deferred tax assets (liabilities) for 2019 and 2018:

	Assets	Liabilities
Balance on January 1, 2020	\$ 234	(1,057)
Debit (credit) on income statement	(13)	(764)
Balance on December 31, 2020	<u>\$ 221</u>	<u>(1,821)</u>
Balance on January 1, 2019	\$ 301	(734)
Debit (credit) on income statement	(67)	(323)
Balance on December 31, 2019	<u>\$ 234</u>	<u>(1,057)</u>

4. Income tax verification

(1) The Company's income tax returns up to 2018 have been verified by the tax authorities.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

(17) Capital and Other equity interests

As of December 31, 2020 and 2019, the Company's authorized common stock consisting of 1,600,000 thousand shares with a par value of 10 New Taiwan dollar per share amounted to \$16,000,000 thousand of which 387,000 thousand shares were issued. Among these, 86,500 thousand ordinary shares for each year were privately placed. All issued shares were paid up upon issuance.

1. Capital surplus

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

	December 31, 2020	December 31, 2019
Conversion premium for bonds payable	\$ 350,720	350,720
Treasury shares transactions	19,018	19,018
Difference arising from subsidiary's equity	199	199
Other	1,795	1,795
	<u>\$ 371,732</u>	<u>371,732</u>

As required by the Company Act, the capital surplus must first be used to make up for losses before new shares or cash can be issued to shareholders in proportion to the realized capital surplus. The realized capital surplus referred to in the preceding paragraph includes the proceeds from the share issuance in excess of the par value of the proceeds from donations. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be allocated from capital. The total allocation amount each year may not exceed 10% of the paid-in capital.

2. Retention of surplus

In accordance with the Company's Articles of Incorporation, if there are any earnings in the final accounts, income taxes must be paid as required by the law. After previous losses have been made up, 10% of the legal reserve shall be set aside, and according to applicable regulations and competent authorities, distributable earnings are accumulated from the special reserve appropriated or reversed, and the accumulated distributable earnings of the previous year with the distributable earnings of the year.

The company passed the resolution of the shareholders' meeting on June 12, 2020 to amend the company's articles of association, stipulating that the distribution of surplus or loss allowance shall be made after the end of each half year. If there is any surplus in the semi-annual final accounts, it shall be distributed in accordance with the above procedures. It.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

The above-mentioned cumulative distributable surplus shall be distributed by the board of directors. When new shares are issued, it shall be submitted to the shareholders meeting for distribution after a resolution. When cash is issued, it shall be in accordance with Article 240, Item 5 of the Company Law. Authorize the board of directors to distribute with more than two-thirds of the directors present and the resolutions approved by more than half of the present directors, and report to the shareholders meeting.

The board of directors proposes distribution motions and submit such motions to the shareholders' meeting for resolution.

The distribution of cash and stock dividends shall be limited to 30% to 100%. However, the Company must also take into account the future business and major capital expenditure plans and shall reserve the necessary funds as a priority before the distribution of dividends.

Give the Company is in a mature and stable stage of its corporate life cycle. However, it is in a volatile industrial environment and able to cope with the economy and market changes. The Company adopts a residual dividend policy to distribute cash and stock dividends by taking into account its business plans, profitability and investment capital needs. The cash dividend ratio is limited to no less than 20% of the total cash and dividends distributed in the year. However, when the earnings distributed to shareholders for the year does not exceed NT\$1 per share, when the debt ratio exceeds 50%, the earnings may be distributed entirely by stock dividends.

(1) Statutory surplus

Where there is no loss in the Company, the shareholders' meeting may resolve to distribute new shares or cash from the legal reserve. However, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(2) Special reserve

In accordance with FSC. Certificate. Issue. Tzi No. 1010012865 Letter issued on April 6, 2012, when the Company allocates distributable earnings, the difference between the net decrease in other stockholders' equity and the balance of the special reserve is added to the special reserve from profit or loss for the period and prior period's undistributed retained earnings. The decrease in other shareholders' equity accumulated in prior periods is not distributable from the special reserve from undistributed retained earnings of prior periods. If there is a reversal of the decrease in the amount in other shareholders' equity later, earnings may be distributed accordingly.

In accordance with FSC. Certificate. Issue. Tzi No. 1010047490 Letter issued on November 21, 2012, the difference between the market value of a subsidiary's shares and the carrying amount in the parent's shares at the end of the period shall not be distributed as a special reserve based on the ratio of the shares being held. If the market price recovers later, the amount may be transferred to a special reserve in proportion to the number of shares being held.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

The annual general meetings held on June 12, 2020 and June 13, 2019 resolved to special reserve appropriated of NT\$3,698 thousand and reversal of special reserve NT\$9,862 thousand, respectively, for the motion of offset losses for 2019 and earnings distribution for 2018.

(3) Earnings distribution

The annual general meetings held on June 12, 2020 and June 13, 2019 resolved the motion of offset losses for 2019 and earnings distribution for 2018. The amounts of dividends distributed to owners are as follows:

	2018	
	Amount per share (dollars)	Amount
Common stock dividends per share:		
Cash	\$ 0.16	<u><u>61,920</u></u>

3. Treasury shares

The situation of the subsidiary holding the company treasury shares for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Number of the Company shares the subsidiaries hold	<u><u>25,444</u></u>	<u><u>25,444</u></u>
Carrying amounts	<u><u>\$ 193,207</u></u>	<u><u>193,207</u></u>
Stock market price	<u><u>\$ 253,422</u></u>	<u><u>284,973</u></u>

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

4. Other equity interests

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from Financial Assets Measured at FVTOCI	Total
Balance on January 1, 2020	\$ 162,953	618,594	781,547
Exchange differences on foreign operations	17,512	-	17,512
Translation difference of the Share of profit of subsidiaries accounted for using equity method	(2,052)	-	(2,052)
Unrealized gains from investments in financial assets measured at FVTOCI	-	(13,890)	(13,890)
Share of unrealized gains (losses) of financial assets at FVTOCI of subsidiaries using the equity method accounted	-	4,920	4,920
Balance on December 31, 2020	<u>\$ 178,413</u>	<u>609,624</u>	<u>788,037</u>

	Exchange differences resulting from translating the financial statements of foreign operations	Unrealized gains (losses) from Financial Assets Measured at FVTOCI	Total
Balance on January 1, 2019	\$ 196,760	558,609	755,369
Exchange differences on foreign operations	9,158	-	9,158
Translation difference of the Share of profit of subsidiaries accounted for using equity method	(42,965)	-	(42,965)
Unrealized loss from investments in financial assets measured at FVTOCI	-	21,410	21,410
Share of unrealized gains (losses) from financial assets measured at FVTOCI of subsidiaries using the equity method accounted	-	28,913	28,913
Proceeds from disposal share of profit of subsidiaries accounted for using equity method measured at FVTOCI	-	9,662	9,662
Balance on December 31, 2019	<u>\$ 162,953</u>	<u>618,594</u>	<u>781,547</u>

Pacific Construction Co., Ltd. Notes to Financial Statements

(18) Earnings per share

As of 2020 and 2019, the Company basic and diluted earnings per share are calculated as follows:

	<u>2020</u>	<u>2019</u>
Basic loss “per” share		
Profit (loss) attributable to shareholders of the Company	\$ <u>(54,669)</u>	<u>(90,762)</u>
Weighted-average number of outstanding ordinary shares	<u>361,556</u>	<u>361,556</u>
	<u>\$ (0.15)</u>	<u>(0.25)</u>
Diluted loss per share		
Profit (loss) attributable to shareholders of the Company	\$ <u>(54,669)</u>	<u>(90,762)</u>
Weighted-average number of outstanding ordinary shares	<u>361,556</u>	<u>361,556</u>
Weighted-average number of outstanding ordinary shares of potential diluted ordinary shares		
Employee compensation	<u>Note</u>	<u>Note</u>
Weighted-average number of outstanding ordinary shares (after adjustment of potential diluted ordinary shares)	<u>361,556</u>	<u>361,556</u>
	<u>\$ (0.15)</u>	<u>(0.25)</u>

Note: With anti-dilution, it is therefore not included in the calculation of diluted earnings per share.

(19) Revenue from contracts with customers

1. Disaggregation of revenue

	2020			
	Construction Segment	Leasing Segment	Property Management Segment	Total
Primary geographical markets:				
Taiwan	\$ 2,169,911	67,205	9,143	2,246,259
Malaysia	-	-	174,158	174,158
	<u>\$ 2,169,911</u>	<u>67,205</u>	<u>183,301</u>	<u>2,420,417</u>
Major products/services lines:				
Sales of Real Estate	<u>\$ 2,169,669</u>	<u>-</u>	<u>-</u>	<u>2,169,669</u>
Lease Revenue	<u>-</u>	<u>67,205</u>	<u>174,158</u>	<u>241,363</u>
Other revenue	<u>242</u>	<u>-</u>	<u>9,143</u>	<u>9,385</u>
	<u>\$ 2,169,911</u>	<u>67,205</u>	<u>183,301</u>	<u>2,420,417</u>

Pacific Construction Co., Ltd. Notes to Financial Statements

2019				
	Construction Segment	Leasing Segment	Property Management Segment	Total
Primary geographical markets:				
Taiwan	\$ 42,878	67,534	6,900	117,312
Malaysia	-	-	209,563	209,563
	<u>\$ 42,878</u>	<u>67,534</u>	<u>216,463</u>	<u>326,875</u>
Major products/services lines:				
Sales of Real Estate	\$ 42,645	-	-	42,645
Lease Revenue	-	67,534	209,563	277,097
Other revenue	233	-	6,900	7,133
	<u>\$ 42,878</u>	<u>67,534</u>	<u>216,463</u>	<u>326,875</u>

2. Contract balances

	December 31, 2020	December 31, 2019	January 1, 2019
Notes receivable	\$ 14,390	368	5,642
Accounts receivable	124,825	90,965	132,968
Less: Allowance for losses	(30,065)	(23,182)	(55,614)
	<u>\$ 109,150</u>	<u>68,151</u>	<u>82,996</u>
Contractual liabilities - Sales of Real Estate	<u>\$ 450,914</u>	<u>773,335</u>	<u>698,605</u>

For details on accounts receivable and allowance for impairment, please refer to note 6(3).

The amount of revenue recognized for the years ended December 31, 2020 and 2019. that was included in the contract liability balance at the beginning of the period were \$569,487 thousands and \$0 thousands, respectively. Contract liabilities are mainly due to the advance receipts arising from the signing of real estate sales contracts. The company will transfer the revenue when the products are delivered to customers.

The major change in the balance of Contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There were no other significant changes for the years ended December 31, 2020 and 2019.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(20) Costs

Details of the Company costs for 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Lease cost	\$ 159,713	195,564
Construction costs	1,656,606	45,235
Other Operating costs	2,130	3,010
Gain from price recovery of inventory	<u>(42,130)</u>	<u>(2,721)</u>
	<u>\$ 1,776,319</u>	<u>241,088</u>

(21) Remuneration to Employees, Directors and Supervisors

As stipulated in the Company's Articles of Incorporation, 1% to 2% of the annual profit shall be allocated as remuneration to employees. The distribution of remuneration in shares or cash is resolved by the board of directors' meeting, and these employees must be employees of the controlling or subordinate companies who meet certain requirements. No more than 2% of the annual profit shall be allocated in cash as remuneration to directors by resolving the Board of Directors. The motion of distribution of remuneration to employees and directors shall be proposed to the shareholders' meeting.

However, where there are accumulated losses, the Company shall first retain a certain amount before allocating remuneration to Employees, Directors and Supervisors as referred to in the preceding paragraph.

For the years ended December 31, 2020 and 2019, the Company estimated its employee remuneration amounting to \$0 thousands and \$0 thousands, and directors' and supervisors' remuneration amounting to \$0 thousands and \$0 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2020 and 2019. Related information would be available at the Market Observation Post System website. The amounts, as stated in the parent company only financial statements, are identical to those of the actual distributions for 2020 and 2019.

The Company's recognized remuneration to employees and directors, supervisors for 2019 and 2018 was the same as the actual distribution. Relevant information can be found on MOPS.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(22) Non-operating income and expenses

1. Other gains and losses

Details of the Company's other gains and losses for 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Foreign currency exchange losses	\$ (1,537)	(2,413)
Gains on disposal of property, plant and equipment	4,059	(747)
Proceeds from disposal share of profit of subsidiaries, associates and joint ventures accounted for using equity method	48,321	-
Dividend income	4,808	6,972
Royalty revenue	-	29
Gains on disposal of investment property	(6,000)	-
Other gains and losses	10,617	3,946
	<u><u>\$ 60,268</u></u>	<u><u>7,787</u></u>

2. Finance costs

Details of the Company's financial costs for 2019 and 2018 are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense	\$ 130,429	140,696
Lease liabilities interest	2,672	3,380
Less: Capitalization of interests	-	(30,425)
	<u><u>\$ 133,101</u></u>	<u><u>113,651</u></u>
Capitalization rate	<u><u>-</u></u>	<u><u>2.69%~3.25%</u></u>

(23) Financial Instruments

1. Credit risk

(1) Exposure of credit risk

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

(2) Concentration of credit risk

Given the Company has a large customer group and does not have a significant concentration of transactions with a single customer. It has scattered sales regions, there is no concern of the credit risk of accounts receivable being significantly concentrated. In an effort to reduce the credit risk, the Company also assesses the financial situation of its customers regularly. The Company does not usually require customers to provide collaterals.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(3) Credit risk of accounts receivable

For the credit risk exposure information on notes receivable and accounts receivable, please refer to Note 6(3). For other financial assets measured at amortized cost, including other receivables, please refer to the allowance for losses for the years ended December 31, 2020 and 2019 at Note 6(4).

Financial assets above are with low credit risk, therefore, allowances for losses are measured based on the expected credit loss amount for 12 months (please refer to Note 4(6) for details of how the Company determines low credit risk).

2. Liquidity risk

The following is a table showing expiration dates of contracts, including estimated interests but excluding the effects on netting agreements.

	<u>Carrying amounts</u>	<u>Contract Cash flow</u>	<u>Within 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Balance on December 31, 2020						
Non-derivative finance liabilities						
Floating rate instruments	\$2,681,538	2,806,159	1,425,217	1,281,350	45,939	53,653
Fixed rate instruments	560,000	565,288	304,493	260,795	-	-
No interest-bearing liability	1,115,030	1,115,030	1,115,030	-	-	-
Lease liabilities	<u>98,434</u>	<u>115,833</u>	<u>12,340</u>	<u>16,994</u>	<u>15,266</u>	<u>71,233</u>
	<u>\$4,455,002</u>	<u>4,602,310</u>	<u>2,857,080</u>	<u>1,559,139</u>	<u>61,205</u>	<u>124,886</u>
Balance on December 31, 2019						
Non-derivative finance liabilities						
Floating rate instruments	\$3,707,556	3,940,594	1,081,767	2,774,211	30,779	53,837
Fixed rate instruments	560,000	571,728	6,440	565,288	-	-
No interest-bearing liability	833,783	833,783	774,176	59,607	-	-
Lease liabilities	<u>129,689</u>	<u>115,833</u>	<u>12,340</u>	<u>16,994</u>	<u>15,266</u>	<u>71,233</u>
	<u>\$5,231,028</u>	<u>5,461,938</u>	<u>1,874,723</u>	<u>3,416,100</u>	<u>46,045</u>	<u>125,070</u>

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

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

3. Currency risk

(1) Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk was as follows:

	December 31, 2020			December 31, 2019			
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	
Financial assets							
Monetary items							
USD	\$	3,980	28.48	113,350	5,959	29.98	178,651
JPY		12,431	0.276	3,431	2,881	0.276	795
Financial liabilities							
Monetary items							
USD	-	-	-	166	29.98	4,977	

(2) Sensitivity analysis

The Company exchange rate risk is mainly due to foreign-currency-denominated cash and cash equivalents, other receivables and borrowings, which foreign exchange gains and losses arise upon translation. When NTD decreased or increased by 5% against the USD and JPY for the years ended December 31, 2020 and 2019 with all other factors held constant, the net income would have increased or decreased by NT\$5,839 thousand and NT\$8,723 thousand, respectively. The same basis was used for the analysis for both periods.

(3) Exchange gains and losses of monetary items

As the Company deals with diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2020 and 2019, the foreign exchange losses, including both realized and unrealized, amounted to NT\$(1,537) thousand and NT\$(2,413) thousand, respectively.

4. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date were outstanding throughout the year. The rate of change is expressed as the interest rate increase or decrease by 0.5%, when reporting to management internally, which also represents the assessment of the Company's management for the reasonably possible interval of interest rate change.

Assuming all other variable factors remaining constant, if the interest rate had increased or decreased by 0.5%, the impact to the Net profit would be as follows for the years ended December 31, 2020 and 2019 would have increased or decreased by NT\$10,726 thousand and NT\$14,830 thousand, mainly due to The Company floating-rate loans.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

5. Other price risk

If there are changes in the prices of equity securities (The same basis was used for the analysis for both periods and other variable factors held constant was assumed), the effect on the comprehensive income items would have been as follows:

	2020		2019	
	Other Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Other Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Prices of securities at the reporting date				
Increase 1%	<u>\$ 2,949</u>	<u>-</u>	<u>3,088</u>	<u>-</u>
Decrease 1%	<u>\$ (2,949)</u>	<u>-</u>	<u>(3,088)</u>	<u>-</u>

6. Fair value information

- (1) The Company's financial assets measured at FVTOCI are measured at fair value on a recurring basis. The carrying amounts and fair values (including fair value hierarchy information, but information on reasonable approximation of fair value on the carrying amount in financial assets not carried at fair values and lease liabilities are not required to be disclosed by regulations) of all types of financial assets and financial liabilities are listed as follows:

	December 31, 2020				
	Fair value				
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial Assets at FVTOCI	<u>\$ 294,916</u>	<u>76,080</u>	<u>-</u>	<u>218,836</u>	<u>294,916</u>
	December 31, 2019				
	Fair value				
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial Assets at FVTOCI	<u>\$ 308,806</u>	<u>92,160</u>	<u>-</u>	<u>216,646</u>	<u>308,806</u>

- (2) Valuation techniques for financial instruments not measured at fair value

The Company's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

- (2.1) Financial assets measured at amortized cost (debt investment that has no active markets) and financial liabilities measured at amortized cost.

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(3) Valuation techniques for financial instruments measured at fair value

(3.1) Non-derivative financial instruments

If a quoted price is in an active market for a financial instrument, the quoted price is used as the fair value in an active market. Market prices announced by major exchanges and popular bonds judged by the TPEX are the basis for the fair value of listed equity instruments and debt instruments with active market quotations.

If quotations of financial instruments are regularly obtained from an exchange, broker, underwriter, industry association, pricing service or competent authority in a timely manner, and the prices represent actual and frequent fair market transactions. Such financial instruments have an active market for quotations. If the above criteria are not met, the market is deemed inactive. Generally, a large bid-ask spread, a significant increase in the bid-ask spread, or a low trading volume are all indicators of an inactive market.

If the financial instrument held by the Company has an active market (TWSE or TPEX listed companies whose financial assets have standard terms and conditions that are traded in an active market), its fair value is determined by taking reference from quoted market prices.

Except for the aforementioned financial instruments with active markets, the fair values of the remaining financial instruments are obtained using valuation techniques or by taking reference from quoted prices of counter-parties. A fair value obtained through a valuation technique may be calculated by taking reference from the current fair value of other financial instruments with substantially similar conditions and characteristics, discounted cash flow method or other valuation techniques, including model calculations based on market information available at the reporting date (e. g. TEPx's yield curves and Reuters' average quotations for the rate of promissory notes).

If the financial instrument held by the Company has no active markets, their types and characteristics are listed as follows:

- Equity instruments without quoted prices: The fair value is estimated using a discounted cash flow model. The main assumption is measured by discounting the expected future cash flows of the investee at a return rate to reflect the time value of money and investment risk.
- Equity instruments without quoted prices: The fair value is estimated using the market comparable company method. The main assumption is measured by the estimated earnings before interest, depreciation and amortization of the investees and the earnings multiplier derived from the quoted market prices of comparable listed (OTC) companies. These estimates have been adjusted for the discount effect of the lack of marketability of the equity securities.

(4) Any transfers between Level 1 and Level 2: None.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(5) Details of changes in Level 3

	Unquoted equity instruments measured at FVTOCI
Balance on January 1, 2020	\$ 216,646
Total profit (losses) recognized:	
In other comprehensive income	<u>2,190</u>
Balance on December 31, 2020	<u>\$ 218,836</u>
Balance on January 1, 2019	\$ 214,076
Total profit (losses) recognized:	
In other comprehensive income	<u>2,570</u>
Balance on December 31, 2019	<u>\$ 216,646</u>

The above stated total gains or losses are reported in "Unrealized valuation gains (losses) on financial assets at FVTOCI. "Among these, assets still being held in 2020 and 2019 by:

	2020	2019
Total profit (losses) recognized:		
Recognized in other comprehensive income (reported in "Unrealized gain (loss) on valuation of financial assets measured at FVTOCI")	\$ 2,190	2,570

(6) Quantitative information on fair value measurements using significant unobservable inputs (Level 3)

The fair value measurements of the Company are classified as Level 3. It mainly includes financial assets measured at FVTOCI - equity securities investment.

Most of the Company's fair values are classified as Level 3 with one significant unobservable input. Only investments in equity instruments without an active market have more than one significant unobservable inputs. Significant unobservable inputs to investments in equity instruments without an active market are not correlated with each other as they are independent of each other.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The quantified information for significant unobservable inputs was as follows:

Item	Valuation Technique	Significant Unobservable Inputs	Inter-Relationships Between Significant Unobservable Inputs and Fair Value
Financial assets at FVTOCI - equity investment without an active market	Discounted cash flow method	·Long-term revenue growth rate (for the years ended December 31, 2020 and 2019 were 0.5% and 1%, respectively.) ·Weighted average cost of funds rate (at 7.23% for the year ended 2020 and 6.61% for the year ended 2019) ·Lack-of-Marketability discount rate (both at 7% for the years ended December 31, 2020 and 2019)	·The higher the weighted average cost of capital, minority interest discounts and lack of marketability discounts, the lower the fair value ·The higher the long-term revenue growth rate, the higher the fair value
Financial assets at FVTOCI - equity investment without an active market	Net Assets value method	·Net Assets value	·The higher the Net Assets value, the higher the Fair value

(7) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Company's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

		Other Comprehensive Income		
	Inputs	Move Up or Down	Favorable Change	Unfavorable Change
Balance on December 31, 2020				
Financial Assets at FVTOCI				
Equity investments without an active market	Liquidity discount	1%	2,286	(2,286)
Balance on December 31, 2019				
Financial Assets at FVTOCI				
Equity investments without an active market	Liquidity discount	1%	2,264	(2,264)

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The favorable and unfavorable changes reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

(24) Financial risk management

1. Overview

The Company is exposed to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

In this note expressed the information on risk exposure and objectives, policies and procedures of risk measurement and management of the Company. For detailed information, please refer to the related notes of each risk.

2. Risk management structure

The board of directors takes full responsibility in setting up and supervising the Company's risk management structure. The board of directors has given full authority to the management to develop and control the Company's risk management policy. The management regularly reports its operations to the board of directors.

The Company's risk management policy's establishment is to identify and analyze the risks faced by the Company and to further set appropriate risk limits and controls while monitoring compliance with risks and risk limits. The risk management policy and system are reviewed regularly to reflect changes in market conditions and Company's operations. Through training, management guidelines and operating procedures, the Company has developed a disciplined and constructive control environment so that all employees understand their roles and obligations.

The Company's audit committee monitors how management monitors compliance with the Company's risk management policy and procedures while also reviewing the appropriateness of related risk management structure for the Company's risks. Internal auditors assist the Company's audit committee in playing the monitoring role. These internal auditors perform regular and unscheduled reviews on risk management controls and procedures which also report the results to the board of directors and the audit committee.

3. Credit risk

Credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. It arises mainly from accounts receivable from customers from the Company's operating activities and bank deposits and other financial instruments arising from investment activities. Operational credit risk and financial credit risk are managed separately.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(1) Accounts receivable and other receivables

The Company's internal control system has established a credit policy. According to the policy, the Company must analyze each new customer's credit rating individually before granting the standard payment and delivery terms and conditions. The Company's review and control mechanism include historic customer transactions, external rating bank's notes. A procurement limit is established on a customer-by-customer basis, representing the maximum uncollected amounts not subject to management approval. This limit is reviewed regularly.

Given the Company has a large customer group and does not have a significant concentration of transactions with a single customer. It has scattered sales regions, there is no concern of the credit risk of accounts receivable being significantly concentrated. Also, the Company is engaged in the development and sale of properties to general individuals, and payments are primarily made by remittances, notes and bank financing, so the related credit risk is considerably low.

Additionally, the Company's construction projects are carried out based on the operating measures of company construction projects. Construction counter-parties the Company constructs out to have a sound reputation with their construction capacities meeting the regulations; therefore, the Company is able to fully grasp the quality and progress of the construction project. Other receivables are mainly landlords and related parties and are assessed to be repayable by the debtors; therefore, the Company has no significant credit risk in other receivables.

(2) Financial credit risk

The credit risk of bank deposits, fixed-income investments and other financial instruments are measured and supervised by the Company's Finance Department. There are no major performance concerns as the counter-parties and the performing parties of the Company are banks and financial institutions, corporative organizations and government agencies with investment grade or above, so there are no major credit risks.

(3) Guarantee

The Company's policy stipulates that it can only provide financial guarantees to subsidiaries with at least 50% ownership with a certain amount set out. As of the years ended December 31, 2020 and 2019, the Company provided no endorsements/guarantees.

4. Liquidity risk

The Company's liquidity risk is that it is unable to deliver cash or other financial assets to settle financial liabilities and unable to perform related obligations. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The remaining contractual maturity analysis of the Company's financial liabilities during the agreed repayment period is prepared based on the earliest possible date on which the Company could be required to repay its financial liabilities and the undiscounted cash flows of the equivalent interest.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The Company's liquidity risk management does not consider the repayment of financial liabilities using investments in equity instruments. The number of floating-rate instruments for the above financial assets and liabilities may change due to the floating rate and the reporting period's end. In addition, the Company's unused borrowings for the years ended December 31, 2020 and 2019 were NT\$583,387 thousand and NT\$952,047 thousand, respectively.

5. Market risk

Market risk affects the Company's earnings or the value of financial instruments due to changes in market prices, such as changes in exchange rates, interest rates, and prices of equity instruments. The objective of market risk management is to manage market risk to a tolerable level and to optimize investment returns.

(1) Exchange rate risk

The Company is exposed to exchange rate risk arising from bank deposits that are not denominated in the functional currency of the group. However, based on conservative and prudent principles, the Company does not use hedging instruments to hedge exchange rate risk.

The cash inflows and outflows of subsidiaries have a natural hedging effect.

For the sensitivity analysis of foreign currency exchange rate risks, please refer to Note 6(23).

(2) Interest rate risk

The Company's policy is to review and control the optimal interest rate portfolios of financial liabilities by management to control the risk of interest rate fluctuations of the Company's finances.

The Company's interest rate risk mainly comes from its floating-rate loans. The Company assesses that the interest rate level in the environment where it operates has been stable in recent years and should not cause significant interest rate risks.

For the sensitivity analysis of interest rate risk, please refer to Note 6(23).

(3) Other market price risk

The Company holds equity securities investments that generate equity price risk. The equity investment is not held for trading but is a strategic investment. The Company is not actively trading these investments, so they should not lead to a significant market rise.

For the sensitivity analysis of the price of equity instruments, please refer to Note 6(23).

(25) Capital management

The Company's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

The Company and other entities in the same industry use the debt-to-capital ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity plus net debt.

The Company's capital management strategy for 2020 and 2019 was consistent. By being consistent, it means maintaining a certain debt-to-capital ratio, ensuring that financing was available at a reasonable cost. The debt-to-capital ratios for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Total liabilities	\$ 4,727,157	6,172,004
Less: cash and cash equivalents	<u>(609,418)</u>	<u>(332,955)</u>
Net liabilities	4,117,739	5,839,049
Total equity	<u>6,802,501</u>	<u>6,849,947</u>
Capital after adjustment	<u>\$ 10,920,240</u>	<u>12,688,996</u>
Debt-to-capital ratio	<u>38%</u>	<u>46%</u>

(26) Fund-raising Activities for Non-cash Transactions

Details of the Company's non-cash transaction financing activities for 2020 and 2019 are as follows:

1. Acquire right-of-use assets through leases, please refer to Note 6(8).
2. A reconciliation of liabilities from financing activities are as follows:

	January 1, 2020	Cash Flow	Non-Cash Changes		December 31, 2020
			Exchange Rate Changes	Other	
Lease liabilities	<u>\$ 129,689</u>	<u>(9,884)</u>	<u>(736)</u>	<u>(20,635)</u>	<u>98,434</u>

	January 1, 2019	Cash Flow	Non-Cash Changes		December 31, 2019
			Exchange Rate Changes	Other	
Lease liabilities	<u>\$ 115,899</u>	<u>(11,477)</u>	<u>(245)</u>	<u>25,512</u>	<u>129,689</u>

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

7. Related-Party Transactions

(1) Names and relationship with related parties

The following are entities that have had transactions with the Company's subsidiaries and related-party during the periods covered in the parent company only financial statements.

Name of Related-Party	Relationship with the Company
Hong Kong Pacific Construction Co., Ltd.	Company's subsidiaries
Taitou Xingye Co., Ltd.	Company's subsidiaries
Chun-Tse Asset Management Co., Ltd.	Company's Sub-subsidiaries
Pacific Realtor Co., Ltd.	Company's subsidiaries
Pacific Department Stores Co., Ltd.	Company's subsidiaries
Pacific Freshlife Industrial Company Limited	Company's subsidiaries (Liquidation has been completed in June 2020)
Hong Kong Pacific Holdings Co., Ltd.	Company's subsidiaries
Beijing Tai-Kong Consulting Services Co., Ltd.	Company's Sub-subsidiaries
Tai-Fu Recreation Co., Ltd.	Associates of the Company's (Note 4)
Beijing Tai-Yun Building Co., Ltd.	Associates of the Company's
Pacific 88 Co., Ltd.	Associates of the Company's
Pacific Er-Ben Management Co., Ltd.	Corporate Representative Director of the company's
Xing-Long Investment Co., Ltd.	The company's directors are the same as the Company's directors
Zhang, Qi-Guang	Second-degree relatives of the company's directors
SOGO Department Stores Co., Ltd.	Substantial Related-Party of the Company's
Pacific Venture Investment Limited.	Substantial Related-Party of the Company's
Zhong-Yi Construction Unlimited Company	Substantial Related-Party of the Company's
Pacific Geotechnical Engineering Co., Ltd.	Substantial Related-Party of the Company's
Fu-Lai Asset Management Co., Ltd.	Substantial Related-Party of the Company's
FQi-Da Construction Manager Co., Ltd.	Substantial Related-Party of the Company's (Note 3)
Pacific International Villay Co., Ltd.	Substantial Related-Party of the Company's
Isabell Co., Ltd.	Substantial Related-Party of the Company's (Note 1)
Pacific Emerging Engineering Co., Ltd.	Substantial Related-Party of the Company's (Note 2)
Note 1: The Company's legal representative was a director of the company who left the position on August 15, 2019.	
Note 2: The Company's legal representative was a legal representative of the company who left the position on August 13, 2019.	
Note 3: This company was dissolved on December 30, 2019 after merging with Fu-Lai Asset Management Co., Ltd.	
Note 4: The company and its subsidiaries will sell all equity in June 2020, and will not be included in related parties.	

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

(2) Significant transactions with Related-Parties

1. Operating income

The Company's significant sales to related-parties are as follows:

<u>Name of the Related-Party</u>	Sales	
	2020	2019
Subsidiary (include Sub-subsidiary)	\$ 5,418	1,510
Associates	-	11
Other Related-Party	213	122
Total	<u>\$ 5,631</u>	<u>1,643</u>

Transaction prices are set based on the agreement of both parties; the collection terms are based on the contractual agreements, same as general transactions.

2. Accounts Receivables Related-Party

<u>Name of the Related-Party</u>	Other Receivables Related-Party	
	December 31, 2020	December 31, 2019
Subsidiary:		
Hong Kong Pacific Holdings	\$ 46,235	44,926
Beijing Tai-Kong Consulting Services Co., Ltd.	10	10
Associates:		
Beijing Tai-Yun Building Co., Ltd.	150	150
	<u>\$ 46,395</u>	<u>45,086</u>

Note: The aforesaid payment is the return of capital reduction and advances on behalf of the company.

3. Accounts Payables Related-Party

<u>Name of the Related-Party</u>	Other Payables Related-Party	
	December 31, 2020	December 31, 2019
Subsidiary	<u>\$ 3,255</u>	<u>-</u>

4. Prepayments / Incremental costs to obtaining a contract

- (1) The Company purchased club membership cards from Tai-Fu Recreation Co., Ltd. to give to house buyers of Feitsui Bay as a complimentary gift. For the years ended December 31, 2019, the Company had a balance of NT\$391,428 thousand for both years, and a full valuation allowance was provided.

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

- (2) The company signs an entrusted sales agreement with a subsidiary, and pays the sales service fee of the subsidiary. As of December 31, 2020 and 2019, the incremental cost of obtaining the contract is accounted for NT\$47,231 thousand and 131,374 thousand, respectively .

The terms of the above related party transactions are not significantly different from ordinary vendors.

5. Property transactions

The company sold the premises of the Pacific Commercial Building to its subsidiaries in 2006. The sale price was NT\$38,159 thousand. All the related sales payments have been collected. Therefore, the unrealized interest generated by the transaction is NT\$27,339 thousand and is classified as Deferred credit. The realized benefits in 2019 are both NT\$217 thousand, and the balance of unrealized deferred sales benefits on December 31, 2020 and 2019 are NT\$24,301 thousand and 24,518 thousand, respectively.

6. Other

- (1) On December 31, 2020 and 2019, the company trusts some of its subsidiary stocks to its subsidiaries.
- (2) On December 31, 2020 and 2019, the company trusts part of its Lihe Section in Xinyi District land to Company's Sub-subsidiaries.
- (3) In May 2018, the Company entered into a year's financial advisory contract with key management. The total consideration for contracts was NT\$2,520 thousand each and was recorded as operating expenses for NT\$840 thousand, for the years ended December 31, 2019.
- (4) The company signed a management service contract with Company's Sub-subsidiaries in 2020 and will pay NT\$3,429 thousand in accordance with the agreement in 2020.

(3) Key management personnel transactions

Remuneration to key management personnel includes:

	2020	2019
Short-term employee benefits	\$ 12,184	9,966
Post-employment benefits	300	264
	<u>\$ 12,484</u>	<u>10,230</u>

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

8. Pledged Assets

The carrying amount in the assets pledged as collateral by the Company is as follows:

Asset Name	Pledge Subject	December 31, 2020	December 31, 2019
Buildings and land held for sale	Long-term, short-term loans	\$ 691,503	823,969
Land held for construction	Long-term, short-term loans and construction performance guarantee	1,102,952	1,094,790
Construction in progress	Long-term, short-term loans	1,669,708	3,666,898
Other financial assets - current and non-current	Long-term, short-term loans, Corporate bonds payable and construction performance guarantee	235,601	239,111
Long-term investments accounted for using equity method	Long-term, short-term loans	582,881	569,734
Non-current financial assets at FVTOCI	Long-term loans	52,938	144,554
Property, plant and equipment	Long-term, short-term loans	73,720	95,277
Right-to-use assets	Long-term loans	77,310	100,957
Investment property, net	Long-term, short-term loans	1,874,305	1,874,649
Total		<u><u>\$ 6,360,918</u></u>	<u><u>8,609,939</u></u>

9. Commitments and Contingencies

(1) Material unrecognized contractual commitments:

- For the years ended December 31, 2020 and 2019, the total purchase and sales contracts entered into between the Company and its customers for the pre-sale projects, residual housing, land held for construction and amounts received in accordance with the contracts are as follows:

	December 31, 2020	December 31, 2019
Total contract price	<u><u>\$ 1,328,933</u></u>	<u><u>2,957,135</u></u>
Amounts received	<u><u>\$ 408,461</u></u>	<u><u>721,241</u></u>

Pacific Construction Co., Ltd.
Notes to Financial Statements (Continued)

2. For the years ended December 31, 2020 and 2019, the details of amounts of land purchase contracts entered into by the Company and the amounts paid in accordance with the contracts and the allowance for losses listed are as follows:

	December 31, 2020	December 31, 2019
Total purchase contract price	<u>\$ 3,651,026</u>	<u>3,651,026</u>
Price paid	<u>\$ 681,612</u>	<u>683,166</u>
Allowance for losses	<u>\$ 677,414</u>	<u>677,414</u>

The above allowance for loss failed due to the delay in completing the transfer process of the land purchase transactions. The Company has resorted to legal proceedings and urged the counterparty of the contract to negotiate the follow-up performance of the contracts as soon as possible.

3. Details of the deposit guarantee notes submitted by the company are as follows:

	December 31, 2020	December 31, 2019
Borrowings and issuance of commercial promissory notes	\$ 1,454,750	1,469,515
Performance bond under engineering for bank	381,780	442,784
Contracting project	69,000	69,000
Other	<u>806,750</u>	<u>806,750</u>
Total	<u>\$ 2,712,280</u>	<u>2,788,049</u>

4. The Company paid the joint construction deposit to the construction entity as the Company entered into the joint construction:

	December 31, 2020	December 31, 2019
Engineering and joint construction deposit	<u>\$ 11,104</u>	<u>29,754</u>

Pacific Construction Co., Ltd. Notes to Financial Statements

(2) Other:

1. A. Claimed by the Securities and Futures Investors Protection Center (the “SFIPC”): It was alleged that the term Chang, Min-Chiang was appointed as a corporate director of Pacific Electric Wire & Cable Co., Ltd. (Pacific Electric Wire & Cable) by Pacific Construction Co., Ltd. , it was passed or recognized that 6 persons including Hu, Hung-Chiu prepared inaccurate financial statements from 1999 to 2002 which resulted in the authorized persons (investors of Pacific Electric Wire & Cable) of the SFIPC suffering damages for believing the financial statements prepared by Pacific Electric Wire & Cable and bought shares. According to regulations associated with the Securities and Exchange Act, Pacific Construction Co., Ltd. and Chang, Min-Chiang shall be liable for damages caused to authorized persons of the SFIPC (investors of Pacific Electric Wire & Cable). On July 18, 2017, the Company reached a settlement agreement with the SFIPC. The Company was willing to pay NT\$34,500,000 as compensation. It was agreed that the Company was to complete the payment within 40 months. While entering into the settlement agreement, the Company provided 2,400,000 shares in installments as a guarantee for the settlement amount to Taiwan High Speed Rail Corporation. On July 18, 2017, 25% of the settlement amount was paid, and for the years ended December 31, 2020 and 2019, the settlement amounts the Company was yet to pay were NT\$0 and NT\$1,992 thousand, respectively. The Taiwan high-speed rail stocks that provided guarantees in January 2020 have been released from the pledge, and the case is concluded.
2. Directors that were formally assigned to the subsidiary - Hong Kong Pacific Holdings by the Company was suspected of failing to fulfill their loyalty obligation and duty of care, which resulted in borrowing and equity disputes between shareholders of the subsidiary and the investment company - Beijing Tai-Yun. These directors were also suspected of receiving disproportionate director’s remuneration from other associates. As a result, the Company resolved to file a criminal complaint against the above directors and related personnel by the board of directors’ meeting held on October 13, 2018.

The criminal case is currently under investigation by the Taipei District Attorney’s Office and has been referred to the Bureau of Investigation of the Ministry of Justice. Based on the principle of non-disclosure of the investigation, the attorney thinks it is difficult to predict the litigation outcome at this time. However, as the case is not a pecuniary damage case, and if the Company receives an unfavorable judgment or chooses not to prosecute the case, there should not be any pecuniary loss yet.

10. Losses Due to Major Disasters: None.

11. Subsequent Events

The company passed the resolution of the board of directors on March 25, 2021 to issue domestic guaranteed ordinary corporate bonds. The issue amount is NT\$250,000 thousand, each with a par value of NT\$1,000 thousand. The issuance period is five years in total and the coupon rate is 0.63%.

Pacific Construction Co., Ltd. Notes to Financial Statements

12. Other

(1) Summary of employee benefits, depreciation, depletion and amortization expenses is as follows:

Function Nature	2020			2019		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Employee benefit expense						
Salary expense	18,010	74,947	92,957	20,281	69,680	89,961
Labor and health expense	1,308	5,362	6,670	1,214	5,258	6,472
Pension expense	629	2,667	3,296	526	2,753	3,279
Remuneration of Directors	-	1,328	1,328	-	2,080	2,080
Other Employee benefit expense	979	7,900	8,879	1,433	4,988	6,421
Depreciation expense	87,349	12,204	99,553	93,183	1,975	95,158
Depletion expense	-	-	-	-	-	-
Amortization expense	-	356	356	-	391	391

Additional information of employee head counts and benefit expenses for the years ended on December 31, 2020 and 2019 were as follows:

	2020	2019
Number of employees	<u>145</u>	<u>157</u>
Number of directors (non-employee)	<u>7</u>	<u>8</u>
Average employee benefit expense	<u>\$ 810</u>	<u>712</u>
Average employee Salary expense	<u>\$ 674</u>	<u>604</u>
Percentage of average employee Salary expense	<u>11.59%</u>	
Remuneration of Supervisor's	<u>\$ -</u>	<u>-</u>

The company's salary and remuneration policies (including directors, supervisors, managers and employees) are as follows:

1. Director:

Directors' remuneration is in accordance with the company's articles of association and is processed after the approval of the board of directors and a report by the shareholders meeting. The actual payment must be recommended by the remuneration committee and submitted to the board for approval before implementation.

Pacific Construction Co., Ltd. Notes to Financial Statements

2. Managers and employees:

Company managers and Employee compensation are handled in accordance with personnel management regulations, which are divided into maintenance salary and incentive salary. Maintenance salary is regular payment, and incentive salary is based on dividends/year-end bonuses. It depends on the company's operating conditions and employees. Flexible payment for assessment results. The actual amount paid by the manager must be recommended by the Salary and Compensation Committee and submitted to the board of directors for approval before it can be implemented.

- (2) Hong Kong Pacific Holdings, a subsidiary of the company, will be sold at an appropriate time after assessing its holdings in an affiliated company that is evaluated by the equity method-Beijing Tai-Yun Building Co., Ltd., and will be reclassified as Under "Non-current assets to be sold". In addition, after assessing the recoverability of the company's other receivables, as of December 31, 2020 and 2019, the company has set aside allowance for losses of USD 29,962 thousand and USD 15,398 thousand, respectively.

13. Other Disclosures

A. Information on Significant Transactions

In accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, information associated with significant transactions shall be disclosed by the Company for the years ended December 31, 2020 and 2019:

1. Loaning of fund to other parties:

Unit: NT\$ thousand

No.	Companies that lend funds	Lending object	Accounting title	Whether or not a Related-Party	Highest amount for the period	Ending balance	Actual borrowing amount	Interest rate range	Nature for Financing	Business transaction amount	Reasons for short-term financing	Allowance for losses Amount	Collateral		Financing limit for each borrower	Aggregate financing limit
													Name	Value		
0	Pacific Construction Co., Ltd.	Hong Kong Pacific Holdings	Other receivables	Yes	20,000	20,000	12,490	- %	2	-	Operational turnaround	-	None	-	680,250	2,721,000
2	Hong Kong Pacific Holdings	Beijing Tai-Yun Building Co., Ltd.	Long-term receivables	Yes	906,357	853,324	853,324	5.50%	2	-	Operational turnaround	853,324	None	-	29,885	119,540
6	Pacific Department Stores Co., Ltd.	United Pacific Multimedia Co., Ltd.	Other receivables	No	171,400	171,400	171,400	- %	1	-	-	171,400	None	-	680,250	2,721,000

Note 1: Ceiling of loans are as follows:

- (1) The aggregate amount in loans lent by a subsidiary shall not exceed 40% of the Company's equity attributable to the parent.
- (2) The restriction shall not apply to inter-company loans of funds between overseas companies in which the Company holds, directly or indirectly, 100% of the voting shares, nor to loans of a fund to the Company by any overseas company in which the Company holds, directly or indirectly, 100% of the voting shares. The aggregate amount in such loans to a single borrower shall not exceed 10% of the Company's most recent net worth of the financial statements or NT\$30 million.

Note 2: The Company's net worth mentioned above is based on the most recent review report audited by CPAs. Hong Kong Pacific Holdings uses the company's self-closing statement to calculate its net value.

Note 3: Description of the nature of loaning of funds

- (1) Fill in "1" for a company with which it does business.
- (2) Fill in "2" for those in need of short-term financing.

Note 4: The receivables were generated from operating activities and not from the loaning of funds. However, in accordance with ARDF's letter No. 167 issued on July 9, 2004, the receivables from related parties were reclassified as other receivables - related parties for credit period exceeding the credit period of the accounts of non-relate parties.

Pacific Construction Co., Ltd. Notes to Financial Statements

Note 5: Improvement plans to address loaning parties not meeting criteria or the balance exceeding the limit due changes have been set out and approved by the board of directors and shall be handled in accordance with the regulations of the competent authorities.

Note 6: Due to the change in the repayment plan proposed by Beijing Tai-Yun to Hong Kong Tai-Kong, in order to protect the interests of the company, the interest calculation and term agreement with Beijing Tai-Yun are still under negotiation. However, based on conservative and prudent principles, the amount may be recognized as interest income upon actual collection.

2. Providing endorsements/guarantees to other parties: None.

3. Marketable securities (excluding equity investments in subsidiaries, associates, and joint ventures) held at the reporting date:

Unit: NT\$ thousand

Held By	Types and Names of Securities	Relationship with the Securities Issuer	Account Titles in Book	End of the Period				Remark
				Shares (Thousand Shares)	Carrying Amount	Shareholding Ratio	Fair Value (Note 1)	
Pacific Construction Co., Ltd.	Taiwan High Speed Rail Corporation	None	Non-current financial assets at FVTOCI	2,400	76,080	0.04 %	76,080	
"	Xin-Ye-Yong Development Co., Ltd.	Investment businesses valued by fair values	"	2	-	18.17 %	-	
"	Pacific Resources Corporation	"	"	4,495	6,079	4.39 %	6,079	
"	Pacific SOGO Department Store Co., Ltd.	"	"	9,519	212,757	1.15 %	212,757	Pledge of 2,369,000 shares
Pacific Department Stores Co., Ltd.	stock - Pacific Construction Co., Ltd.	The Company's parent	Non-current financial assets at FVTOCI	24,836	222,717	6.42 %	22,717	
"	stock - Taiwan High Speed Rail Corporation	None	"	2,000	63,400	0.04 %	63,400	
"	stock - Pacific SOGO Department Store Co., Ltd.	Investment businesses valued by fair values	"	85,031	1,900,450	10.27 %	1,900,450	
"	stock - SOGO Department Stores Co., Ltd.	"	"	2,542	-	12.08 %	-	
"	stock - Pacific Life Development Co., Ltd.	"	"	505	-	3.30 %	-	
"	VCOOL Inc.	"	"	27	991	0.27 %	991	
Pacific Realtor Co., Ltd.	stock - Pacific Construction Co., Ltd.	The Company's parent	"	608	6,054	0.16 %	6,054	
"	stock - Hong Kong Xian-Hui Company	Investment businesses valued by fair values	"	5,700	-	10.00 %	-	
"	stock - Mi-Jia-Le Construction Co., Ltd.	"	"	2,000	-	8.58 %	-	
"	stock - Rakuya International Info. Co., Ltd.	"	"	782	5,006	6.82 %	5,006	
Taitou Xingye Co., Ltd.	stock - Mi-Jia-Le Construction Co., Ltd.	"	"	1,213	-	5.21 %	-	
"	stock - GOOD TV Broadcasting Corp.	"	"	1,500	16,013	17.65 %	16,013	Note 2

Note 1: Non-current financial assets at FVTOCI are disclosed at the closing price of the open market, the most recent audited net financial statements or appraisal report.

Note 2: In June 2020, part of the equity was sold, resulting in the loss of significant influence, and the reclassification of financial assets measured at fair value through other comprehensive gains and losses-non-current., reclassification Non-current financial assets at FVTOCI

Pacific Construction Co., Ltd. Notes to Financial Statements

4. Marketable securities for which the accumulated purchase or sale amounts for the period exceed NT\$ 300 million or 20% of the paid-in capital: None.
5. Acquisition of real estate at costs exceeding NT\$ 300 million or 20% of the paid-in capital: None.
6. Disposal of real estate at prices exceeding NT\$ 300 million or 20% of the paid-in capital: None.
7. Receivables from related parties with amounts exceeding NTD 100 million or 20% of the paid-in capital: None.
8. Receivables from related parties with amounts exceeding NT\$ 100 million or 20% of the paid-in capital:

Unit: NT\$ thousand

Companies with Accounts Receivable	Counterparty Name	Relationship	Balance of Receivables from Related Parties	Turnover Rate	Amounts Due from Related Parties		Receivables Amount Collected from Related-Parties Subsequently	Provision Allowance for Loss
					Amount	Processing Method		
Pacific Department Stores Co., Ltd.	United Pacific Multimedia Co., Ltd.	Substantial related party	171,400	-%	171,400	-	-	(171,400)
Hong Kong Pacific Holdings	Beijing Tai-Yun Building Co., Ltd.	The company is the company's pending equity investment.	853,324	-%	853,324	A letter was sent to Tai-Yun to provide a new repayment plan to be discussed.	-	(853,324)

9. Engaging in the trading in derivative instruments: None.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

B. Information on Investees (excluding investments in China)

Information on the Company's investees for 2020 is as follows:

Unit: NT\$ thousand

Name of Investor	Name of Investee	Location	Principal Business	Sum of Initial Investment		Held at the End of Period			Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Remark
				End of the Period	End of the Previous Year	Shares	Ratio	Carrying Amounts			
Pacific Construction Co., Ltd.	Pacific Realtor Co., Ltd.	Taiwan	Introduction of housing leases and sales, etc.	46,506	46,506	7,275	48.50%	(19,675)	4,752	32,835	
"	Pacific Department Stores Co., Ltd.	"	Building lease and sales, supermarket operation, department store import and export, etc.	1,007,361	1,007,361	99,176	48.45%	1,578,248	105,142	50,945	Note 1
"	Hong Kong Pacific Holdings	HK	Investments, Trades	162,470	162,470	343,858	100.00%	298,849	(349,430)	(349,430)	
"	Hong Kong Pacific Construction Co., Ltd.	"	Construction projects, or acts as an agency for civil engineering, construction, plumbing, electrical and air-conditioning, and decoration projects, etc.	34,016	34,016	8,163	100.00%	26	(60)	(60)	
"	Tai-Fu Recreation Co., Ltd.	Taiwan	Operation of leases and sales of buildings, seaside recreation areas, beaches, and amusement parks	-	197,500	-	- %	-	-	-	Note 2
"	Taitou Xingye Co., Ltd.	"	Investment	210,000	210,000	22,600	100.00%	224,965	4,488	2,445	
"	Pacific Freshlife Industrial Company Limited	"	Wholesale of Flowers	-	19,990	-	- %	-	(26)	(26)	Note 3
Taitou Xingye Co., Ltd.	GOOD TV Broadcasting Corp.	"	Broadcasting Production, Satellite Broadcasting Television Program Supplier	-	20,000	-	- %	-	(457)	(108)	Note 4
"	Tai-Fu Recreation Co., Ltd.	"	Operation of leases and sales of buildings, seaside recreation areas, beaches, and amusement parks	-	15,000	-	- %	-	-	-	Note 2
"	Chun-Tse Asset Management Co., Ltd.	"	Management Consulting, Real Estate Business	180,000	180,000	18,000	100.00%	185,413	5,776	5,776	
Pacific Department Stores Co., Ltd.	PACIFIC 88 CO., LTD.	"	Wholesale, Retail and trading of restaurant business, Daily essential and department stores	8,459	8,459	846	48.98%	-	-	-	Investees accounted for using equity method

Note 1: Among these, 36,628 thousand shares were pledged as collateral for bank loans.

Note 2: All sold in June 2020.

Note 3: The liquidation was completed in August 2020.

Note 4: In June 2020, part of the equity was sold, resulting in the loss of significant influence, and the reclassification of financial assets measured at fair value through other comprehensive gains and losses-non-current., reclassification Non-current financial assets at FVTOCI

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

C. Information on Investments in Mainland China:

1. Information on investments in Mainland China:

Unit: NT\$ thousand / USD thousand

Name of the Investment in China	Principal Item	Paid-In Shares Capital	Investment Method	Opening Cumulative Balance of Investment Capital Invested from Taiwan	Investment Capital Transferred or Recovered During the Current Period		Closing Cumulative Balance of Investment Capital Invested from Taiwan	Net Income (Losses) of Investee	The Company's Directly or Indirectly Invested Shareholding	Share of Profits/Losses of Investee	Carrying Value of Investments at the End of the Period	Investment Income Remitted as of the End of the Year
					Outward Remittance	Recovered						
Beijing Tai-Yun Building Co., Ltd.	Wholesale and retail commercial facilities within the planning area of development, construction, sales and leases	349,200 (USD12,000) (Note 2)	Note 1	165,870 (USD5,700) (Note 2)	-	-	165,870 (USD5,700) (Note 2)	87,371	47.50%	41,501	928,622 (Note 4)	-
Beijing Tai-Kong Consulting Services Co., Ltd.	Business management consulting	437 (USD15) (Note 2)	Note 1	437 (USD15) (Note 2)	-	-	437 (USD15) (Note 2)	(3)	100.00%	(3)	476	-

Note 1: Invested in China through a company in a third region.

Note 2: The actual amount in the original currency of investment multiplied by the closing exchange rate.

Note 3: The investment income recognized this for the period was based on the financial statements audited by CPAs of an international accounting firm with a cooperative relationship with the Taiwanese accounting firm.

Note 4: It will be listed under Non-current assets for sale On December 15, 2020.

Pacific Construction Co., Ltd. Notes to Financial Statements (Continued)

2. Limit for investing in China

Cumulative Investment Outflow from Taiwan as of December 31, 2020	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
USD 6,966	USD 6,966	4,081,501

Note 4: Limit calculation: Net equity for the period $\times 60\%$ = NTD6,802,501 thousand $\times 60\%$ = NTD4,081,501 thousand.

Note 5: Shanghai Pacific Construction Co., Ltd. was liquidated on June 21, 2009. The liquidation balance was remitted to Hong Kong Pacific Construction Co., Ltd. and not yet remitted to Taiwan. As a result, the investment amount was not approved by the MOEAIC, less the capital of USD1,251 thousand.

3. Information on Significant Transactions: None.

D. Information of Main Shareholders:

Name of Main Shareholders	Shares	Holding of Shares	Shares Ratio
Chuang Mei Investment Co., Ltd.		35,522,000	9.17%
Pacific Department Stores Co., Ltd.		24,836,139	6.42%
Fong Fu International Development Co., Ltd.		20,999,771	5.42%

14. Segment Information

Please refer to the Consolidated Financial Statements for the year ended on December 31, 2020.

Pacific Construction Co., Ltd.
Statement of Cash and Cash Equivalents
For the Year Ended December 31, 2020

Unit: NT\$ thousand

Refer to Note 6(1) for details.

Statement of Inventories

Item	Description	Amount		Remark
		Cost	Net Realizable Value	
Buildings and land held for sale:				
	Bageli Garden	\$ 49,329	107,592	
	Pacific Business Center	580,500	640,389	
	Balenciaga	110,861	117,658	
	Pacific Pavilion Mansion	169,503	160,602	
	Pacific Forest	763,043	913,258	
	Other	218,113	362,982	
	Less: Allowance for inventory write-down	(119,824)	-	
	Net	1,771,525	2,302,481	
Land held for construction:				
	Xinan Section	170,185	42,513	
	3th Subsection for Fulin Section	493,531	755,201	
	Lihe Section	86,607	151,311	
	Linza Section in Tamsui Dist	360,166	87,000	
	Wanli Section and Feitsui Section	1,011,309	2,392,890	
	Agricultural land under the trust deed	539,340	489,665	
	Other	384,523	1,342,410	
	Less: Allowance for inventory write-down	(844,500)	-	
	Net	2,201,161	5,260,990	
Construction in progress:				
	Feitsui Bay	331,173	35,558	
	Sunshine Mountain Forest Phase 7	1,808,675	2,808,427	
	Other	84,881	84,635	
	Less: Allowance for inventory write-down	(387,156)	-	
	Net	1,837,573	2,928,620	
	Total	<u>\$ 5,810,259</u>	<u>10,492,091</u>	

Pacific Construction Co., Ltd.

**Statement of Changes in Investments Accounted for Using Equity Method
For the Year Ended December 31, 2019**

Unit: NT\$ thousand

Name	Beginning Balance		Increase (Note 1)		Decrease (Note 2)		Ending Balance			Market Value or Net Equity		Collateral
	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Percentage of Ownership	Amounts	Unit Price	Total Amount	
Pacific Realtor Co., Ltd.	7,275	\$ (52,768)	-	34,184	-	1,091	7,275	48.50%	(19,675)	6.66	48,479	
Pacific Department Stores Co., Ltd.	99,176	1,542,651	-	55,702	-	20,105	99,176	48.45%	1,578,248	17.99	1,784,197	Note 3
Hong Kong Pacific Holdings	343,858	650,331	-	-	-	351,482	343,858	100.00%	298,849	0.87	298,849	
Hong Kong Pacific Construction Co., Ltd.	8,163	86	-	-	-	60	8,163	100.00%	26	-	26	
Tai-Fu Recreation Co., Ltd.	19,750	(48,321)		48,321	19,750	-	-	- %	-	-	-	
Taitou Xingye Co., Ltd.	22,600	233,167	-	3,480	-	11,682	22,600	100.00%	224,965	9.95	224,965	
Pacific Freshlife Industrial Company Limited	1,999	1,624	-	-	1,999	1,624	-	- %	-	-	-	
Subtotal		2,326,770		141,687		386,044			2,082,413			
Add: Transfer of Other liabilities		101,089		(81,414)		-			19,675			
		\$ 2,427,859		60,273		386,044			2,102,088			

Note 1: The increase in this period is NT\$86,225 thousand for recognized investment benefits, NT\$2,012 thousand for Deferred credit inter-company benefits, 48,321 thousand for disposal of equity in affiliated companies, NT\$209,000 for retained earnings, and Unrealized gains (losses) from equity instrument investments measured at FVTOCI NT\$4,920 thousand.

Note 2: The reduction in the current period is the recognized investment loss of NT\$349,516 thousand, cash dividends of NT\$32,608 thousand, retained earnings of NT\$270 thousand, accumulated conversion adjustments of NT\$2,052 thousand and liquidation losses of NT\$1,598,000.

Note 3: The number of pledged shares is 36,628 thousand shares.

Pacific Construction Co., Ltd.
Statement of changes in Investment Property
For the Year Ended December 31, 2020

Unit: NT\$ thousand

Refer to Note 6(9) for details.

Statement of Short-term Borrowings
For the Year Ended December 31, 2020

<u>Lender</u>	<u>Loan Type</u>	<u>Ending Balance</u>	<u>Financing Period</u>	<u>Interest Rate</u>	<u>Credit Line</u>	<u>Mortgage Guarantee</u>	<u>Remark</u>
Chang Hwa Commercial Bank, Ltd.	Secured Borrowings	\$ 57,000	2020.05.31~2021.05.30	2.05%~3.44%	78,000	Land held for construction	
King's Town Bank Co., Ltd.	"	180,500	2018.10.19~2021.10.19	"	180,500	Construction in progress	
King's Town Bank Co., Ltd.	"	104,160	2018.12.14~2021.12.13	"	260,000	Construction in progress	
Jih Sun International Bank, Ltd.	"	222,736	2019.01.18~2022.01.18	"	470,000	Land held for construction, Construction in progress	
Bank of Panhsin	"	33,920	2019.10.23~2022.10.23	"	61,920	Land held for construction	
HWATAI Bank	"	<u>31,300</u>	2020.03.24~2023.03.24	"	31,300	Buildings and land held for sale	
Subtotal		<u>629,616</u>					
Branch office - MBB Bank	Secured Borrowings	42,454	Revolving Credit	"	-	Property, plant and equipment, Investment property	
Total		<u><u>\$ 672,070</u></u>					

Pacific Construction Co., Ltd.
Statement of Contract Liabilities
For the Year Ended December 31, 2020

Unit: NT\$ thousand

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Advance Real Estate Receipts	Pacific Forest	\$ 343,863
	Sunshine Four Seasons	39,130
	Other (Note)	<u>67,921</u>
Total		<u><u>\$ 450,914</u></u>

Note: The amount of each item does not exceed 5% of the amount of the subject.

Statement of Long-term Borrowings

Creditor	Description	Ending Amount	Financing Period	Interest Rate	Mortgage Guarantee	Remark
Bank of Taiwan	Secured Borrowings	\$ 192,619	2017.06.23~2023.06.23	1.85%~2.75%	Investment property, Land held for construction	
The Shanghai Commercial & Savings Bank, Ltd.	"	2,102	2013.10.04~2021.11.30	"	Investment property	
The Shanghai Commercial & Savings Bank, Ltd.	"	35,000	2019.05.16~2021.11.30	"	Investment property	
The Shanghai Commercial & Savings Bank, Ltd.	"	192,570	2016.11.30~2021.11.30	"	Investment property & Buildings and land held for sale	
The Shanghai Commercial & Savings Bank, Ltd.	"	15,549	2020.05.22~2024.05.22	"	Investment property	
The Shanghai Commercial & Savings Bank, Ltd.	"	100,000	2020.05.22~2021.11.30	"	Investment property & Buildings and land held for sale	
King's Town Bank Co., Ltd.	"	689,401	2017.05.15~2022.05.15	"	Investment property, Buildings and land held for sale, Land held for construction, Investments accounted for using equity method & Financial Assets at FVTOCI-Non-current	
King's Town Bank Co., Ltd.	"	110,194	2019.06.27~2022.06.27	"	Investment property, Right-to-use assets, Other financial assets-Non-current	
Jih Sun International Bank, Ltd.	"	347,970	2020.12.18~2021.12.18	"	Investment property	
HWATAI Bank	"	<u>128,540</u>	2020.03.24~2023.03.24	"	Investment property, Buildings and land held for sale	
Subtotal		<u>1,813,945</u>				
Branch office - MBB Bank	Secured Borrowings	<u>195,523</u>	2012.01.01~2034.07.31	2.15%~3.57%	Property, plant and equipment & Investment property	
		2,009,468				
Less: Long-term loans -Current Portion		<u>(911,057)</u>				
Total		<u><u>\$ 1,098,411</u></u>				

Pacific Construction Co., Ltd.
Statement of Operating Revenue
For the Year Ended December 31, 2020 **Unit: NT\$ thousand**

Item	Description	Amount
Lease revenue		<u>\$ 241,363</u>
Construction income	Revenue from sale of land properties	1,429,667
	Revenue from sale of Buildings	<u>740,002</u>
	Subtotal	<u>2,169,669</u>
Other operating revenue		<u>9,385</u>
Total		<u><u>\$ 2,420,417</u></u>

Statement of Operating Costs

Item	Description	Amount
Lease cost		<u>\$ 159,713</u>
Construction costs	Cost of sale of land	954,032
	Cost of sale of Buildings	702,574
	Gains on Inventory Value Recoveries	<u>(42,130)</u>
	Subtotal	<u>1,614,476</u>
Other operating costs		<u>2,130</u>
Total		<u><u>\$ 1,776,319</u></u>

Pacific Construction Co., Ltd.
Statement of Operating Expenses
For the Year Ended December 31, 2020

Unit: NT\$ thousand

<u>Item</u>	<u>Selling Expenses</u>	<u>General & Administrative Expenses</u>	<u>Total</u>
Salary and Wages (Including pension)	\$ 18,747	58,867	77,614
Advertisement	8,466	43	8,509
Commission expense	95,151	-	95,151
Professional service fees	8,032	15,062	23,094
Taxes	5,105	49,436	54,541
Depreciation expense	594	11,853	12,447
Other expenses	16,826	8,099	24,925
Other (Note)	5,590	19,506	25,096
Total	<u>\$ 158,511</u>	<u>162,866</u>	<u>321,377</u>

Note: The amount of each item does not exceed 5% of the amount of this subject.